

**Retail Executives Association of Dallas  
January 22, 2003**

# **The Myth of Retail Shopper Loyalty**

**Professor Edward Fox  
Cox School of Business/SMU**



# What Are We Going to Talk About?

- ① Examine evidence of shopper loyalty
- ② Consider the reasons why shoppers may not be loyal
- ③ Discuss the implications for loyalty programs



# Old Paradigm

## Location, Location, Location!

Virtually every study of consumer shopping behavior concludes that:

- ◆ **Convenience** is the most important factor in consumers' store choices
- ◆ **Price** is #2
  - EDLP
  - Sale, or promotional, prices



# Shoppers Responded to the Old Paradigm by Being Pretty Loyal

- “Gravity Model” Tests
  - ◆ 38% in Worcester, MA shopped at the closest supermarket (Thompson 1967)
  - ◆ 50% in Christchurch, NZ bought groceries, meat and vegetables at the closest stores (Clark 1968, Clark and Rushton 1970)
  - ◆ 25% in Manchester, UK bought bread at closest store (Fingleton 1975)
- American Express Retail Index (1999)
  - ◆ 56% of shoppers report that they are loyal to the same specialty stores >5 years
- Bell and Lattin (1998)
  - ◆ Market “A” - 36% loyal to a single supermarket
  - ◆ Market “B” - 64% loyal to a single supermarket

**Reported loyalty levels approached or exceeded 50%, but ...**



# Retailers Seem to Be “Leaking” Shoppers

- FMI (1989-1993)
  - ◆ 24% - 29% of customers report that they switched grocery stores in a year
- Measured Marketing, (Woolf 1993)
  - ◆ 25% - 50% of grocery store customers leave a store each year
  - ◆ The average household visits 2.2 grocery stores per week
  - ◆ Over 80% of households visit their favorite grocery store fewer than once a week

**Is shopper loyalty really “yes” or “no”?**



# What Is Shopper Loyalty?

- “Repeat Purchase”
  - ◆ The probability of choosing a retailer if that you recently visited that retailer
- “Share of Requirements”
  - ◆ The proportion of a customer’s purchases in a retail format (e.g., grocery, mass, drug) that is made at a given retailer
  - ◆ **Proportion of a customer’s purchases of a particular type of product (e.g., packaged goods, apparel) that is made at a given retailer**

**Nearly all loyalty studies have focused on a single retail format**



# Shopper Loyalty WITHIN SUPERMARKETS

- We tested “share of requirements” loyalty within format for two supermarkets

Share of Grocery Requirements	Number of Shoppers	% of All Shoppers	Annual Store Rev. / Shopper	Annual Store Rev. / Segment
Non-Shoppers	2091	45.8%	\$0	\$0
0% - 25%	1149	25.1%	\$180	\$206,486
26% - 50%	582	12.7%	\$786	\$472,831
51% - 80%	480	10.5%	\$1,338	\$643,124
81% - 100%	267	5.8%	\$2,100	\$533,153
TOTAL	4569	100.0%	\$406	\$1,855,593

## We found that ...

- ✓ **Loyal customers account for most of a store's revenues**
- ✓ **The majority of a retailer's customers make most of their purchases outside of its stores**



# Shopper Loyalty ACROSS FORMATS

- We also examined shopper loyalty across formats
- We found that shoppers are much more likely to shop at two or more retail formats in a given week than to shop at grocery stores alone



**So ... households shop in multiple formats**



# Shopper Loyalty ACROSS FORMATS

- The data tells us that the more a household spends in grocery stores, the more it also spends in mass merchandisers and drug stores

Correlations of Logarithm of Household Packaged Goods Expenditures

	HiLo Grocery	EDLP Grocery	Mass Merchandiser	Drug Store	Warehouse Club
HiLo Grocery	1				
EDLP Grocery	0.114	1			
Mass Merchandiser	<b>0.852</b>	0.215	1		
Drug Store	<b>0.791</b>	0.154	<b>0.713</b>	1	
Warehouse Club	0.075	0.142	0.221	0.000	1

**Big spenders spread their packaged goods purchases across more formats**



# Shopper Loyalty ACROSS FORMATS

- How are shopping trips and packaged goods spending allocated across formats?

