SWP 25/93  POCKETING THE CHANGE FROM LOYAL SHOPPERS:
THE DOUBLE INDEMNITY EFFECT

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ISBN 1 85905 030 1
POCKETING THE CHANGE FROM LOYAL SHOPPERS: THE "DOUBLE INDEMNITY" EFFECT

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ABSTRACT

In this paper, we present some significant findings about store loyalty and consumer spend across five retail sectors. The paper opens with a historical review of store loyalty measures and the Enis-Paul composite is presented as the most enabling for our particular research design. A rationale for our sampling procedures and research process is argued largely on the basis of the geographic, contextual and temporal limitations of previous empirical studies.

Our findings are presented at two levels: Initially, we compare our aggregate loyalty measure with previous results and conclude that, despite methodological differences, loyalty levels appear to have fallen. We then compare loyalty levels across retail sectors and identify that DIY superstores generate the lowest levels of consumer loyalty. Finally, we are able to show for the first time that there is a significant, negative association between store loyalty and total consumer spend at the sector level.

When our data was disaggregated by loyalty types, the trends proved to be even more revealing. Whilst loyal shoppers tend to have smaller budgets (£) than promiscuous shoppers, they spend double the amount (£) in their favourite store due to budget allocation preferences (%). This effect is even more marked for loyal grocery shoppers since they not only allocate more of their budget to their favourite store (%) but they also have bigger grocery budgets (£) than other shoppers (in direct contrast to the sector trend highlighted above).

All our results underline the fact that loyal customers are more profitable to retailers and highlight the increasing strategic and operational importance of loyalty programmes across all retail sectors during the 1990s as market saturation is reached.

1. INTRODUCTION

Manufacturers of fast moving consumer goods have long been aware of the importance of customer loyalty to their brands. This has been the focus of numerous academic and business models since the 1950s in which links between brand loyalty and indicators of market performance, such as market share, have been established (Ehrenberg et al 1990). In contrast, retailers have traditionally placed less strategic importance on customer loyalty (Wrigley and Dunn 1984c).
However, even the most powerful of business enterprises cannot ignore the natural forces of change. With the recent decline in retail sales as market saturation is reached, coupled with the need to actually raise sales volume to spread higher fixed cost investments (such as larger sites and electronic data systems), competition amongst major retailers has intensified (Knee and Walters 1985; Richards and Smeddy 1985). Though store location remains the keystone to gaining customers, there is growing belief in the value of keeping them loyal. Retail management efforts to do just this are becoming increasingly common-place, through loyalty clubs, cards and programmes, each designed to motivate the consumer to spend more in one store group and less in others. However, absolute customer loyalty, at store level, is not a realistic proposition for retail marketers. Whilst a consumer may conceivably retain the services of the same High Street Bank throughout his/her working life, possibly at the exclusion of all others, it is inconceivable that they would show comparable loyalty to a grocery multiple or clothing chain. Research suggests that most shoppers are notoriously 'promiscuous', switching from store to store at will (Kau and Ehrenberg 1984). For the retailer, the challenge rests in raising the degree of customer loyalty rather than winning over life-time exclusivity.

Marketing investment in long-term customer relationships is finding favour across many industries, particularly within the service sector where, traditionally, marketing effort has been concentrated on attracting new customers rather than keeping existing ones. The wisdom of customer retention strategies in, for example, the banking and insurance sectors is beyond doubt; the high initial costs borne in setting up new accounts are offset through subsequent transactions over the life-time of the relationship. According to Christopher et al (1991) retaining customer accounts in these circumstances is the key to profitability. Any increase in life-time of the customer relationship with the firm can lead to substantial improvements in business performance. For example, Reichhold and Sasser (1990) found that by reducing customer defections from twenty to ten per cent, average customer value in a credit card company rose by over 120%. They also found that a five per cent cut in defections resulted in an 85% increase in profits for a bank’s branch system and a 50% increase in an insurance brokerage. However, the relationship between customer loyalty and business profitability in the retailing of fmcgs or durables has not been widely studied.

In this paper, we present some significant findings about store loyalty and consumer spend amongst these types of retail outlets, based upon an empirical study of UK shopping behaviour. We address two main issues. Firstly, we explore the extent to which consumers are loyal to particular stores at a time when consumer mobility and store choice have never been so great. Secondly, we examine the relationship between the levels of store loyalty and consumer spend across five retail sectors, to establish conclusively whether or not they
are closely linked in the retailing of goods as they appear to be in the retailing of services.

