

Measures to increase customer frequency and loyalty on organic retail markets



Outline

- Introduction
- Success factors
- Study design
- Results
- Conclusions



Introduction

- The structure of the German organic market is different from that of other countries
- In Germany exists a separate marketing channel for organic food → specialized organic stores

Store front – Organic store



Inside – Organic stores



Introduction

- Increasing competition in organic market:
 - Organic shops are still the major players (35 % of organic food sales were generated in specialized stores)
 - Organic supermarkets have gained relevant market shares
 - Conventional supermarkets have improved their organic range
 - German discounters (price-oriented retail format, e.g., ALDI, or LIDL) have entered the market

Store front – Organic supermarket



Inside - Organic supermarket



Inside – Conventional supermarket



Marketing channels for organic food in Germany 2004



Specialized organic stores

- Organic shops
- Organic supermarkets
- Health shops

~ 35 %



Conventional retailers

- Hypermarkets
- Discounter
- Supermarkets
- Regional chains
- Drugstores

~ 40 %



Others

- Direct Farming
- Farmers (weekly) markets
- Butchers
- Bakeries
- Food delivery services

~ 25 %

Source: Hamm 2005, ZMP 2005, own calculation

Success factors

- evaluation of influencing variables in the centre of researchers' interest
- important factor for success in business is customer satisfaction (Gómez et al. 2004):
 - satisfied customers buy more products (higher frequency)
 - they are loyal and recommend the shop more often

Causality



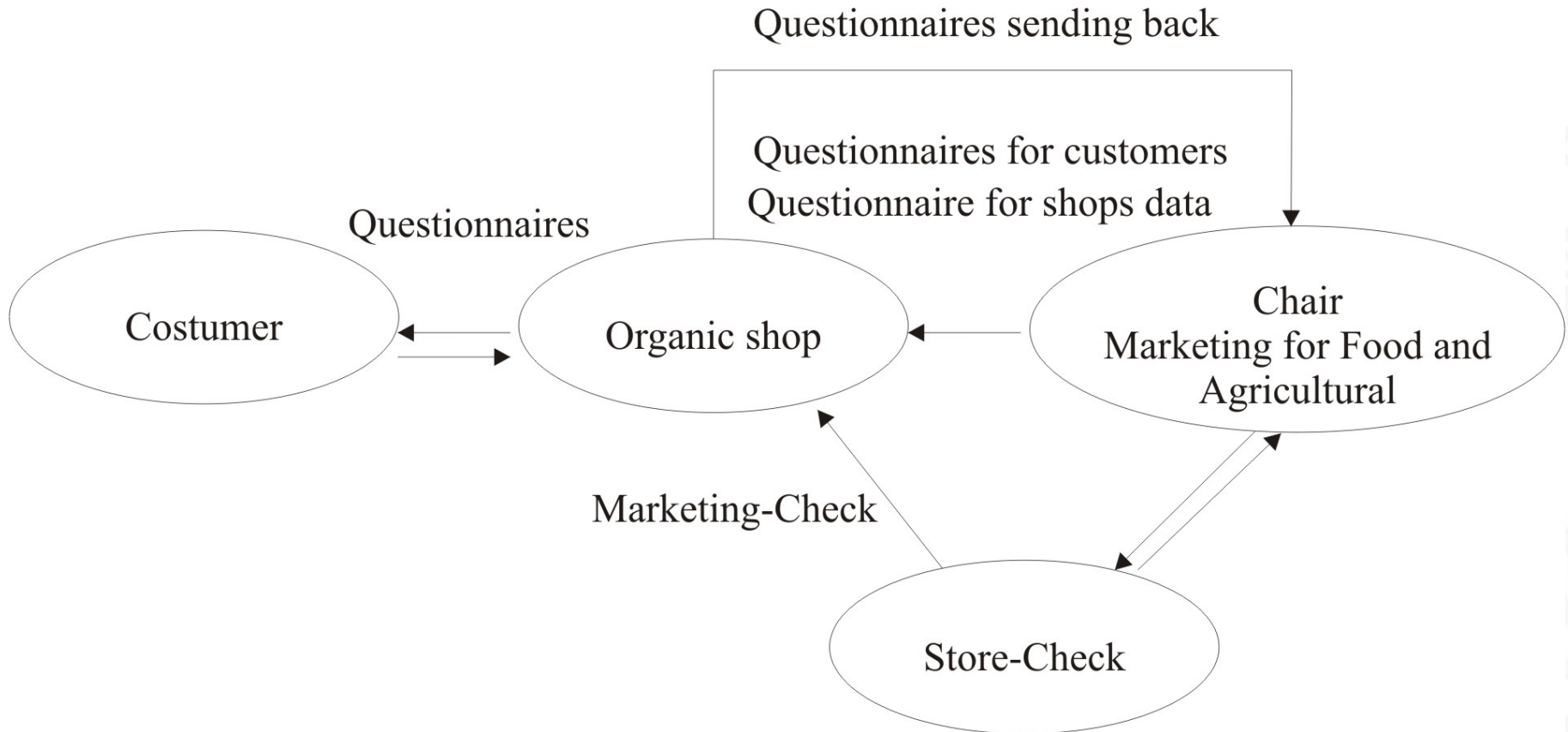
Homburg 1999, Fornell et al. 1996, Anderson et al. 1994