Shopping Trips and Packaged Goods Spending Across Retail Formats

	HiLo Grocery	EDLP Grocery	Mass	Drug	Club
% of Shopping Trips	52%	11%	20%	11%	5%
% of Spending	58%	15%	14%	5%	8%
Spending/Trip	\$26.49	\$33.04	\$15.86	\$10.64	\$37.24
% of HH Shopping	100%	90%	96%	91%	54%

**The vast majority of households shop in grocery, mass, and drug stores**



# Shopper Loyalty ACROSS FORMATS

- Category by category, in which formats are packaged goods purchases made?

## Packaged Goods Purchases in Retail Formats for Selected Categories

Sales Ranking	Description	% Spending in Grocery	% Spending in Mass	% Spending in Drug	% Spending in Club
1	REGULAR SOFT DRINKS	88.5%	7.7%	2.0%	1.8%
2	READY TO EAT CEREAL	91.3%	4.7%	0.3%	3.8%
3	LOW CALORIE SOFT DRINKS	88.9%	8.2%	2.1%	0.7%
4	REFRIGERATED SKIM/LOW-FAT MILK	90.3%	1.5%	3.9%	4.3%
5	SHELF STABLE BREAD	95.3%	3.5%	0.4%	0.8%
8	CIGARETTES CARTON	31.0%	36.2%	10.4%	22.4%
11	TOILET TISSUE	52.4%	35.5%	3.0%	9.1%
12	DISPOSABLE DIAPER/LINER	35.8%	55.8%	5.9%	2.5%
14	INTERNAL ANALGESICS TABLET	36.9%	29.1%	27.4%	6.6%
20	DRY CELL BATTERY	25.2%	47.9%	20.1%	6.8%
25	PAPER TOWELS	46.4%	40.1%	2.0%	11.4%

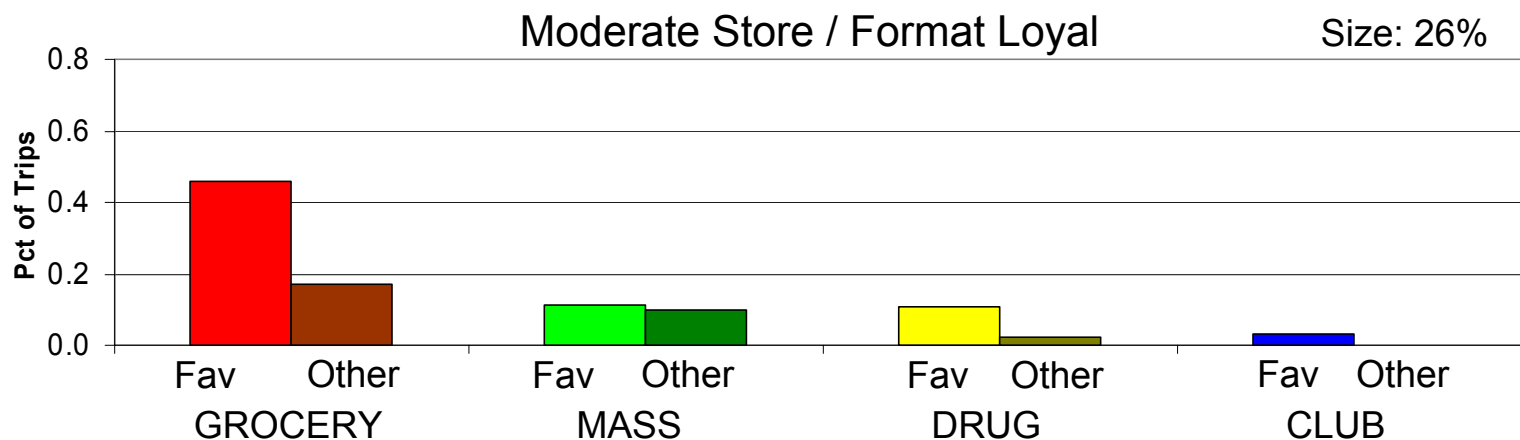
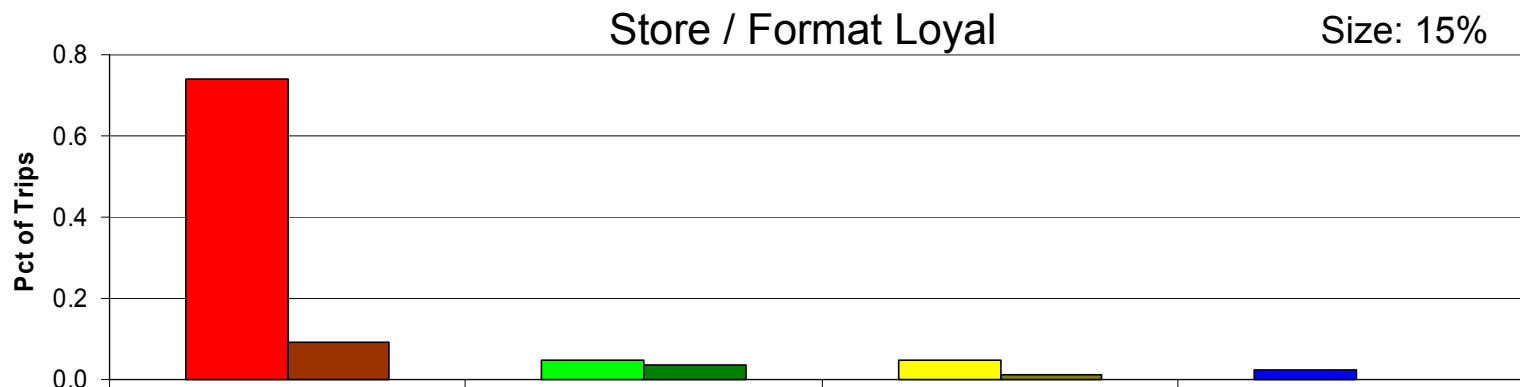
**Many large packaged goods categories are now bought predominantly outside of grocery stores**



