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Explaining customers' switching patterns to brand delisting

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ABSTRACT

Delisting is frequently used by retailers to strengthen their negotiating position against manufacturers. However, both parties have to consider the risk of potential reactions when customers are faced with a reduced or modified assortment and thus, different choice. This research investigates customers' switching behavior if a brand is delisted by taking into account context theory. The results of two real-life quasi-experiments reveal that customer responses depend significantly on the context and that manufacturers may encounter substantially larger losses than retailers. Two further online experiments support the hypotheses on the existence of *negative* context effects for brand removals. Managerial implications can be derived and recommendations for further research are developed.

1. Introduction

Delisting, defined as the permanent deletion of a brand from the assortment of a retailer (Sloot and Verhoef, 2008), is a prevalent instrument in today's retailing practice. Retailers' reasons for delisting brands are the need for free shelf space to sell private labels, cost-saving programs to stay competitive, alleviating shopper confusion and the attempt to strengthen their negotiating power against manufacturers. The latter is especially important. Brand manufacturers mainly depend on retailers to sell their products. Hence, a delisting can induce declines in sales as customers are forced to switch brands if they want to stay loyal to the store. In addition, operational costs ascending with rising stock keeping units (SKUs), inventory costs and out-of-stock levels are lower. Reducing these costs helps conventional supermarkets compete against the growing retail formats of discount stores. However, assortment reductions can also cause losses for retailers if brand loyal customers do not switch to another brand on the shelf but to competing stores when the preferred item is no longer sold. As delisting bears risks for both parties, it is of great relevance to investigate its implications, to predict choice modification and to measure the evoked changes in the competitive environment. Despite its great managerial importance, delisting as one type of unavailability of items has been widely neglected in the literature. By contrast, short-term unavailability, referred to as out-of-stock, has gained more attention (Breugelmans et al., 2006; Campo et al., 2000; Emmelhainz et al., 1991; Peckham, 1963).

Removing brands permanently from the shelf alters the decision context of customers and thus, has an influence both on their brand choice behavior and store choice. Experimental research, predominantly directed to market entry, has revealed that changes in the set of alternatives can induce systematic shifts in choice probabilities (Huber et al., 1982). It is claimed that decision-making is highly influenced by a changed context.[2] Extensive experimental evidence from context effects research indicates that the introduction of a new alternative can cause significant changes in brand choice behavior (Huber et al., 1982; Dhar and Glazer, 1996; Pan and Lehmann, 1993; Tversky, 1972). In contrast, our research addresses the question of whether a similar effect can be observed for brand removals. More precisely, the current study takes into account context theory when investigating preference changes and brand choice behavior in response to delisting strategies.

Thus, this paper contributes to marketing and retailing literature by relating context theory to customers' reactions on delisting decisions and exploring the consequences. Our findings extend the work of Sivakumar and Cherian (1995) by demonstrating the existence and strength of three *negative* context effects in the case of brand removals. In addition, this research provides knowledge that facilitates retailers' decision-making when considering downsizing the assortment. An improved understanding of theoretically predictable customer responses to reduced product offerings may help retail managers to enhance buying conditions in negotiations with manufacturers. Insights on the severity of a threat to delist are of great value to brand manufacturers. Finally, recommendations for product portfolio decisions can be derived.

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[2] Consistent with prior research, the term context is defined as the set of alternatives under consideration (Tversky and Simonson, 1993).

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The article is organized as follows: Prior research on permanent assortment reductions is reviewed in the next section. Then, the theoretical background on context-dependent preferences is briefly presented, our research objectives are specified and hypotheses are developed. In Section 4, four empirical studies examine the shifts in choice probabilities when brands are removed. We conclude with a discussion of our key findings and an outlook on future research.