2. MEASURING STORE LOYALTY

Many past studies of consumer loyalty and buyer behaviour have concentrated on the dual issues of repeat purchase and brand choice (for example see Chatfield et al 1966; Ehrenberg 1988; Goodhardt et al 1984). They reflected the overriding power that manufacturers enjoyed over retailers in facilitating consumer choice during the 1960s and early 1970s. Consumer buying behaviour was heavily influenced by the pull of manufacturers' proprietary brands rather than by the push of retailers.

Nowadays, this situation has reversed; channel power clearly lies with retailers (Knox and White 1991). It appears that consumer buying behaviour is influenced at least as much by the retailer as the manufacturer, as the growing market share of own label brands suggests (de Chernatony and MacDonald 1992). For this reason the topic of store loyalty and shopping protocol has begun to attract research attention (see Kau and Ehrenberg 1984; Knox and de Chernatony 1990), though brand choice at point of sale continues to be a dominant theme.

So what is meant by store loyalty? In essence, it refers to the consumer's inclination to patronise a given store or chain of stores over time. Whilst expressions of store loyalty and customer retention are often used as a surrogate for buying behaviour patterns, they are often used imprecisely. Since consumers are very rarely exclusively loyal to a store group, so store loyalty is, in practice, a relative term and is more difficult to measure precisely. Many analysts chose to use the measure of repeat store visits as a convenient expression for store loyalty, despite the obvious shortcoming of the disregard for store spend. Who is the more loyal shopper? Is it the person who visits the same store on seven out of every ten grocery shopping trips or the person who only goes there every fourth trip but buys 80% of her food there?

Various measures of store loyalty have been used in past studies. Some were originally developed for assessing brand loyalty, others are more original and tailored to store behaviour. In a sense, the fact that multiple measures exist at all reflects the lack of a coherent definition. We have classified them into four categories (see Figure 1):

Measure 1: The Patronage Ratio (P)

Store loyalty can be measured simply by comparing the number of purchases made in one store for a particular product line relative to other stores. Both Kelly (1967) and Thompson (1967) have adopted this approach. It is also the basis upon which store choice is considered in the stochastic models of buyer behaviour which have come to dominate brand choice and repeat buying studies (Jephcott 1972; Wrigley 1980; Kau 1981 and Ehrenberg 1984; Wrigley and Dunn 1984b, 1984c; Ehrenberg
However, simply measuring store patronage over time fails to capture any change of allegiance that may have taken place during that time. For example, consumer A may regularly shop interchangeably between stores 1 and 2, say, over a six month period, showing little loyalty preference between the two. Compare this to a situation in which consumer B shops continually at store 1 for three months and then becomes disillusioned with it, abandoning it for store 2 during the remainder of the study period. With regard to patronage over the full six month period, both exhibit an equal level of loyalty, but their behavioural patterns are very different which should be accounted for in a true measure of loyalty. This illustration demonstrates the problem of any measure of store loyalty which is based upon frequency of visit (or store patronage) alone. Clearly this weakness is more pronounced over longer study periods as consumers' long-term commitment to a particular store diminishes and gives way to other preferences.

**Figure 1: A Typology of Store Loyalty Measures**

- **B-P-S Composite measures** (e.g., Enis-Paul Index)
- **Budget Measures** (B)
- **Patronage Measures** (P)
- **Switching Measures** (S)

**Measure 2: The Switching Ratio (S)**

Farley (1968) and Rao (1969) were amongst the earliest to criticise the patronage measure in the context of store loyalty and offer an alternative which reflected the degree of 'switching' between favoured stores over time. This involves measuring the number of successive visits or 'runs' to the same store/store chain. In more recent times Crouchley et al (1982a, 1982b) have adopted this means of measuring store loyalty.

**Measure 3: The Budget Ratio (B)**

The main advocate of this approach has been Cunningham (1956, 1961) who measured loyalty in terms of the proportion of the consumer's total expenditure on groceries made in the consumer's 'first choice' store. More recently, Dunn and Wrigley (1984) have followed Cunningham's approach. The advantage of this measure is that it takes into account the relative level of spend, whereas any "analysis of purchase
occasion" (using either patronage or switching measures) does not differentiate between 'main' shopping trips and 'top-up' trips.