# Shopper Loyalty

## LOYALTY SEGMENTS

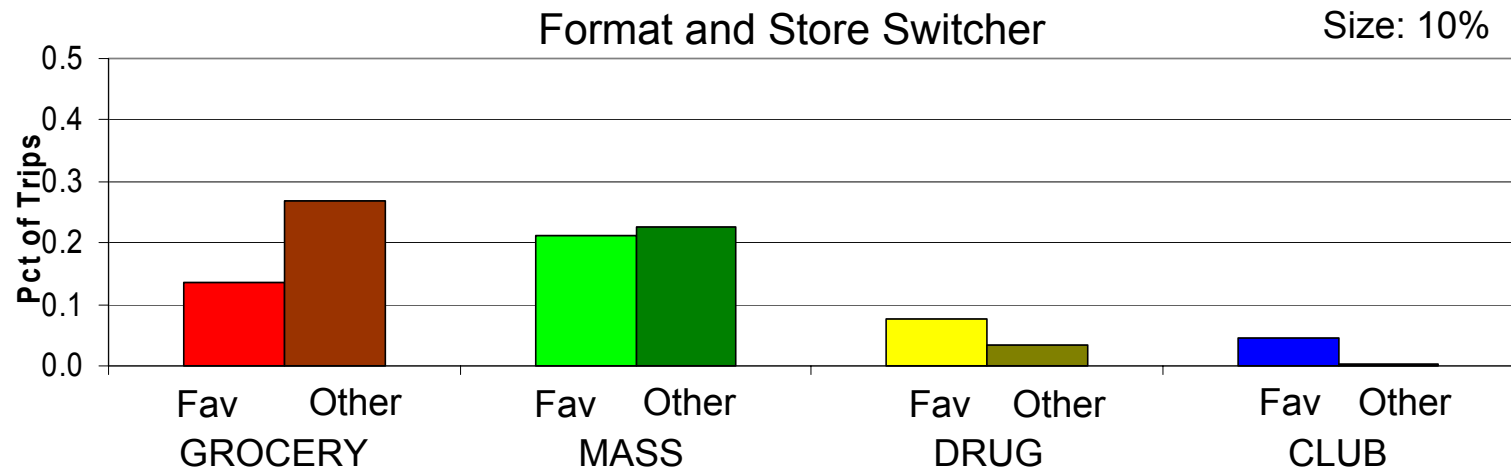
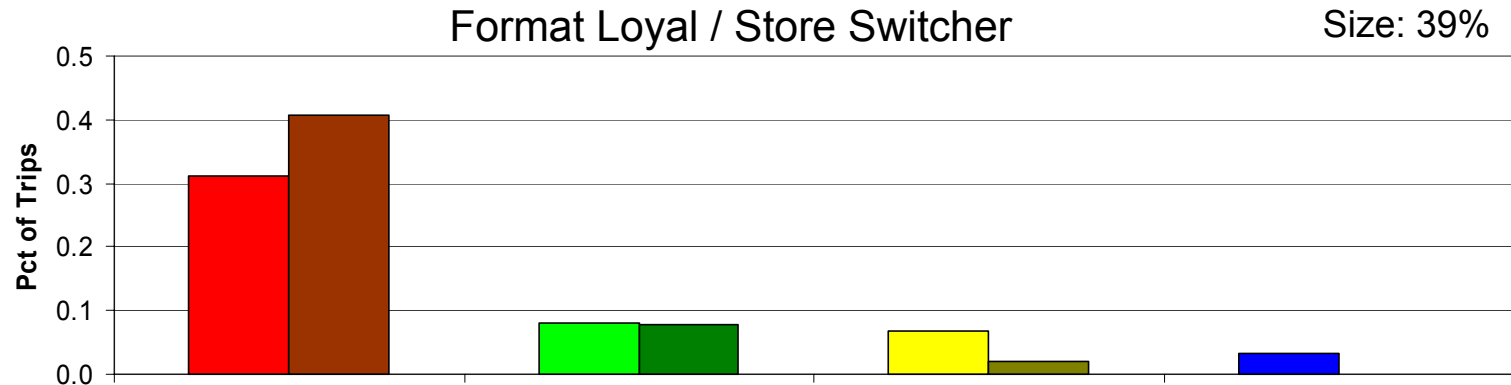
- Segmentation based on store loyalty within and across formats



