

# Consumer Store Choice Dynamics: An Analysis of the Competitive Market Structure for Grocery Stores

PETER T. L. POPKOWSKI LESZCZYC

*University of Alberta*

ASHISH SINHA

*University of Waikato*

HARRY J. P. TIMMERMANS

*Eindhoven University of Technology*

*This study aims at formulating and testing a model of store choice dynamics to measure the effects of consumer characteristics on consumer grocery store choice and switching behavior. A dynamic hazard model is estimated to obtain an understanding of the components influencing consumer purchase timing, store choice, and the competitive dynamics of retail competition. The hazard model is combined with an internal market structure analysis using a generalized factor analytic structure. We estimate a latent structure that is both store and store chain specific. This allows us to study store competition at the store chain level such as competition based on price such as EDLP versus a Hi-Lo pricing strategy and competition specific to a store due to differences in location.*

Competition in the retailing industry has reached dramatic dimensions. New retailing formats appear in the market increasingly more rapidly. A focus on a particular aspect of the retail mix (e.g., service or price) means that retailers can compete on highly diverse dimensions. Scrambled merchandising and similar developments have implied that particular retailers are now competing against retailers they did not compete with in the past.

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Peter T. L. Popkowski Leszczyc is Associate Professor of Marketing, University of Alberta, Department of Marketing, Business Economics and Law, 4-30F Faculty of Business Building, Edmonton, Alberta, Canada T6G 2R6 (e-mail: ppopkows@gpu.srv.ualberta.ca). Ashish Sinha is Assistant Professor of Marketing, University of Waikato, Department of Marketing and International Management, Private Bag 3105, Hamilton, New Zealand (e-mail: asinha@waikato.ac.nz). Harry J. P. Timmermans is Professor of Urban Planning and Director European Institute of Retailing and Services Studies, Eindhoven University of Technology, Faculty of Architecture, Building and Planning, P.O. Box 513, 5600 MB Eindhoven, The Netherlands (e-mail: eirass@bwk.tue.nl).

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These trends can be observed in all segments of the retailing industry including the grocery industry, albeit perhaps in different form and intensity.

As a result of these developments, consumers face a retail environment in constant flux. They continuously must decide to stay loyal, try out new formats, or use the complete system to obtain benefit from discounts on specific days or for specific items. Previous research has reported low store loyalty and significant store switching for grocery store purchases (Kau and Ehrenberg, 1984; Uncles and Hammond, 1995; Popkowski Leszczyc and Timmermans, 1997). Given these findings, it is important to incorporate the store switching behavior in the study of consumer store choice. Furthermore, consumer reactions to a rapidly changing retail environment will additionally depend upon idiosyncratic preferences and socio-economic characteristics that either allow or restrain them from pursuing some of the options. For example, active search requires a substantial amount of time that households working long hours may not have.

For the retailer, the problem is how to cope with the increased competition in light of the dynamics of consumer shopping behavior. Should retailers invest in loyal consumers and not worry too much about the customer who is cherry-picking the market? Or, should one try to aggressively attract new customers? Or perhaps should they try to capture a substantial share of the switching population of shoppers?

To make better informed decisions on this issue, retailers need to know more about the timing of shopping trips, store choice, and switching behavior of consumers, together with those factors that influence this relationship, to develop appropriate strategies. Hence, according to this framework, it is pertinent to know the magnitude of store loyal/store switching behavior, the nature of the competitive structure in their market and how it is changing, and to be aware of any differences in these regards between consumer segments.

The dynamic store choice decision can be conceptualised as a problem of deciding where and when to shop. The first decision is the traditional store location choice problem. The second is the shopping trip incidence problem relating to the timing of shopping trips and implies information about intershopping trip times. Information on a sequence of shopping trip events yields information about the number or percentage of consumers choosing the same store on subsequent shopping trips (repeat shopping or store loyalty). Transitions between stores on successive shopping trips provide measures of store-switching behavior.

These two choice processes are, of course, interrelated. Store choice is dependent on the timing of shopping trips, as consumers may go to a smaller local store for short 'fill-in' trips and go to a larger store for regular shopping trips (Kahn and Schmittlein, 1989). Also, store choice and shopping trip timing decisions tend to differ for individuals and households as a result of personal differences, household composition, and activity patterns (Popkowski Leszczyc and Timmermans, 1997; Kim and Park, 1997).

Most previous research has focused only on the timing or the store choice decision. Furthermore, the majority of research studying store choice behavior has applied cross-sectional data. To the extent that prior research has considered the dynamics of store choice, it has been limited by the assumptions made. For example, the dynamic Markov model (Burnett, 1973) is based on the assumptions that the average number of shopping trips is the same in each successive, equal-length time period, and that the transition matrix is time-invariant. Hence, store choice probabilities are constant over time. The NBD and Dirichlet models, which have been applied to store choice (see, e.g., Kau and

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