Study design

project named KLE (customer satisfaction in agriculture and food industry)

- Aim: offer the SME (small and medium sized enterprise) of the food industry a marketing research program, which contains a collection of data for scientific analysis success factors
- determine the parameters which influence customer satisfaction and loyalty
- customer inquiry
 - in 21 organic shops in different German cities
 - Sample size: 1873 customers - on average 90 customers each shop
 - length of inquiry: 10 minutes
- in addition:
 - 21 company key data
 - store-checks in 11 shops: more information for data interpretation

How does it work?



Empirical methods

- Questionnaire for customers:
 - contains 19 question blocks in which 68 items are considered
 - questions about the overall customer satisfaction, unique selling proposition, the respective store attributes (e.g. quality of products, service quality, location, store atmosphere)
 - 5-point Likert scale, ranging from -2 to +2

- Questionnaire for stores:
 - contains multiple questions about shop characteristics and data about marketing instruments used, location, competitive situation, assortment and the shop owner's attitude towards his profession

Results

Description of the sample

- Description of the customer sample:
 - average age: 45 years
 - gender: 78 % women
 - high income: 25% have a net household income above 3000 € per month
 - very high educational level
 - household type: 33% families, 22% couples, 22% singles

Source: own calculation

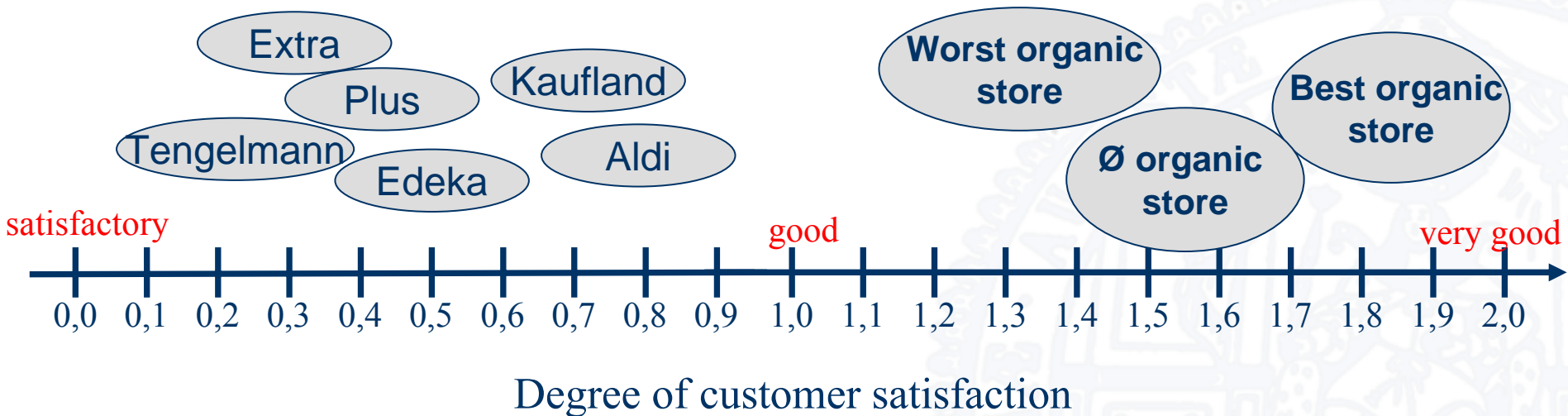
Description of the sample: Shops

Characteristic	Average of the enterprises	Minimum	Maximum
Sales area in m ²	203	50	600
Turnover in €	610	225	1,900
Gross margin	44 %	29 %	55 %
Expenditure on advertising in €	7	0	38
Staff (on a fulltime basis)	5	1.7	14