# Shopper Loyalty

## LOYALTY SEGMENTS

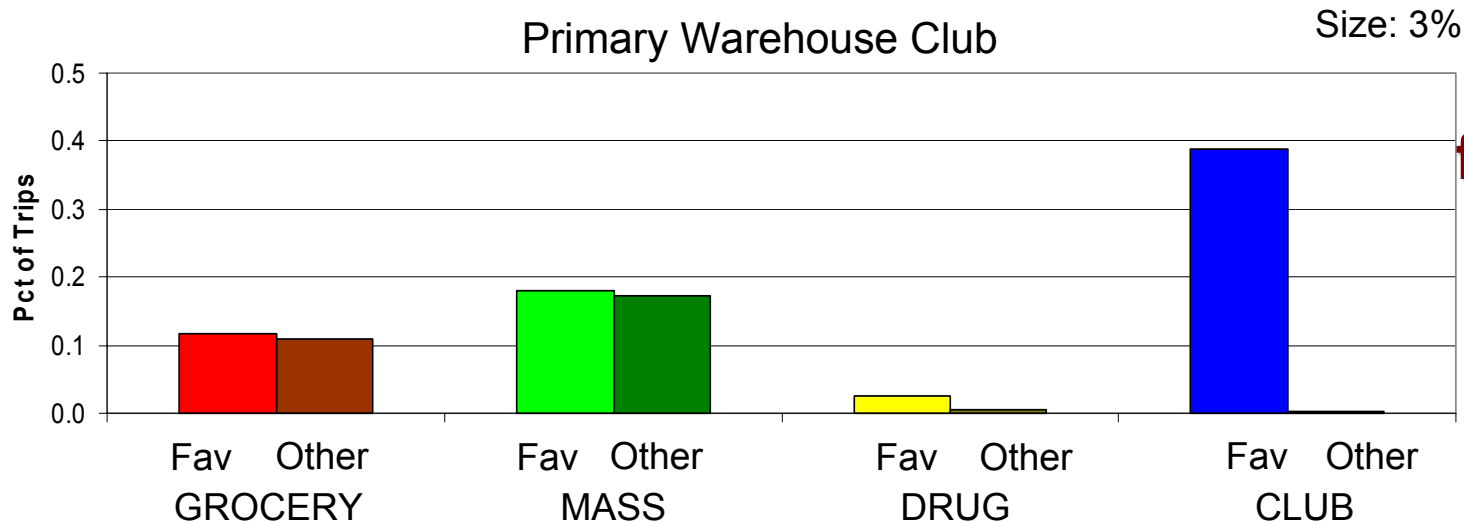
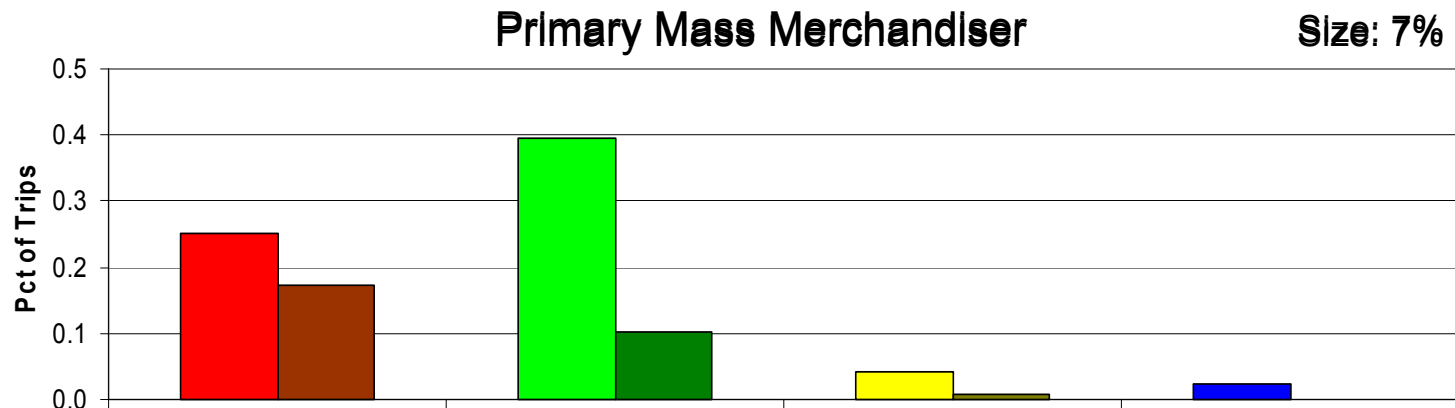
- Segmentation based on store loyalty within and across formats