To many analysts, expenditure patterns are the most appealing single measure of store loyalty, but it is not without its weaknesses. For example, were a consumer to shop regularly for everyday clothes in store A but, occasionally, buy expensive designer wear elsewhere, an analysis by expenditure alone would not clearly establish underlying loyalty to store A.

Measure 4: Composite Measures (B-P-S)

Tate (1961), recognising the shortcomings of the single measure, used a composite index: the number of stores visited and the proportion spent at the 'first choice' store. Others, notably Carmen (1970) and Enis and Paul (1970) have also followed this example by developing index measures.

2.1 The Enis-Paul Index

The Enis-Paul measure consists of an unweighted, geometric mean of patronage, switching and budget measures applied to the 'first choice' store. They calculated it as a percentage figure which ranges from the theoretical upper limit of 100%, indicating exclusive purchasing at one store throughout the study period, towards the zero lower limit, indicating complete 'promiscuity'. In practice, values will rarely fall below five per cent since the measure is applied to the store in which the consumer spends most over the study period (ie 'first choice' store). The precise formula of the Enis-Paul Index is detailed in Appendix 1.

Though such a measure is multi-dimensional and offers a more balanced model of loyal behaviour, it also suffers from being less straightforward to interpret than the single measures. Consumers who are deemed 60% loyal to their 'first choice' store, using an expenditure measure, means they spend 60% of their budgets in that store. However, using a composite measure no such direct conclusions can be drawn. A high loyalty rating is generally indicative of a high budget percentage, patronage of few stores and infrequent switching. A very high value for one of these measures can offset a low value of another, as Figure 2 illustrates.

Charton (1973), in his excellent review of empirical developments in store loyalty, argues that the value of any single or composite measure rests on its usefulness in application. Given that our research objective was to provide a comparative measure of store loyalty levels across five retail sectors with very different patterns of consumer expenditure, choice and frequency of visit, the Enis-Paul Index seemed to us the most enabling in these circumstances. Our full research rationale and design is discussed in the next section.
3. RESEARCH METHODOLOGY

Leaving aside this problem of loyalty definition and measure, there seemed to us a number of compelling reasons why we should carry out this new empirical study at this time.

Firstly, it is now 10 years since the last UK study of its kind was conducted by Wrigley and Dunn. Retailing has evolved considerably during the decade. On the one hand, consumers contrive to become more mobile and better informed which discourages strong loyalty to individual stores. On the other hand, major retailers have invested heavily in site location and image building, to differentiate themselves from competing stores and to target consumer groups more effectively (de Chernatony, Knox and Chedgey 1992). The physical shopping environment also continues to change; away from inconvenient town centre locations towards planned and specialised shopping centres designed to encourage more pedestrian flow between the stores. It is unclear what overall impact these developments have had on store loyalty levels.

In our research design, we decided to measure store loyalty at ten major shopping centres exclusively, rather than in the high street, to reflect contemporary shopping behaviour, based around the car-owner rather than the pedestrian shopper.

Secondly, in most previous studies the researchers have focussed on grocery retailing in the USA or UK. It struck us that there was a real need to broaden the scope of existing knowledge by examining store loyalty across a range of retail sectors, if only to confirm that the conclusions reached from grocery-based studies do apply equally to other forms of retailing. So, we designed our research to cover five retail sectors, namely:

- Petrol
- Groceries
In the case of department and mixed retail stores, our pilot study showed measuring store loyalty is altogether a more diffuse task than in other sectors where product lines are more focussed (such as grocery or DIY goods). For some product lines, such as cosmetics, a respondent might be relatively loyal to a department store, but for many other lines sold there, they may be no more than an occasional buyer. So it is perhaps less appropriate to consider store loyalty per se in these types of store than to consider store loyalty with regard to particular product lines. This is the approach we adopted in assigning loyalty levels to these store types. For each respondent, therefore, store loyalty was calculated with respect to one of five product categories:

- Personal care products
- Leisure goods
- Home furnishings
- Clothing
- Food/confectionery.

Consumers that had visited a particular department or mixed retail store without purchasing from these categories were not interviewed.