Characteristic	Small organic shops	Organic shops	Organic supermarkets
Sales area in m ²	< 100 m ²	100 m ² - 199 m ²	> 200 m ²
Number of shops in survey	N = 4	N = 7	N = 10

Source: own calculation

Customer satisfaction: conventional retailers and specialised organic stores by comparison

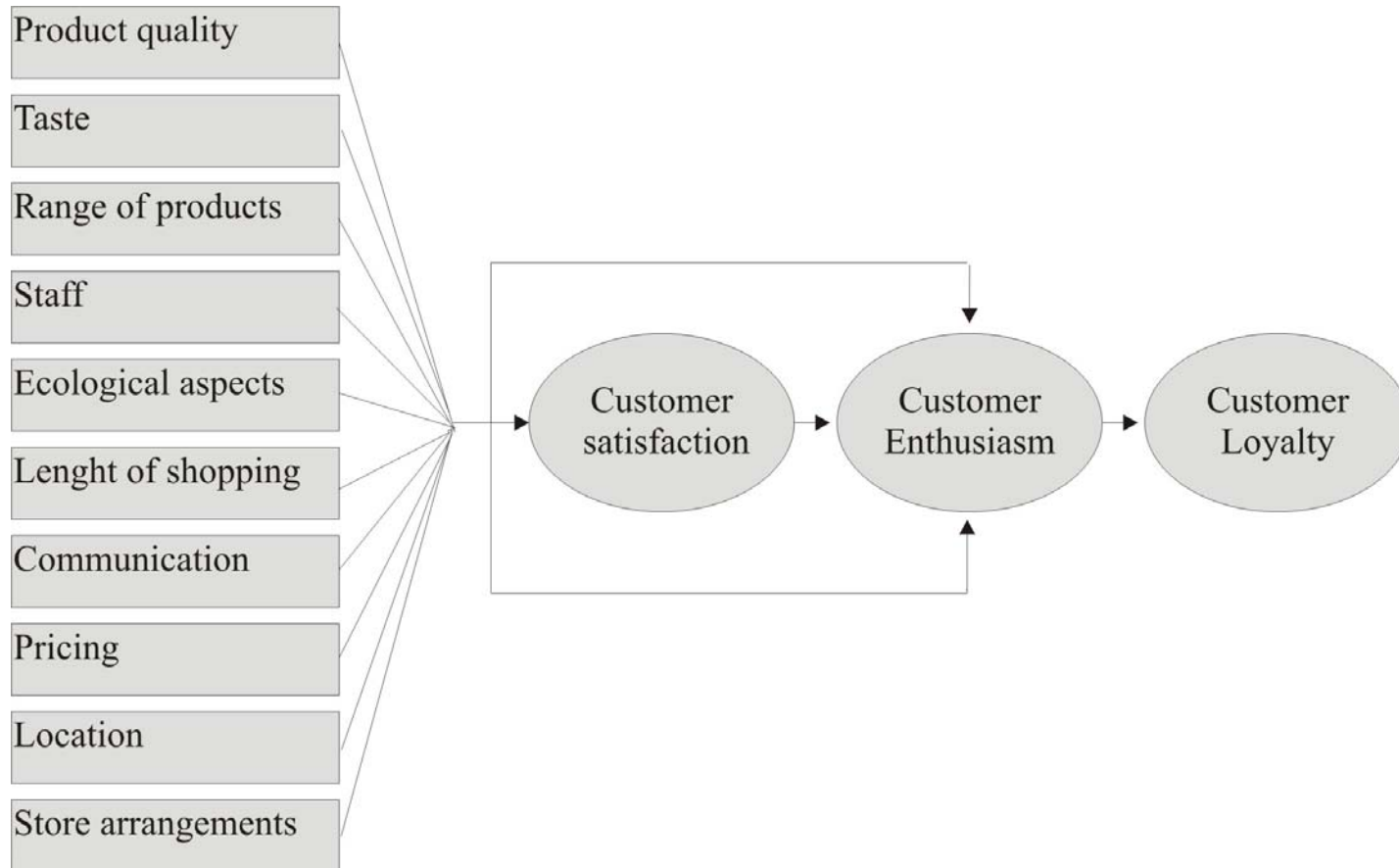


Source: GfK/IRI 2005 and own study in specialized organic shops