2. Theoretical background

2.1. Permanent assortment unavailability

In marketing literature, studies on permanent assortment reductions (PAR), i.e. a considerable percentage of items in a category is eliminated by the retailer, have concentrated on permanent item deletion and its consequences for category and store sales as well as assortment perception (Boatwright and Nunes, 2001; Borle et al., 2005; Broniarczyk et al., 1998). It has been commonly assumed that more choice is better (Oppewal and Koelemeijer, 2005). This postulation has been confirmed by various store choice studies (Hoch et al., 1999; Steenkamp and Wedel, 1991) and has been adopted by retailers. Larger assortments are supposed to attract more customers, as they are thought to better meet the customer's needs along with varying preferences (Bettman et al., 1998) and reduce time and transportation costs associated with a one-stop shopping (Messinger and Narasimhan, 1997). A large assortment offers flexibility for variety seekers and increases the probability to get one's favored alternative. Recent research, however, has called this "more choice is better" belief into question and has revealed that sales can actually go up when items are removed from the assortment and do not affect store choice (Boatwright and Nunes, 2001). Broniarczyk et al. (1998) found that smaller assortments may be perceived as being more attractive as long as they include the preferred items and category space is held constant. Similarly, the "paradox of choice" was shown by Schwartz (2004). It implies that a too large assortment can overstrain the consumer's mind and increase choice difficulty on a typical grocery shopping trip. The information overload may result in consumer confusion and lower satisfaction with the decision process (Iyengar and Lepper, 2000). This is consistent with the work of Gourville and Soman (2005), who discovered that increasingly large assortments ("overchoice") can have a negative impact on consumer choice and brand share. They claim that this effect is significantly moderated by assortment type. Chernev (2003) further demonstrated in four experiments that the selections made from larger assortments can result in weaker preferences due to the identified key factor ideal point availability. The same was shown by Zhang and Krishna (2007) who examined brand-level effects of SKU reductions and found varying outcomes across brands, categories and customers. In general, the ongoing discussion about the phenomenon is referred to as the "choice overload hypothesis."

By contrast, delisting and its impact on customer reactions have been covered by Sloot and Verhoef (2008). In their study, the behavioral consequences of a (primary) brand delisting are examined by means of store switching intention (SSI) and brand switching intention (BSI) in 16 different stores and 10 product categories taking into account different antecedents. Their study provides evidence that many consumers stay brand loyal and that only a small proportion cancels their purchase if the favored brand becomes unavailable. Additionally, they found that delisting, in particular of high market share brands in hedonic product groups, has a negative impact on category sales and store choice.

Previous research on permanent unavailability has primarily identified empirical associations. An appropriate theory to explain customer behavior in such situations has not been adopted. We claim that context theory will help to account for customer reactions when confronted with reduced choice.

2.2. A context-theoretical explanation of preference shifts due to assortment changes

In contrast to classical economic theory, which assumes fixed preferences and utility maximization, research on context effects states that consumers often do not have well-defined preferences and construct choice at the time a decision is made (Bettman, 1979; Bettman and Park, 1980; Payne et al., 1992; Slovic, 1995; Tversky et al., 1988). Choices are dependent on the positions and the presence or absence of other alternatives, referred to as the specific set of alternatives in which an option is considered (Bhargava et al., 2000; Huber et al., 1982; Simonson, 1989). As a result, the value of an option does not only depend on its own characteristics but also on the attribute levels of the other options in the choice set (Hildebrandt and Kalweit, 2008; Simonson and Tversky, 1992). Consequently, context effects represent a violation of some essential criteria of rational decision behavior (e.g., the principle of regularity, the independence from irrelevant alternatives (*IIA*) assumption; Luce, 1959).

The most robust phenomena, observed in experiments on market entry and measured by means of preference or choice data, are the *similarity effect* (Tversky, 1972), the *attraction effect* (Huber et al., 1982) and the *compromise effect* (Simonson, 1989), which are visualized in Fig. 1.

The experimental setting applied by most context effects researchers comprises of an initial choice set with two options, T (=target) and C (=competitor), which differ on two equally important dimensions (e.g., price and quality) and lie on the same

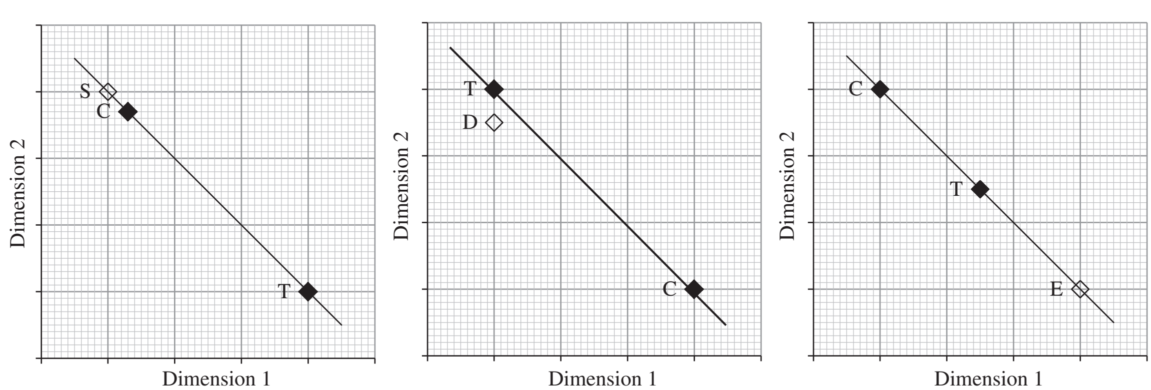

Fig. 1. Similarity effect, attraction effect and compromise effect.