Thirdly, previous empirical studies have generally been based in one geographic location, such as the work carried out by Wrigley and Dunn in Cardiff. Doubtless, there were sound methodological reasons for this narrow geographic focus, not least of which must have been the logistics of monitoring and recording behavioural data. Nevertheless, there is also a very strong case for drawing a sample from the national population to overcome any local factors that might disguise general trends. In an attempt to develop a nationally representative pattern of store loyalty, 750 consumers were interviewed across ten major sites in Britain. Each respondent was questioned about his/her shopping behaviour in connection with the store they had just existed, so each respondent was only questioned about one of the five sectors. Twenty-two interviews were subsequently rejected because of poor cross-validation of interview data. Our approach differed from previous studies which have mainly used diary panels as a means of data collection. Time and resource considerations, by necessity, guided our methodology. Whilst we relied on human memory for data accuracy, great attention was given to the questionnaire design to encourage accurate memory recall. Consumers were questioned about their shopping behaviour over the previous month. The pilot fieldwork had indicated that accuracy of recall over any longer time span deteriorated rapidly. Cross-referencing was used throughout the questionnaire to validate individual answers and safeguard the data quality. Part of the appeal of using the Enis-Paul Index as the measure of store loyalty lay in the fact that it was constructed around three separate inputs, each calculated from independent information collected during the interview which lasted approximately 15 minutes. Had a single measure
been chosen, we would have become dependent on a small number of inputs and significantly increased the risk of inaccurate measurement.

Sampling of individual consumers was conducted on a quota basis; the quota specifications related to location, retail sector and socio-economic rating. In all other respects, the survey comprised a representative cross-section of shoppers in their characteristics and routines. The main fieldwork was carried out in February 1992, once consumers had fallen back into their regular shopping patterns after Christmas and the January sales. Our findings from the data analysis stage are outlined below.

4. HOW LOYAL ARE CONSUMERS IN THE 1990S?

The Enis-Paul Index was calculated for each of the 728 survey respondents. The mean loyalty level of ‘first choice’ store was calculated to be 60.4% with a standard deviation of the 16.1%. Like the original Enis-Paul study, our distribution of loyalty values approximate to a normal distribution, as Figure 3 shows. Therefore, we are able to confirm that the Enis-Paul Index can reasonably discriminate various degrees of store loyalty among shoppers.

![Figure 3: Frequency of Customer Loyalty Values](image)

It is interesting to make a brief comparison between the Enis-Paul results in 1970 and our own data. Their study of grocery retailing produced an average loyalty rating of 70.1% and a standard deviation of 16.2%, a remarkably similar spread of values to our own (SD=16.1%). At the disaggregate level, for the 161 shoppers in our study who were questioned about their grocery shopping behaviour, the average loyalty level to their ‘first choice’ food store was found to be 60.7%. However, it
would be improper to make any categorical inferences from the comparison between the two studies since there are important methodological differences between research designs: Enis and Paul calculated store loyalty levels over a ten week period from diary panel data, whilst our ad hoc survey data recalled shopping behaviour over the last four weeks. Further, previous research has found that store loyalty decreases over time (Wrigley and Dunn 1984b). They found an 11% reduction in loyalty to grocery stores over a six week period compared to their one week measure and a 15% difference over 24 weeks. So, although their research suggests that the rate of loyalty decline stabilises, we can only surmise that were we to have measured store loyalty over the same time period as Enis and Paul, our average store loyalty figure would have been still lower, indicating an even wider temporal drift in loyalty behaviour. Nonetheless, there is much circumstantial evidence to suggest that grocery shoppers in the 1990s in the UK are less loyal to their 'first choice' store than were their American counterparts in the 1960s. Despite the efforts by UK retail management to engender loyalty among their customers, greater choice of store, higher mobility levels and, perhaps, even the transition to impersonal self-service systems may have encouraged UK consumers to become more fickle and promiscuous in their shopping behaviour.

4.1 Are Shoppers More Loyal to Stores in Some Retail Sectors Than Others?

Whilst our study design prevented us from establishing whether individuals have differing loyalty profiles across retail sectors, we have been able to make comparisons across sectors at an aggregate level.

Our survey shows that store loyalty levels across the grocery, mixed retail and petrol sectors are very similar and do not vary significantly. However, both DIY and department stores do have significantly different scores from these three (Figure 4). Loyalty amongst consumers towards 'first choice' DIY stores is significantly lower than the other sectors. It would seem that retailers in this sector are struggling to gain any competitive advantage over one another and failing to differentiate themselves.

