



Understanding moderating effects in increasing share-of-wallet and word-of-mouth: A case study of Lidl grocery retailer

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ABSTRACT

This study examines how five moderating variables (the length of the customer relationship, following a company in print media and on social media, remembering online advertisements, and the customer's age) affect the relationships between perceived value and loyalty and satisfaction and loyalty in the grocery retailing sector. A series of hypotheses were developed and tested with a sample of 2072 discount retailer customers in Finland. The results support all the direct effects hypotheses and show that perceived value and satisfaction both have a positive effect on loyalty, measured as a share of wallet and word of mouth and that the effect of perceived value tends to be stronger in the study context. Also, the five moderating variables have a positive moderating effect on the linkages between perceived value and eWOM and between satisfaction and eWOM. Theoretical and managerial implications, limitations, and future research directions are presented.

1. Introduction

Customer loyalty is an important business goal, a major driver of success, and a major strategic objective (Yang and Peterson, 2004; Peña et al., 2017; McKercher et al., 2012). Customer loyalty is extensively measured by behavioral intention, which includes willingness to recommend and intentions to revisit places, such as retail outlets and tourist destinations (Kim and Park, 2017). High value is considered the primary motivation for a customer's patronage or loyalty (Bolton and Drew, 1991; Yang and Peterson, 2004). Park et al. (2018) have supported the view that the perception of value is a better predictor of loyalty intentions than satisfaction or perception of the service quality. Customer perceived value, i.e., what consumers get for what they give (Park et al., 2018) and customer satisfaction, i.e., the consumer's evaluation of the value derived from the shopping experience (Carpenter, 2008), play a significant role in retaining and increasing customer loyalty.

Satisfaction has emerged as a primary aspect of the drivers of loyalty (García-Fernández et al., 2018); if a customer is satisfied, there are more possibilities for the client to have a positive perception of the organization, will demonstrate loyalty to the company, and will positively represent the company via WOM (García-Fernández et al., 2018). Similarly, customer satisfaction is widely considered a vital element of many favorable intentions and behaviors linked to increased customer loyalty and profits, lower operating expenditures, and high business success, thereby making it the focal point of business operations

(Ratanavilaikul, 2018). Like perceived value, studies have found that customer satisfaction positively affects loyalty. For example, in the retailing context, Leppäniemi et al. (2017) found a significant positive relationship between satisfaction and loyalty.

Specifically addressing the retail industry, only a few studies (e.g., Yang and Peterson, 2004; Peña et al., 2017) have considered the moderating effects on the value–loyalty and satisfaction–loyalty relationships. Prior research (e.g., El-Adly and Eid, 2016; Fazal-e-Hasan et al., 2018; Grosso et al., 2018; Nisar and Prabhakar, 2017) has also examined online retailers, upscale grocery retailers (e.g., super and hypermarkets), and shopping malls leaving discount grocery retailers scarcely researched.

Considering these research deficiencies, the goal of this study is to first extend the knowledge of the relationships between customer perceived value–loyalty and customer satisfaction–loyalty in the discount retailer. Second, this study aims to contribute to the empirical literature about discount grocery retailers. It will achieve this by examining why customers shop in discount stores and by formally examining the indirect effects of customer demographics (relationship length, the customer's age) and perceptions of advertising on the relationships between loyalty and its two chosen main drivers (satisfaction and perceived value). There are no scholarly works looking explicitly at the moderating effect (Peña et al., 2017) of customer demographics and perceptions of advertising on consumer behavior towards retailing firms. It is, therefore, beneficial to examine how different degrees to which customer demographics and perceptions of advertising are

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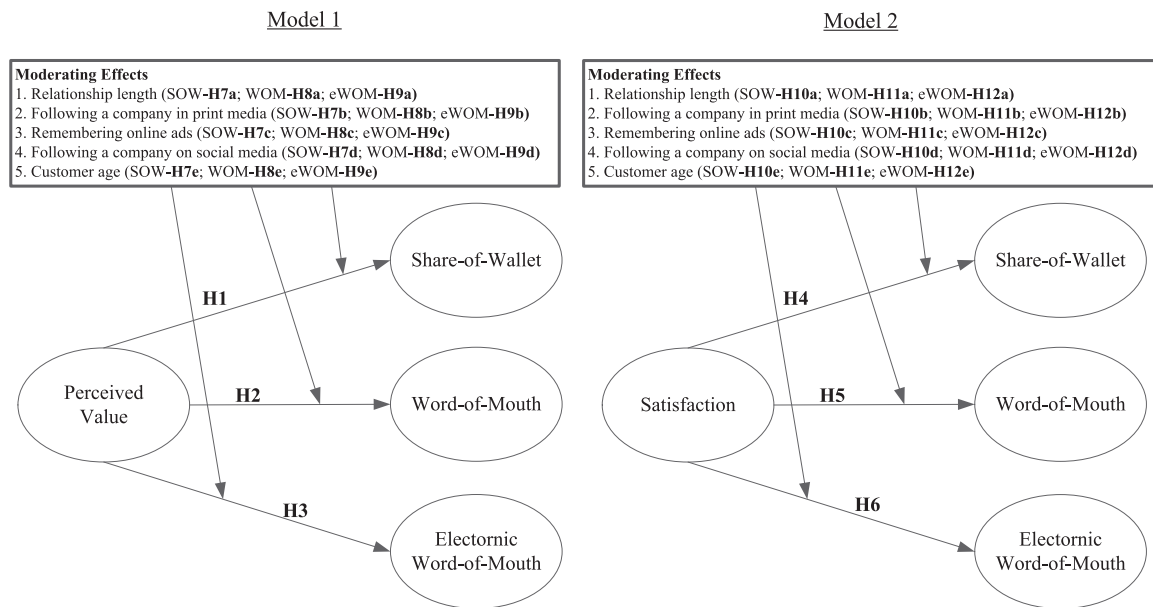


