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## Food shoppers' share of wallet: A small city case in a changing competitive environment



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## ABSTRACT

Australia's highly concentrated food retail environment is examined in the context of competitive entry in a small city. Based on a conceptual framework that draws on existing literature, food stores' customers' share of wallet (SOW) is measured in a survey ( $n = 379$ ) which brackets the opening of a new supermarket. A number of variables are recorded in the survey that are not available from other data collection methods. The drivers of SOW are determined using a 2-limit Tobit model which incorporates the direct and interactive aspects of the pathways identified in the Conceptual Framework. At one of the stores (Woolworths), the influence of loyalty schemes is found to vary with customers' perceptions of stores, with implications for enhanced customer targeting by food retail managers. The impact of loyalty programs is found to be mitigated by the entry of a competitor, particularly in the case of price-conscious customers. Senior citizens are found to allocate higher SOW to small rather than large stores, and there are small effects due to the sex of the customer. There are few indications of a bespoke small city model of the drivers of SOW, but a number of interactions are identified for future research.

### 1. Introduction

Food retail managers seek understanding of customers' decisions on household food budget allocation across competing stores. They seek to improve retail performance by capturing a larger share of customers' food budgets, or share of wallet (SOW)<sup>1</sup> (Babakus and Yavas, 2008; Kim and Lee, 2010). They also recognize that increasing an existing customer's SOW in the store is less demanding than is attracting new customers (Fornell and Wernerfelt, 1987; Fruchter and Sigué, 2009; Jørgensen, Mathisen, and Pedersen, 2016).

Research to identify the drivers of food customers' SOW is sparse (Meyer-Waarden, 2007) and offers mixed findings. Some studies examining the influence of loyalty programs provide strong empirical evidence in support of a positive effect (e.g., Leenheer, van Heerde, Bijmolt, and Smidts, 2007; Taylor and Neslin, 2005), while others suggest that the effects are weak or even absent (e.g., De Wulf, Odekerken-Schröder, and Iacobucci, 2001; Mägi, 2003; Sharp and Sharp, 1997). The small volume of research on the influence of shoppers' characteristics on SOW also provides contradictory findings (Babakus and Yavas, 2008; Cooil, Keiningham, Aksoy, and Hsu, 2007; Mägi, 2003). For example, Kim and Lee (2010) find no statistically

significant relationship between customer's age or income and SOW, while Homburg and Giering (2001) suggest that both variables are important drivers of customers' loyalty to a store. This range of research findings suggests that the drivers of SOW are context dependent.

Context is apparent in much received research on SOW: most has been carried out in large cities or metropolitan areas (e.g., Leenheer et al., 2007; Leszczyc, Sinha, and Timmermans, 2000; Seenivasan and Talukdar, 2016), and this is also true of Australian studies<sup>2</sup> (Goodman and Remaud, 2015; Sharp and Sharp, 1997). Compared to large cities, small ones have fewer food stores and fewer food retail chains represented. Store to store distances are shorter in small cities than in large ones, and income differentials suggest that small city customers may have more time to shop. This suggests that the drivers of SOW in small cities may be different to those in large cities. As the number of supermarkets in smaller cities has been growing in Australia and elsewhere (Greenblat, 2015; Khare, 2011), drivers of SOW in the small cities are of increasing interest to retail managers.

The Australian food retail industry is currently experiencing disruptive entry by low priced supermarket chains (Mortimer, 2015). This marks the first such period of competitive entry in half a century characterized by steady accumulation of market share by two

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<sup>1</sup> Share of Wallet is defined as the percentage of money a customer allocates to a particular store in a category (Jang, Prasad, and Ratchford, 2016; Koschate-Fischer, Hoyer, Stokburger-Sauer, and Engling, 2017; Mägi, 2003).

<sup>2</sup> Moreover, Australian studies' focus is on department stores and retail cosmetics (Bridson, Evans, and Hickman, 2008; So et al., 2015).

supermarkets (Coles and Woolworths). Australia's food retail market is one of the most concentrated in the world (Jacenko and Gunasekera, 2005; Mortimer, 2013), both in urban and regional locations across the entire country (Bariacto and Di Nunzio, 2014). The current study was conducted during the entry of ALDI to a small regional Australian city previously served by Coles, Woolworths and the much smaller IGA.

Entry of new food stores may influence SOW at incumbent stores, but previous studies have largely ignored the subject<sup>3</sup> (Daunfeldt, Mihaescu, Nilsson, and Rudholm, 2017). It is quite plausible that competitors' entry is influential in SOW, and moreover that it generates different SOW effects in different incumbent stores and across customer types (Ailawadi, Zhang, Krishna, and Kruger, 2010). The current study sheds light on this subject for managers of both the incumbent stores and the new entrants, in exploratory research based on SOW behavior before and after the arrival of a new entrant.