# Shopper Loyalty

## LOYALTY SEGMENTS

- Segmentation based on store loyalty within and across formats



for



# Why Are Shoppers Non-Loyal?



# Why Are Shoppers Non-Loyal?

- ① **Store Switching** – Consumer may choose a different store whenever s/he shops, depending on
  - ◆ Where is the consumer?
  - ◆ What does s/he need?
- ② **Multi-Store Shopping** – Use multiple stores to meet their needs
  - ◆ Recognizes that consumers shop strategically over time



# Why Are Shoppers Non-Loyal?

## STORE SWITCHING

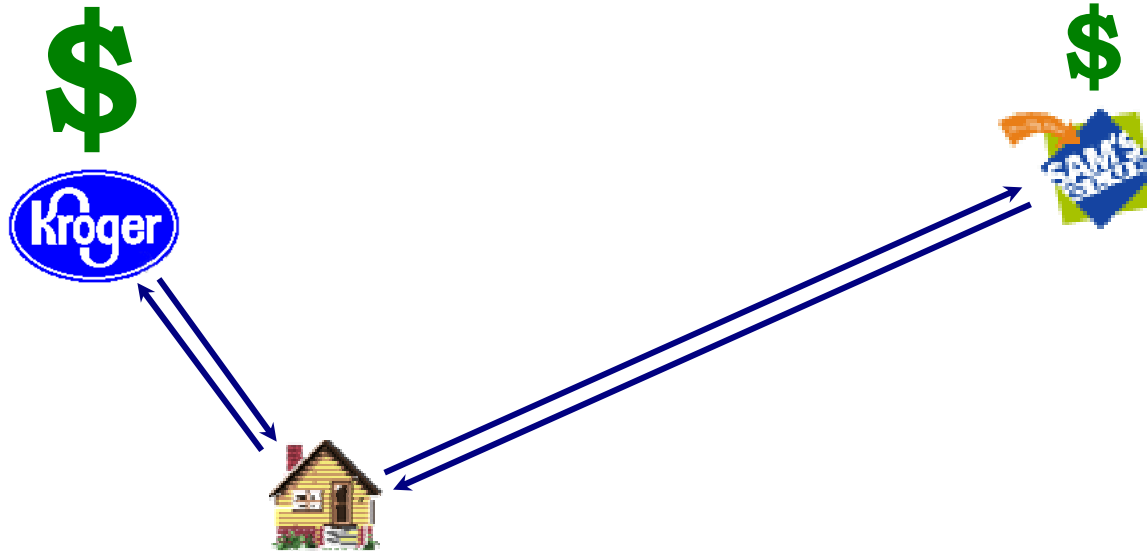
- Product Mix
  - ◆ Assortment differences – Destination categories / products
  - ◆ Variety differences – One-stop-shopping
- “Stock Up” vs. “Fill In” Trips
  - ◆ Purpose of the shopping trip depends on what and how much the consumer needs
- Routing
- Internet
  - ◆ 1.3% of retail sales, and holding steady



# Store Switching

## “STOCK UP” VS “FILL IN” TRIPS

- Consider a neighborhood store (Kroger) and a low price store (Sam’s Club)?