Fig. 1. Research model.

adopted may influence the satisfaction–loyalty and perceived value–loyalty relationships.

Accordingly, this study tests the indirect effects of five moderator variables (relationship length, following a company in print media, remembering online advertisements, following a company on social media, and the customer's age) on the relationships between the two drivers of loyalty (perceived value and satisfaction) and customer loyalty, measured by the terms share-of-wallet (SOW), word-of-mouth (WOM), and electronic word-of-mouth (eWOM).

This paper proceeds as follows. Next, research setting and retail sector will be discussed. Subsequently, the research model and the hypotheses related to it will be presented, followed by the presentation of the research method and the results. A discussion of the findings, the contributions of this study, the limitations, and the recommendations for future research will conclude this study.

2. Research setting and retail sector

2.1. Research setting

For the sake of this study, discount retail stores, which are different from retail department stores, has been postulated. According to Grace and O’Cass (2005, p.232), department retail stores are considered as “mass-merchandisers who highlight the quality image and high customer contact.” Discount retail stores, on the other hand, are considered “mass-merchandisers who emphasize self-service and low prices.”

The empirical context of this study is about the customers of one of the world's largest discount grocery retailers, Lidl. The fundamental principles of Lidl are self-service and low prices in simplified shops. Lidl, a German grocery retailer, has over 150 stores in Finland and approximately 5000 employees. Lidl's share in the Finnish grocery industry is evaluated at 8.8% (Nielsen, 2017). Lidl is considerably different from its main rivals in Finland (Kesko and S-group), as it does not offer a loyalty card program, and the stores offer different selections and less floor space. Lidl was chosen as the target company for this study because it was possible to exclude any influence from a loyalty card program.

2.2. Retail sector

Over the last three decades, the retail sector, including e-commerce,

has gradually evolved in Europe and elsewhere and has developed into the most dynamic global economic sector (Pantano et al., 2017). According to e-Marketer (2017), the worldwide retail e-commerce sales reached USD 2.290 trillion last year in 2017, making up 10.1% of the total retail sales. This share will surpass 16% by 2021 when e-commerce sales hit USD 4.479 trillion.

According to Corbet and McMullan (2018), the single European currency and the abolishment of cross-border tariffs increase of imports and exports across European borders, enabling suppliers to locate a broad variety of goods at lower prices. This changed the market behavior of the retailers, from using more inventive techniques to adopting cost-cutting efficiency, to offer high value and survive the competition created by low-cost retailers, such as Aldi and Lidl. Perhaps, perceived value for money may be more pertinent in the case of the discount retailer (Grace and O’Cass, 2005).

Advances in information and communication technologies, the exponential growth in the use of portable devices and social media, and the options available to consumers for accessing, choosing, and purchasing merchandise and other items have evolved as well. With these innovative developments, a surge in the e-commerce business models is admissible and logical. Nevertheless, despite these innovative developments, brick-and-mortar retail, especially in the grocery shopping context, has remained the preferred alternative for the vast majority of customers. For instance, a market survey conducted by PwC (2015), involving more than 19,000 respondents, indicates that physical retail stores remain the primary destination for shoppers, despite escalating internet and online sales. Thus, the brick-and-mortar retail domain continues to have a rightful place in academic research (Bradley and LaFleur, 2016).

3. Research model and hypotheses

The research model is presented in Fig. 1. In conceptualizing the key terms of the study, this study follows the mainstream literature (e.g., De Matos and Rossi, 2008; Keiningham et al., 2005; Zeithaml, 1988). As the concepts of perceived value, satisfaction, SOW, and WOM are well-known, this study's conceptual discussion focuses on the relationships among the variables and the proposed moderating effects (relationship length, following a company in print media, remembering online advertisements, following a company on social media, and the customer's age).

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