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Evaluating and Managing Brand Repurchase Across Multiple Geographic Retail Markets

Raj Echambadi [a,1,2], Rupinder P. Jindal [b,1,3], Edward A. Blair [c,*,1]

[a] College of Business, University of Illinois at Urbana-Champaign, Champaign, IL 61820, United States
[b] Milgard School of Business, University of Washington Tacoma, Tacoma, WA 98402-3100, United States
[c] Department of Marketing and Entrepreneurship, C.T. Bauer College of Business, University of Houston, Houston, TX 77204-6021, United States

Abstract

Many companies manage their business on a geographic basis and evaluate marketing metrics and managers correspondingly. Here, using a multi-level dataset from the U.S. retail gasoline industry, we demonstrate inherent differences in the levels of brand repurchase across territories. Furthermore, we show that the effects of factors that may improve repurchase—customer satisfaction and customers' relational investments—are moderated by market share at the territorial level. Relational investments have relatively more effect on repurchase in territories where a brand's market share is higher, while customer satisfaction has relatively more effect in territories where a brand's market share is lower. These findings imply that one size does not fit all for either *evaluating* or *managing* brand performance at a territorial level.

Keywords: Brand loyalty; brand repurchase; brand performance; geographic variation; mixed models; HLM

Introduction

The phenomenon of variation in brand performance across geographic retail markets has garnered much recent attention in the marketing literature. For example, Bronnenberg, Dhar, and Dubé (2007) note persistent geographic variation in market shares for leading brands of consumer packaged goods and show that the cross-market variation is generally larger than cross-time variation. Ataman, Mela, and van Heerde (2007) confirm this finding, and Kruger (2007) suggests that the phenomenon is ubiquitous across industries. Mittal, Kamakura, and Govind (2004) likewise demonstrate geographic variation using customer satisfaction as a performance metric. Although such variation in brand performance is of considerable managerial significance, relatively little is known about it, prompting calls for further research in this area (Bronnenberg et al. 2007; Lodish 2007). Our paper answers this call by studying geographic variation in repurchase rates for brands in the retail gasoline industry.

Our interest in the topic was inspired by a real-life incident that occurred in the gasoline industry. A major oil company obtained data that measured repurchase rates for its brand in each of its marketing territories. These data showed wide variation across markets, and one territory in particular was identified as a low performer. The company made several efforts to improve repurchase in this territory—investing in customer satisfaction programs, promoting ownership of its proprietary credit card, and even replacing territory managers—but the repurchase rate remained low compared with other markets. Then, in a "why didn't we think of this sooner" moment, someone suggested that perhaps the market had some distinct characteristics, and all brands in the market had low repurchase rates. Further analysis showed that this indeed was the case, which led the company to alter its pattern of local expenditures, its evaluations of local managers, and even the strategic priority attached to the market.

This real-life incident illustrates three points. First, many companies manage their business on some geographic basis and evaluate marketing metrics and managers correspondingly. Second, repurchase is a multi-level phenomenon that may be influenced not only by individual level variables such as

* Corresponding author. Tel.: +1 713 743 4565; fax: +1 713 743 4572.
E-mail addresses: rechamba@illinois.edu (R. Echambadi), jindalrp@uw.edu (R.P. Jindal), blair@uh.edu (E.A. Blair).
[1] All authors contributed equally in the development of this manuscript.
[2] Tel.: +1 217 244 4189; fax: +1 217 244 7969.
[3] Tel.: +1 253 692 5885; fax: +1 253 692 4523.

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customer satisfaction, but also by brand and market level variables. Third, the performance of any given brand—whether repurchase or any other metric—is likely to differ across territorial markets, which implies that customer receptivity to firm strategies may differ across markets. These differences across markets have an obvious managerial implication, that it may be more appropriate to evaluate performance in any given territory by comparing it with the local baseline than by comparing it with other territories. More importantly, these differences suggest that firms may be well advised not to follow a "one size fits all markets" approach in managing performance.