So...

- ✓ Shoppers are trading off convenience and price
- ✓ The more a shopper needs, the more important price becomes

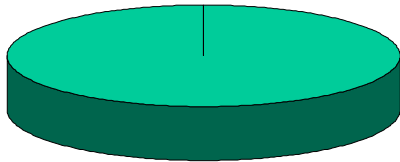


# Store Switching

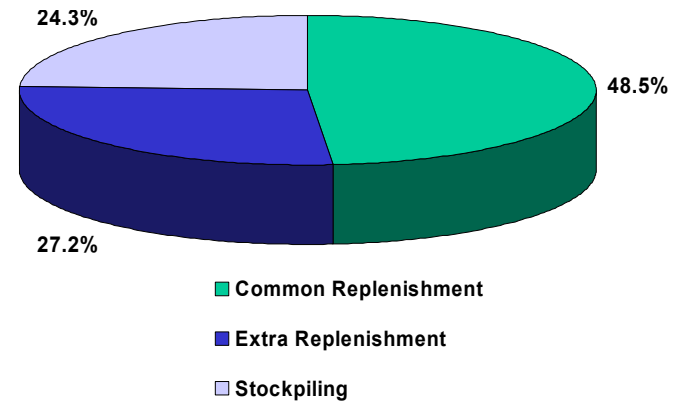
## “STOCK UP” VS “FILL IN” TRIPS

- Basket sizes, for store switchers, at the ...

Neighborhood Store



Low-Price Store



**We find that:**

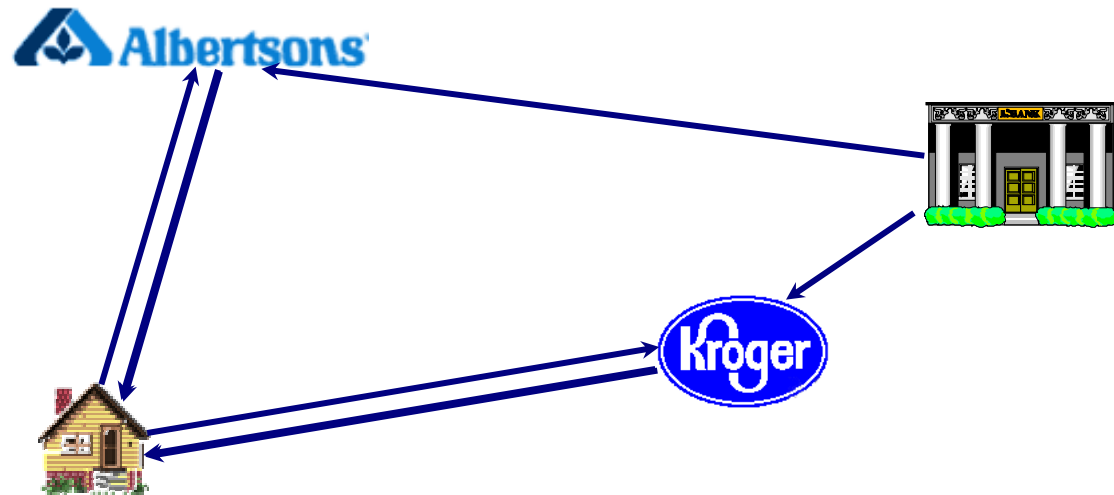
- ✓ **Shoppers buy less than half as much on a trip to the neighborhood store, compared to a low-price store**
- ✓ **Shoppers stockpile at low-price stores**



# Store Switching ROUTE

Where does the trip originate and end?

- From home to home?
- From work to home?