Characteristics of the stores with the lowest and highest CS

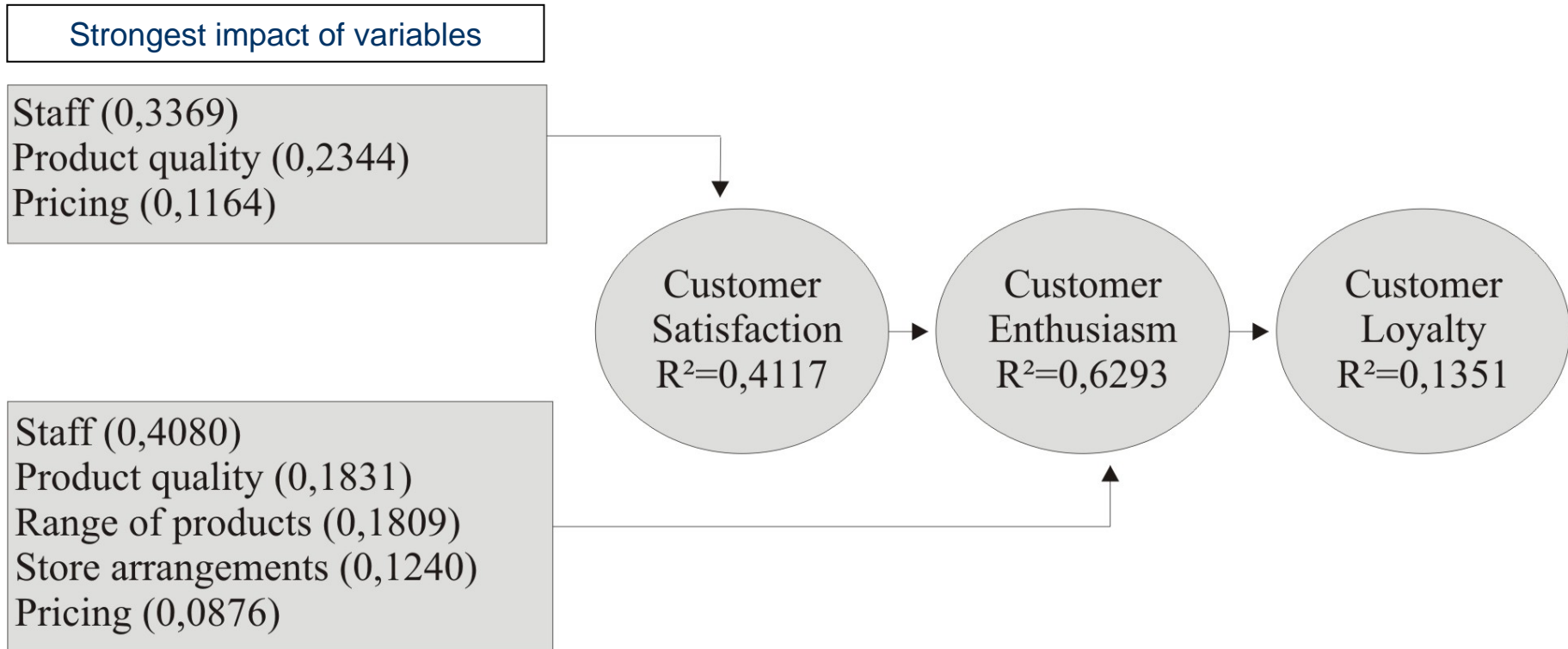
Variable	Mean	Store with lowest customers satisfaction	Store with highest customer satisfaction
Customer satisfaction	1.55	1.32	1.83
Sales area in m ²	203	470	50
Turnover in €	610	513	544
Advertising budget per year in €	7.205	2.500	2.413
Staff (full time)	5.04	5	3.5
Assortment (number of articles)	2.8	5.3	2.1

Hypothesized Model (PLS-Model)