This study contributes to the existing literature by testing important theoretical propositions about drivers of SOW. It identifies context in the analysis of SOW, particularly by examining a small Australian city that features a changing retail competitive environment due to new entry. In particular, we investigate the role of loyalty programs, customers' demographic characteristics and various psychological constructs (such as price-consciousness and variety-seeking) on SOW at the competing food supermarkets in a small city in Australia. The study employs a short questionnaire for customer interviews, which provides data on a number of variables not generally available from other sources and which help to establish context in the analysis.

Section 2 of this paper presents the conceptual framework for the research, and Section 3 describes the data and the methodology. Results are presented in Section 4, Section 5 the discussion and Section 6 the conclusions.

## 2. Conceptual framework

Fig. 1 presents the conceptual framework of this study. The framework is grounded in prior research and it posits that customers' demographic characteristics; membership of loyalty programs, attitudinal loyalty (as measured by customers' response to a hypothetical stock-out situation); and customers' perceptions of their main grocery store<sup>4</sup> have independent effects on the SOW allocations in the small city context. In addition, Fig. 1 shows that change in the competitive environment by the entry of ALDI moderates the effects of these key drivers of SOW. We expect that entry of new food stores may influence SOW at incumbent stores because customers choose to purchase from a wider set of alternative food stores. The associated bases for theoretical relations between SOW allocations and the drivers of SOW as specified in the conceptual framework are discussed in the following subsections.

### 2.1. Loyalty programs and share of wallet

Participation in loyalty programs reflects available rewards such as savings or discounts offered to customers, particularly those spending large amounts and therefore exhibiting high SOW. Customers face a disincentive to switch stores in the form of loss of such savings or discounts. The magnitude of this switching cost is then likely to be positively related to customers' SOW at a particular store. Besides switching cost, the effectiveness of loyalty programs also depends on perceived reward attractiveness (e.g. financial incentive) and the effort required to enroll and participate in a program (Meyer-Waarden, 2015; So, Danaher, and Gupta, 2015). However, loyalty programs can be – and

<sup>3</sup> Some notable exceptions are Ailawadi et al. (2010) and Singh et al. (2006), who investigate the market implications of Wal-Mart entry.

<sup>4</sup> Customers' main store is the store at which they principally purchase goods of a given type. In the current study grocery food expenditures in supermarkets are of interest, and the main store is defined as the one to which they allocate 60% or more of grocery food expenditures.



Fig. 1. Conceptual framework.

are – imitated by competitors, which implies increased marketing costs for retailers without the corresponding increase in customers' SOW (Meyer-Waarden, 2007).

### 2.2. Customers' demographic characteristics and share of wallet

A variety of results have been obtained on the relationship between customer characteristics (age, income, gender, household size) and SOW at a given supermarket. For example, Mägi (2003) suggests that older customers have a low SOW at a particular store because they have the available time to shop at multiple stores. In contrast, Lambert-Pandraud, Laurent, and Lapersonne (2005) provide four theoretical perspectives to explain why older customers restrict their purchase to a specific store (i.e. a high SOW), specifically biological aging, cognitive decline, socioemotional selectivity, and change aversion. Contextual issues related to the urban or regional locale such as lifestyle, social aspects of food shopping, and distances between stores have not been studied and will be examined further here.

Some authors suggest that high income customers exhibit low SOW because they can afford to make purchases at a variety of stores, while low income customers face financial barriers to shopping at upscale stores (Kim and Lee, 2010). A competing perspective is that affluent customers attach high value to time, and thus restrict their shopping to a small number of stores (Cooil et al., 2007), implying a high SOW. Small cities may exhibit less variety in the type of store than do large cities, and also less diversity in population. No dominant hypotheses appear *a priori* about income's effects on SOW, which are also likely to be contextual in terms of urban and regional locations of the stores and the prevailing competitive environment.

The limited received research on the effect of customers' sex on SOW also offers a range of results. References to women's predisposition toward a small number of close relationships (Audrain-Pontevia, Audrain-Pontevia, Vanhuele, and Vanhuele, 2016) are thought to select for high SOW; while those to women's inherent abilities in information processing suggest that they patronize multiple stores (Babakus and Yavas, 2008). Large households may concentrate their shopping in a specific store (high SOW) due to time constraints, or may shop at multiple stores (low SOW) in search of lower prices (Mägi, 2003).

### 2.3. Customers' perception of their main grocery store and SOW

Our Conceptual Framework includes customers' perceptions of stores, interpreted as psychological constructs that establish attributes such as stores' offered price levels, quality, and location. Received research suggests that price-conscious customers are likely to shop at multiple stores (i.e. low SOW), in order to find good deals or value for money (Ailawadi, Pauwels, and Steenkamp, 2008; Mägi, 2003). Similarly, it is reasonable to expect that variety-seeking customers are more likely to shop at multiple stores because their wants may not be satisfied by a single one (Homburg and Giering, 2001). Location-conscious customers are likely to concentrate their shopping at a particular

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