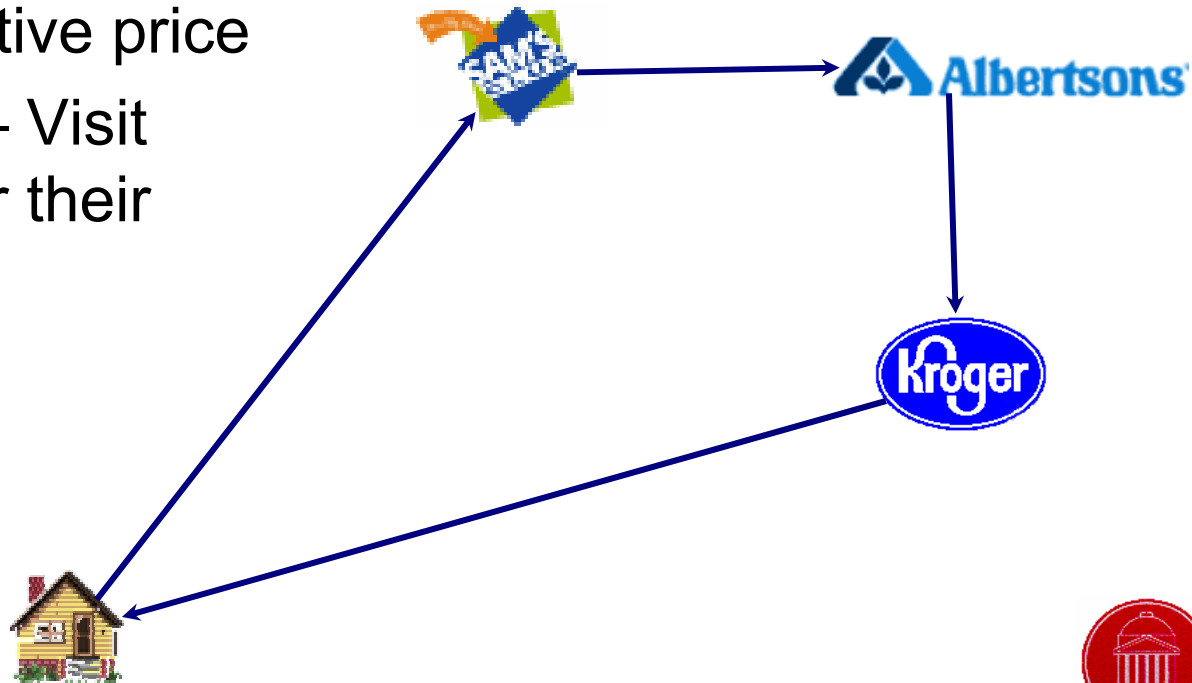
**Changing routes are hard to observe, but are likely to be responsible for a lot of switching behavior**



