



Buying Groceries in Brick and Click Stores: Category Allocation Decisions and the Moderating Effect of Online Buying Experience

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Available online 27 August 2015

Abstract

The large majority of online grocery shoppers are multichannel shoppers who keep visiting offline grocery stores to combine convenience advantages of online shopping with self-service advantages of offline stores. An important retail management question, therefore, is how these consumers divide grocery purchases across the retailer's online and offline channel. We provide a comprehensive analysis of the impact of category characteristics on the allocation pattern of multichannel grocery shoppers and find that category allocation decisions are affected not only by marketing mix differences between the online and offline channel, but also by intrinsic category characteristics like perceived purchase risk and shopping convenience. In addition, we examine the effect of online buying experience. In line with expectations, we find that it can affect allocation patterns in different ways: (i) it attenuates the perceived risk of buying sensory categories online, thereby reducing differences in online category share, (ii) it reinforces marketing mix (assortment) effects, thereby making online category share differences more pronounced, and (iii) it has no effect for factors such as promotions that are easy to evaluate without experience, thereby leaving the online category share stable. In addition to different experience effects across allocation factors, we also observe variations in experience effects across consumer segments.

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Keywords: Multichannel shopping; Online grocery shopping; Category allocation decision; Buying experience

Introduction

While lagging behind in comparison with many other consumer markets, online shopping for groceries has increased dramatically over the last few years, and now tops the agenda of all major grocery retailers (Warschun 2012). “[Grocery] retailers are increasingly finding they must innovate in ways that make it easier and more convenient for their customers to get what they need without missing a beat,” according to Nielsen's *Continuous Innovation* report, which found that “convenience itself may be the most creative and energetic example of retail innovation” (Nielsen 2014). Of these convenience-oriented retail innovations, the shift towards multichannel offline-online retailing is one of the most important and successful practices. Several of the large grocery retail chains (such as Walmart, Tesco and Ahold) now

operate an online store next to their offline supermarket outlets (‘brick and click’ grocery retailers). By increasing their service levels, multichannel retailers aim to retain existing customers and gain new customers in the increasingly competitive retail environment (Chintagunta, Chu, and Cebollada 2012; Kabadayi, Eyuboglu, and Thomas 2007; Neslin and Shankar 2009; Zhang et al. 2010).

Customers clearly appreciate and take advantage of this extended service. The large majority of online grocery shoppers are multichannel shoppers who visit both the online and offline channel, thereby combining convenience advantages of online shopping with self-service advantages of offline stores (Alba et al. 1997; Chu, Chintagunta, and Cebollada 2008; Chu et al. 2010; Konuş, Verhoef, and Neslin 2008; Venkatesan, Kumar, and Ravishanker 2007). Although multichannel shoppers visit both channels, their purchase behavior tends to differ across the online and offline channel, both in the tendency to buy certain categories and in the sensitivity to marketing mix instruments. For instance, a product's online intangibility can result in low(er)

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online purchase shares, especially for sensory categories that consumers prefer to physically examine before purchasing them (Degeratu, Rangaswamy, and Jianan 2000). Bulky and heavy categories, in contrast, tend to be top-selling categories in online stores because of the high online shopping convenience benefits (Chintagunta, Chu, and Cebollada 2012). Prior research has also shown that households tend to be more brand loyal and size loyal, but less price sensitive in the online channel than in the offline channel (Chu et al. 2010). Because channel differences in assortment and price can vary across categories, this may also influence consumers' allocation patterns over the online and offline channel. As a result, the multichannel shopping context clearly adds to the complexity of retailers' management decisions, and multichannel grocery retailers need more insight into how shoppers allocate their purchases across their online and offline stores (cf. Dholakia et al. 2010; McPartlin and Dugal 2012; Shankar and Yadav 2010).