We can suggest two primary reasons for this. Firstly, the 1970s boom in the DIY trade encouraged rapid and widespread construction of DIY superstores, located in out-of-town developments with competitors clustered in close geographical proximity. This has generally minimised any significant site advantages from being established by any one retailer in this sector. Location has long been recognised as a key ingredient to retailing success and closely associated with repeat buying behaviour. The absence of significant locational supremacy appears to have a dulling effect on consumer loyalty to individual DIY stores.
Secondly, DIY retailers seem to be failing to differentiate themselves on store image and perceived value. At interview, consumers commented that they were not usually conscious of which particular DIY store they were in; they all appeared to share very similar merchandising practices, failed to create individuality, so each store looked the same. On the evidence of the recent television advertising campaigns, DIY retailers seem content to compete on ‘bleeding-edge’, price-slashing tactics, rather than creating a ‘value added’ proposition. From the evidence of our research, this approach fails to create strong loyalty ties with consumers. It remains to be seen if, in the longer term, the DIY chains are successful in their pioneering attempts at customer retention through store loyalty cards.

In contrast, department stores attracted stronger loyalty amongst our respondents than any other retail sector. This finding is intuitively appealing since shopping in department stores has certain elitist and psycho-social qualities, rather like a ‘lifestyle badge’ that consumers are proud to wear. Interestingly, it was the one retail sector where respondents did not list location as being the driving force for choosing one department store in preference to others.

Re-analysing our database by product category across department and mixed retail stores shows that store loyalty levels do not differ markedly for clothing, leisure goods and home furnishings (Figure 5).

However, in the case of personal care products, respondents were noticeably more store-loyal in their buying habits. Perhaps people tend to frequent the stores in which they know particular brands are sold or specialist advice can be sought. Whatever the root-causes may be, personal care products seem to be a store loyalty generator amongst mixed retail and department stores. For those buying food/confectionery in mixed retail and department stores, loyalty to their ‘first
choice' was particularly low. However, there was noticeably more spread around the mean loyalty level. A possible explanation can be offered from unstructured customer responses during interviews: some bought food there as an occasional treat or as an emergency fall-back, but not as part of their regular routine. However, others favoured such stores as a matter of course, attracted as much by elitist values as the promise of quality brands. Other loyalties lay in between these dichotomous extremes.

FIGURE 5: STORE LOYALTY
DEPARTMENTAL OR MIXED STORE PURCHASING
BY PRODUCT CATEGORY

In this section we have re-affirmed the value of the Enis-Paul Index as a means of measuring store loyalty and discriminating consumers' shopping habits. We have demonstrated that store loyalty levels do differ between certain retail sectors and product categories. We have also shown that shoppers are particularly promiscuous in their buying habits from DIY stores and mixed retail/department stores when buying food. In contrast, loyalty to department stores is particularly high with regard to certain product categories, such as personal care products. Our main purpose has been to establish whether store loyalty levels do differ amongst retail sectors rather than to explain why levels might differ. Nevertheless, we have tried to offer plausible reasons for the behavioural differences where they have occurred.

5. ARE LOYAL SHOPPERS MORE PROFITABLE TO THE RETAILER?

In other industries, particularly in the services sector, a clear link has been made between the gearing effect of customer loyalty and account profitability, where modest improvements in customer retention can significantly improve
business profitability. (Reichheld and Sasser 1990; Buchanan and Gilies 1990.)

In this study we have set out to establish whether similar conclusions can be reached in retailing. Given that the Enis-Paul Index includes a budget ratio input, we would expect loyal shoppers to spend relatively more of their budget (%) in their 'first choice' store than those less loyal. However, whether these consumers spend more in absolute terms (£) depends on the size of their (£) budget (ie the total amount they have to spend across all stores or by store category). Previous studies have found that store loyalty is seemingly independent of the total amount consumers have to spend. However, in each case, these studies have been confined to the grocery sector (for example, Cunningham 1961, Enis and Paul 1970). Dunn and Wrigley (1984) have expressed surprise as this finding and, like others in the past, have reasoned that one might expect store loyalty and category spend to be related.

5.1 Store Loyalty and Monthly Spend

Contrary to these historical findings, we are able to report data which show for the first time an association between store loyalty and total allocated spend within a retail sector. Across the sample as a whole, the linear correlation co-efficient is low (r=-0.103), but, nonetheless, statistically significant (at the 0.05 level). If the total sample is broken down into the five retail sectors, the same inverse association is found across four of the sectors, being strongest and most significant in mixed retail (r=-0.295) and DIY shopping (r=-0.303). Since the correlation co-efficient is negative, it signifies that the higher a consumer's total monthly sector spend (£), the lower the level of loyalty attached to his/her 'first choice' store.