# Shopper Loyalty

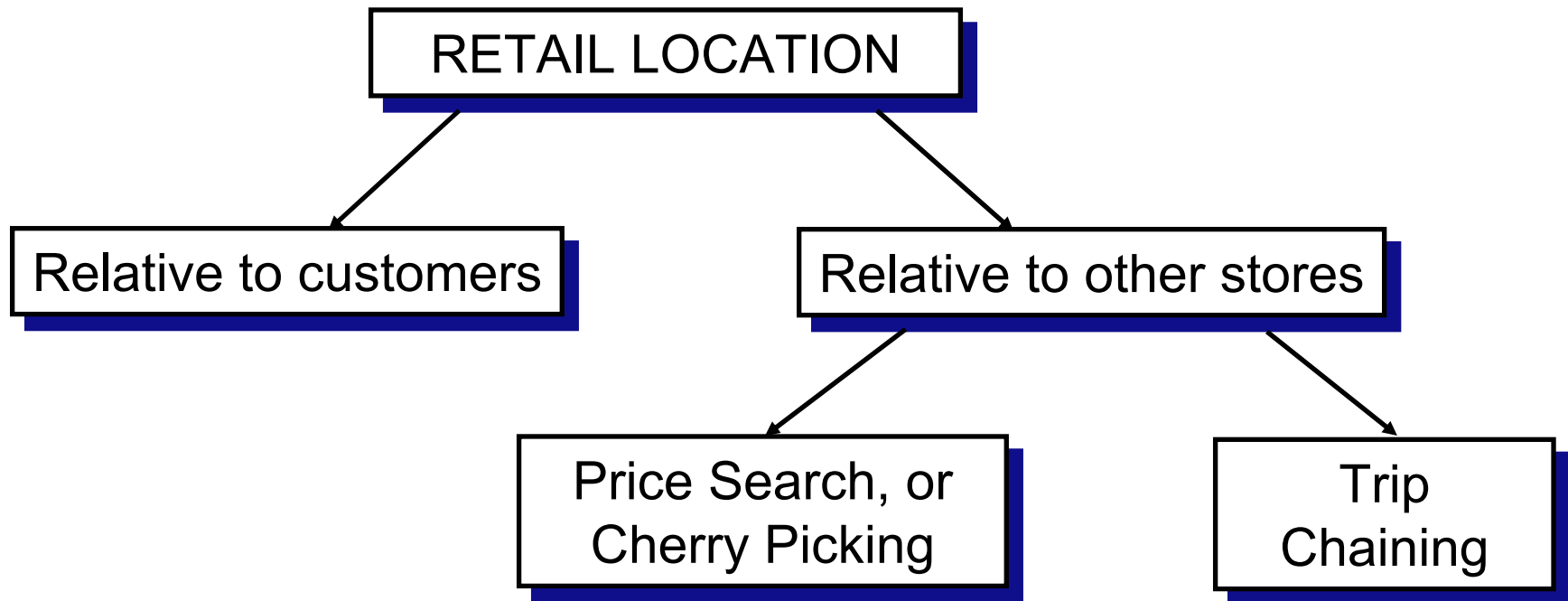
## MULTI-STORE SHOPPING

- “Trip chaining” – Make unrelated purchases on the same trip
- Price search – Search until you find an attractive price
- “Cherry picking” – Visit multiple stores for their price specials



# Multi-Store Shopping PRICE SEARCH AND “TRIP CHAINING”

① How does retail location affect multi-store shopping?



② How are supermarket revenues affected by the presence of other supermarkets, drug, mass, and club stores?



# Multi-Store Shopping PRICE SEARCH AND “TRIP CHAINING”

- Shopping behavior findings
  - ◆ By allowing for search between stores and “trip chaining,” we explain 166% more of shoppers’ spending behavior than travel distance alone.
  - ◆ Together, all retail location variables explain a reasonable amount of shoppers’ shopping and spending habits (17.3%).
- Retail location findings
  - ◆ Supermarkets lose customer dollars by locating near warehouse clubs and drug stores.
  - ◆ Supermarkets that locate near other supermarkets neither lose nor gain consumer spending uniformly. It appears that some stores benefit and other stores suffer.



# Multi-Store Shopping

## “CHERRY PICKING”

“Instead of going to the same outlet each week, every week, to complete their grocery shopping, **price-conscious consumers often visit more than one store in search of special prices – a bargain-hunting practice known in the industry as ‘cherry picking.’**”  
(Mogelonsky 1994)

*Consumer Reports* recommends that smart shoppers **“scrutinize the food-day ads and ‘cherry pick’ the specials,”** noting that 20% of its readers show little loyalty among supermarkets (Consumer Reports 1988)



# Multi-Store Shopping

## “CHERRY PICKING”

- Size of the cherry picking segment?
  - ◆ 13% cherry pickers; 57% switchers; 30% loyals (FH)
  - ◆ 19% regularly shop specials at multiple stores (UDS)
  - ◆ 25% shop other than their principle store to get advertised specials (UDK)
  - ◆ 22%-24% of consumers regularly shop at multiple stores (UDK, UDS)
  - ◆ 42% of shoppers compare prices across stores at least once per month (UDS)
- Cherry pickers more frequently buy advertised (25% vs 19%) and discounted (38% vs 32%) products, and get a better average discount (10% vs 8%), compared to the average shopper (FH)
  - ◆ Wal-Mart's recent decline in margins has been blamed, in part, on cherry picking (MMR 2002)
- Cherry pickers are less store loyal *and brand loyal* than other shopper types (FH)

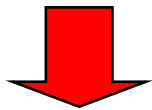


# What Are the Implications for Loyalty Programs?



# What Does This Have to Do with Loyalty Programs?

- Inform loyalty program objective(s)
  - ◆ Influence loyal customers to remain loyal?
  - ◆ Increase loyalty of non-loyal customers?
  - ◆ Not really prospecting for new customers, but increasing “share of wallet”
- Loyals vs. switchers vs. multi-store shoppers
  - ◆ Identify customers’ segment membership and sizes of shopper segments



- ◆ Targeting
- ◆ Resource allocation
- ◆ Selection of marketing tools