The purpose of this study is to improve the understanding of multichannel shopping behavior and to provide a better insight into the underlying mechanisms and factors that determine how multichannel shoppers allocate their category purchases across the online and offline channel. Building on the multiple store and online shopping literature, we analyze the impact on purchase allocation patterns at the category level, and take 'traditional' marketing mix based factors as well as 'intrinsic' category characteristics into account. Given that online grocery shopping is still in the 'innovation stage' (small, but rapidly increasing number of consumers who start buying groceries online), our model explicitly accounts for dynamic adjustments of allocation patterns as consumers gain more experience with buying groceries online. We also account for the possibility that managers adjust category assortment and pricing decisions to anticipated channel differences in buying behavior, and correct for potential endogeneity biases in marketing mix effects.

Our research provides important contributions to the marketing and retailing literature. First, we extend insights from the multiple store shopping literature by examining category allocation decisions in a substantially different multichannel retail context, with fundamental differences in the factors driving purchase allocation decisions. Second, we add to the multichannel literature by providing a comprehensive analysis of the factors that can cause differences in online purchase tendency across grocery categories. As indicated in previous (offline) purchase behavior studies (Hoyer and MacInnis 2010), grocery shopping differs substantially from other purchase contexts. As the same products are purchased repeatedly, purchase involvement tends to be low, and consumers are not prepared to spend much time and effort to search for the 'best' product. Findings of previous multichannel studies – which mainly focused on durable goods – are therefore not directly transferrable to, and provide little insight into, what drives purchase allocation decisions in a multichannel grocery shopping context. The limited number of studies on multichannel purchases of groceries focused on specific issues such as channel differences in sensitivity to specific marketing mix instruments (e.g., price sensitivity: Chu, Chintagunta, and Cebollada 2008; Chu et al. 2010), the degree of brand exploration across both channels (Chu et al. 2010; Pozzi 2012) or the impact of transaction

costs on channel choice (Chintagunta, Chu, and Cebollada 2012). While useful to develop expectations on the impact of specific factors, they do not provide insights into the overall purchase patterns of multichannel shoppers. Third, we refine and extend previous research on online buying experience effects (Ansari, Mela, and Neslin 2008; Frambach, Roest, and Krishnan 2007; Kim, Ferrin, and Raghav Rao 2008) by examining experience effects on category level purchase decisions and by taking different possible effects of experience into account.

From a managerial point of view, our results help multichannel retailers to improve the mix of customer services and enhance their overall value proposition for multichannel shoppers (Zhang et al. 2010). Our results can guide online category management and promotional decisions of multichannel retailers to stimulate online purchases. Striving for larger online shopping baskets can be beneficial and generate additional revenue that may cover the high fixed costs that online retailers face (e.g., storing and delivery costs). Next, by obtaining a better insight into the effects of experience on different types of factors that influence consumers' category purchase allocation decisions, multichannel retailers can better assess the importance of stimulating trial and repeat purchases (to generate positive experience effects) vs. taking corrective actions (e.g., adjust channel differences in assortment and/or price).

Conceptual Framework

In this section, we provide a conceptual framework on how multichannel shoppers allocate category purchases across the online and offline channel operated by a single retailer. We take the overall allocation of grocery purchases across channels (channel choice and visit frequency) as given and examine whether and how category-specific allocation factors lead to deviations from the overall allocation scheme (i.e., result in disproportionately low or high channel shares in category purchases). Building on the multiple store and multichannel shopping literature, we explain category allocation decisions as the outcome of a shopping utility maximization process that accounts for (i) acquisition utility, i.e., the benefits that consumers receive (e.g., product quality and promotions) and the costs they need to give up (e.g., price) when *acquiring* the product, and (ii) transaction utility, i.e., the benefits consumers receive (e.g., time-saving home delivery systems) and the cost they need to bear (e.g., perceived risk of online ordering) when *transferring* the products from the store to home (Baltas, Argouslidis, and Skarmas 2010; Chintagunta, Chu, and Cebollada 2012; Gupta and Kim 2010; Vroegrijk, Gijsbrechts, and Campo 2013). Below, we identify the major acquisition and transaction utility related factors and discuss how they are expected to influence category allocation patterns over the online and offline channel. Next, we discuss how online buying experience in the category plays a moderating role (see also Fig. 1).

Acquisition Utility: The Impact of Marketing Mix Instruments

Studies on multiple store shopping behavior in an offline context have demonstrated that marketing mix based differences

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