Importantly, however, we found the relationship to be positive and significant (r=0.239) for grocery shopping, bucking the general trend found across the other sectors. So the greater the consumer's total monthly spend on groceries, the more loyal they are likely to be towards their 'first choice' store. This disparate association helps explain the relatively low negative correlation co-efficient for the sample as a whole.

In order to explore how store loyalty and spend varies by shopping behaviour, we sub-divided the sample into three loyalty bands each of which containing approximately equal numbers of respondents, as there were no natural break points in the distribution of loyalty values. We then designated the top third to be 'loyal' shoppers and the bottom third as 'promiscuous' and compared their monthly sector spends. We found that loyal shoppers have approximately seven per cent less than average (across the sample of 728) to spend as compared to 13% more for promiscuous shoppers (Figure 6). A T-test indicates the difference to be significant (p=0.05).
When our data are disaggregated across retail sectors and product categories, this pattern is generally repeated; a significant difference in monthly spend (£) between loyal and promiscuous shoppers is found in all but petrol retailing where little difference was detected. This pattern of spend was found to be most noticeable for shoppers in mixed-retail stores where promiscuous shoppers spent three times as much as loyal shoppers each month.

In stark contrast to this general trend and in support of the findings from the correlation analysis, loyal shoppers in grocery retailing are found to spend significantly more per month than the promiscuous group. On average, they spend 50% more on grocery products!

### 5.2 Store Loyalty and Budget Allocation

Whilst we have shown that, generally, loyal shoppers tend to have smaller monthly budgets, by all expenditure-based measures of loyalty (including the Enis-Paul Index used in this research), we might expect loyal shoppers to spend proportionately more of their budget (%) than promiscuous shoppers in their ‘first choice’ store. Not only do we find this to be the case in our research, but we have also found that the degree of difference is surprisingly large, which reinforces Enis and Paul’s observations of shopping behaviour in the 1960s. Across the two groups, loyal shoppers allocate over twice as much of their monthly budget (%) to their ‘first choice’ store than promiscuous shoppers as Figure 7 indicates. Whilst the general trend is not unexpected, we were surprised at the magnitude of disparity.
This scale of difference was sustained across all five retail sectors and product categories without exception. So we have been able to establish that loyal shoppers tend to spend less in total (£) over the course of a month by sector (with the important exception of grocery store shopping), but allocate more of their budget (%) to their 'first choice' store. Combining these two contra-trends, we were able to conclude that loyal shoppers generally spend more per month in absolute terms (£) as well as relatively (%) of budget allocated) in their 'first choice' stores (Figure 8).

**Loyal shoppers tend to spend twice as much as promiscuous shoppers in their 'first choice' store.**

This pattern holds true across the grocery, DIY and petrol retailing sectors, although, in the latter case, the directional trend is not statistically significant. At the product category level, the relationship is also consistent for personal care products, clothing and food/confectionery bought in department and mixed retail stores.

It is our belief that this finding is of great strategic importance to retailers in general and grocery retailers (and manufacturers) in particular, since, in this case, the loyalty benefit is further leveraged due to the fact that loyal shoppers tend to have larger grocery budgets than fellow shoppers in the first instance. This double leveraging effect in grocery retailing we have termed the DOUBLE INDEMNITY EFFECT. It signifies that customers loyal to a particular grocery store tend to spend up to four times as much in their favourite store as promiscuous shoppers.
6. IMPLICATIONS FOR RETAILERS

Although our findings are substantially more conclusive and broader ranging than those of the Enis-Paul study in certain respects, we are bound by the same observation which seems both timeless and acultural: loyal customers spend substantially more money in their favourite stores than do promiscuous shoppers. Furthermore, as these loyal customers are no more expensive to serve, we can realistically conclude that loyal customers are potentially more profitable to retailers. On the evidence of this research, retailers are fully justified in their recent attempts to increase customer loyalty in their stores. Quite how successful incentive schemes are in encouraging store loyalty is quite a separate issue and one which is beyond the scope of this paper.