Here we argue, and demonstrate, that this is likely to be the case. We consider two levers through which a company might attempt to improve brand repurchase rates: by improving customer satisfaction or by increasing customer relational investments through proprietary credit cards or other loyalty programs (Mägi 2003). Prior literature suggests that both of these variables will, in general, be associated with enhanced repurchase rates. However, we propose that customer satisfaction and relational investments are unlikely to have fully additive effects on repurchase, and that the effect of either variable will be reduced in the presence of the other variable. This implies that even when investing in both variables, firms may wish to choose a primary lever on which to focus. We further propose that the relative efficacy of each lever in raising repurchase for a brand in any given territory will vary with the brand's market share in that territory, such that relational investments will have relatively more effect in territories where share is higher, while customer satisfaction will have relatively more effect in territories where share is lower. This implies that managers who wish to improve repurchase rates for a brand should place different relative emphasis on satisfaction and relational investments in different territories to the extent the brand's market share varies across those territories.

We conduct our analysis in the context of the U.S. retail gasoline industry, a multi-billion dollar industry that has received relatively little attention in the marketing literature (Ma et al. 2011). It is appropriate to study this phenomenon in the retail gasoline industry because the decisions of firms in this industry are affected by the characteristics of geographic markets (Iyer and Seetharaman 2008) and the gasoline industry considers repurchase rates as a key performance metric (Cindrin and Dolby 1998).

We utilize unique data containing information for all major brands across all major geographic markets in the United States, and we model repurchase rates in a multi-level framework with predictor and control variables at the individual, brand, and market levels. We study these questions in a single industry to control for industry-specific effects (Nijssen et al. 2003).

Our paper contributes to the marketing and retailing literature in three ways: (a) by demonstrating the multi-level nature of brand repurchase, it advances an understanding of differences in brand performance across geographical retail markets, (b) by exploring the interactions of key decision variables, it adds to our understanding of how to evaluate and manage brand performance when territorial operations are involved, and (c) while most studies that have documented geographic variation have done so using consumer packaged goods, this research increases our understanding of an important but under-researched industry.

The remainder of this paper is organized as follows. First, we provide a conceptual background and develop our hypotheses. Next, we describe the methods used to address those hypotheses. Third, we discuss the results. Finally, we discuss the implications, note the limitations of our research, and offer suggestions for future research.

Background and hypotheses

A wide variety of factors may affect variations in repurchase rates across individuals, brands and/or markets. Here, for reasons of theoretical and managerial interest, we focus on *customer satisfaction* and *relational investments* by customers as brand-related, individual-level antecedents of repurchase that companies might attempt to influence through marketing efforts, and *territorial market share* as a brand-related, geographic market-level factor that may moderate the relative value of influencing satisfaction and relational programs.

We hypothesize that customer satisfaction and relational investments are unlikely to have fully additive effects, and the effect of either variable will be reduced in the presence of the other variable. We further hypothesize that the impact of satisfaction on repurchase will be negatively moderated by territorial market share, while the impact of relational investments on repurchase will be positively moderated by territorial market share, with both effects having managerial as well as theoretical implications.

A background discussion of these variables and the rationale for our hypotheses is given below. Our analysis also will control for other individual, brand, and market-level factors that may relate to repurchase; these variables are discussed in *Methods* section.

Effects of customer satisfaction and relational investments on repurchase

Customer satisfaction has been shown to be a prominent driver of repurchase intentions across a wide range of studies (see Szymanski and Henard 2001). Scholarly work in the relationship marketing domain also has used relationship commitment as a potential driver of repurchase (Bendapudi and Berry 1997). Commitment has been expressed as an active desire on the part of the consumers to maintain an ongoing relationship (Morgan and Hunt 1994).

To build commitment, firms encourage customers to make relational investments by participating in programs such as loyalty programs and proprietary credit cards. These efforts produce a variety of benefits. Relational investments create customer assets that produce higher revenues while lowering marketing costs (Voss and Voss 2008). They have been shown to affect relationship quality thereby affecting loyalty intentions (De Wulf, Odekerken-Schröder, and Iacobucci 2001). They may enable firms to provide preferential treatment and accurately reward customers for their past loyalty (Seiders et al. 2005) and