Since our study suggests that loyal customers are more profitable, retailers would benefit from developing their marketing strategy around the needs and wants of their loyal customers. Such a strategy would, nevertheless, only be of strategic interest if loyal customers comprise a substantial segment of the customer base, and if they share common traits to make them accessible beyond their in-store behaviour, (for instance, whether loyal shoppers share similar socio- graphic characteristics and shopping protocols). In the absence of such an analysis, customer retention strategy is likely to be developed around loyalty programmes and frequent shopper promotions. Whilst both these tools are currently enjoying considerable interest at an operational level, the strategic approach to customer retention, based on differentiation through behavioural segmentation, remains limited.

7. CONCLUSIONS, LIMITATIONS AND NEW RESEARCH DIRECTIONS

In this paper we have discussed two main issues arising from our empirical study of store loyalty and spend. Firstly, we
have found that loyalty levels are surprisingly similar across a number of retail sectors and any top-league retailer in the grocery, petrol or mixed retail sector can expect to enjoy a 60% loyalty level across a composite measure of budget, patronage and switching factors. We conclude from comparisons with previous studies that store loyalty levels have fallen somewhat over the last 20 years and suggest that greater mobility, store choice and awareness are possible causes. The one sector to suffer from particularly low store loyalty levels is DIY retailing. DIY retail marketers are resorting to price discounting to try to secure competitive advantage on the one hand whilst, on the other, they are using loyalty schemes that are unlikely to be triggered solely on the basis of price cues.

The second issue addressed in this paper is the relationship between store loyalty and customer expenditure which our study identifies for the first time to be significantly associated. Thus, whilst we have found that loyal shoppers generally spend less in total per month (£) by sector than promiscuous customers, they spend more - about twice as much - in their ‘first choice’ store. This is particularly true in petrol and DIY retailing.

In grocery retailing, not only do loyal shoppers allocate proportionally more of their budget to their ‘first choice’ store (%), as in the other sectors, but they spend more on groceries (£) than their fellow shoppers. In practice, the combined effect is that loyal shoppers can spend up to four times as much (£) in their ‘first choice’ store as their promiscuous counterparts. We have termed this anomaly the "double indemnity" effect.

These loyalty-spend findings lead us to the inevitable conclusion that loyal customers represent the most profitable core of shoppers, a fact that has been established already in industry sectors outside retailing.

Our study clearly provides retailers with an incentive to re-examine ways in which to make loyal customers more loyal to their stores. The research imperatives must be, firstly to explore the exact nature of the loyalty/profitability relationship in order to appreciate the gearing effect on profitability that a marginal change in store loyalty can bring. Secondly, we must establish the means to access loyal customers at the strategic level to influence the ‘first choice’ decision, synergistically with the current loyalty programmes that operate at store level.

Whilst we are confident about the conclusions we have drawn, our work has raised more questions than it has answered and the limitations have to be recognised. Firstly, we have rather artificially designated the loyalty label without exploring salient determinants. Secondly, we have not addressed the temporal nature of loyalty. Loyalty seems to diminish over time, however, the actual dynamics of store loyalty erosion remains completely unexplored here. Thirdly, we have not even begun to address individual consumer loyalty
profiles across retail sectors, nor by site location. With regard to the first limitation cited, we believe that the data are significantly robust to warrant further analysis and, consequently, will be the subject of future communications. Both the other limitations we have mentioned highlight the frailty of our study and offer significant challenges to the research community.

Despite these limitations, we believe the paper makes a timely contribution to knowledge by underlining the importance of loyal customers in the retailing of fast moving consumer goods and durables. It has been based on a substantial empirical study and brings attention to a subject that we believe will become the new battleground of retailing in the 1990s.

Acknowledgement

The authors would like to acknowledge financial support for the empirical study from Air Miles Travel Promotions Ltd.

References


Appendix

Enis Paul Index Formula (Burford, Enis and Paul 1971)

The loyalty, $L_i$ of the $i$th consumer towards a particular store is given in percentage form by:

$$L_i = 100 \left( \frac{b_i \times \frac{k + 1}{m} - s_i \times \frac{n + 1}{n}}{p_i} \right)^{1/3}$$

where

- $b_i$ = fraction of the budget for the product class allocated to the store during the survey period by the $i$th consumer.

- $s_i$ = number of switches from the store to other stores during the survey period by the $i$th consumer.

- $p_i$ = number of stores patronised by the $i$th consumer during the survey period.

- $m$ = number of total store visits during the survey period.

- $k = m - 1$ = number of opportunities to switch.

- $n$ = number of stores available to the consumer to purchase product category goods during the survey period.


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