Source: own calculation

Modified model



Source: own calculation

Customer satisfaction, enthusiasm, loyalty and frequency

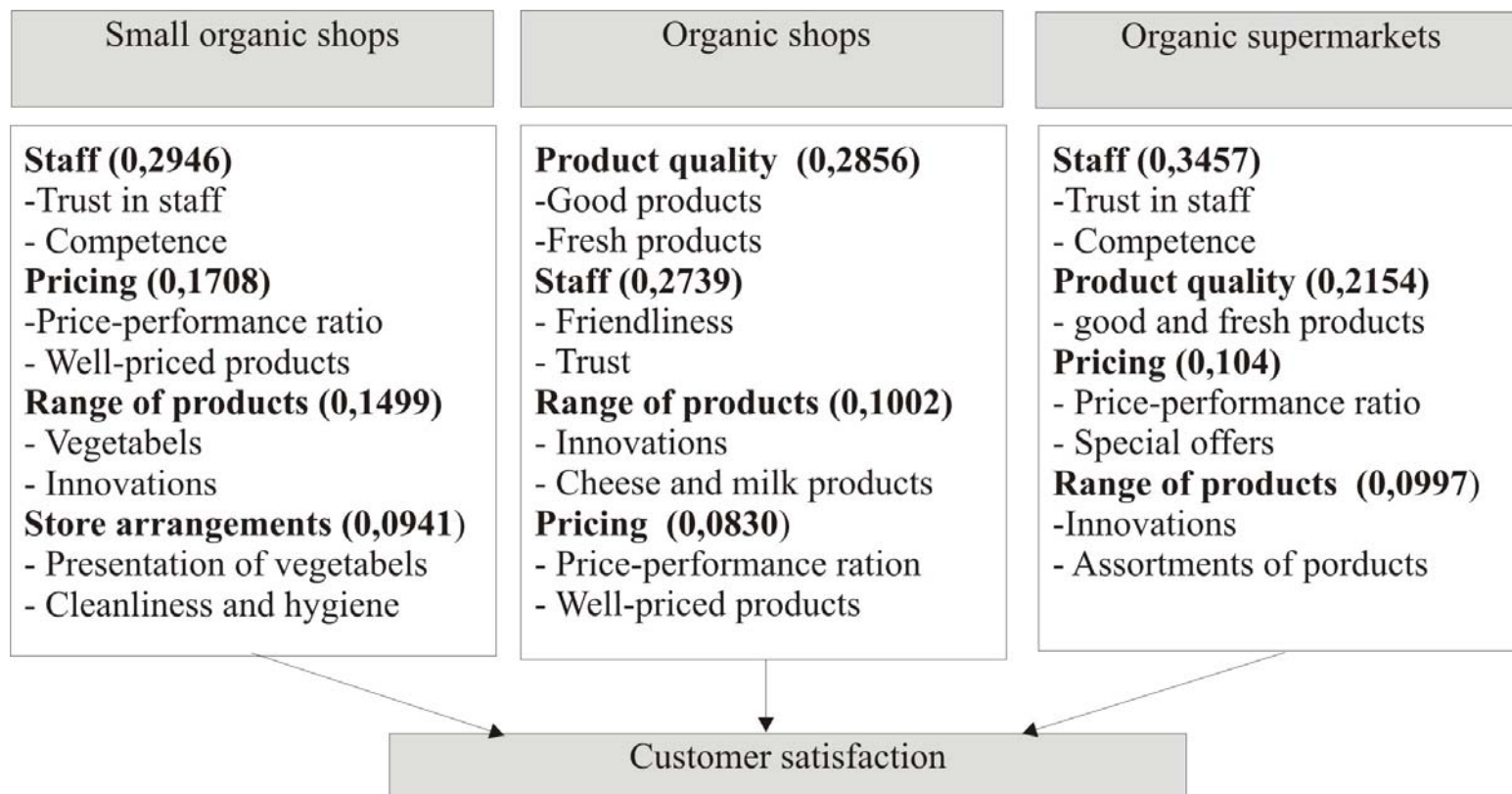
- 41 % of customer satisfaction can be explained by the variables
- 62 % of customer enthusiasm can be explained by the variables and customer satisfaction
- 14 % of loyalty can be explained by customer satisfaction and enthusiasm
- Two questions were used for evaluating the loyalty of customers in our questionnaire:

Parameters of loyalty	Satisfaction		Enthusiasm	
	r	p	r	p
Recommendation	0,226	0,000	0,304	0,000
Shopping frequency	0,065	0,051	0,148	0,000

- If a shop owner is able to surprise his customers with an outstanding service or a broader assortment, the customer will use the shop more often and, also important, he will recommend the shop to others.

r= correlation; p= level of significance

Differences between shops: Satisfaction



19 das letzte Wort im linken Kasten versteh ich nicht.

Müsste es nicht auch noch eine Verbindung zur customer satisfaction geben?

IFA; 09.03.2007

Conclusions

- In this model customer loyalty is not highly affected by satisfaction or enthusiasm, but there are correlations
- There is a causality between satisfaction, enthusiasm and loyalty
- The more satisfied customers are, the more often they go shopping in their preferred shop
- Measures for more satisfaction, loyalty and frequency depends on the type of organic shops:
- General factors are quality and freshness of products, friendliness and competence of staff, variety of assortment and store arrangements, but their importance varies over the store types

And:

Customer satisfaction has a high impact on economic performance

Many thanks for your attention.

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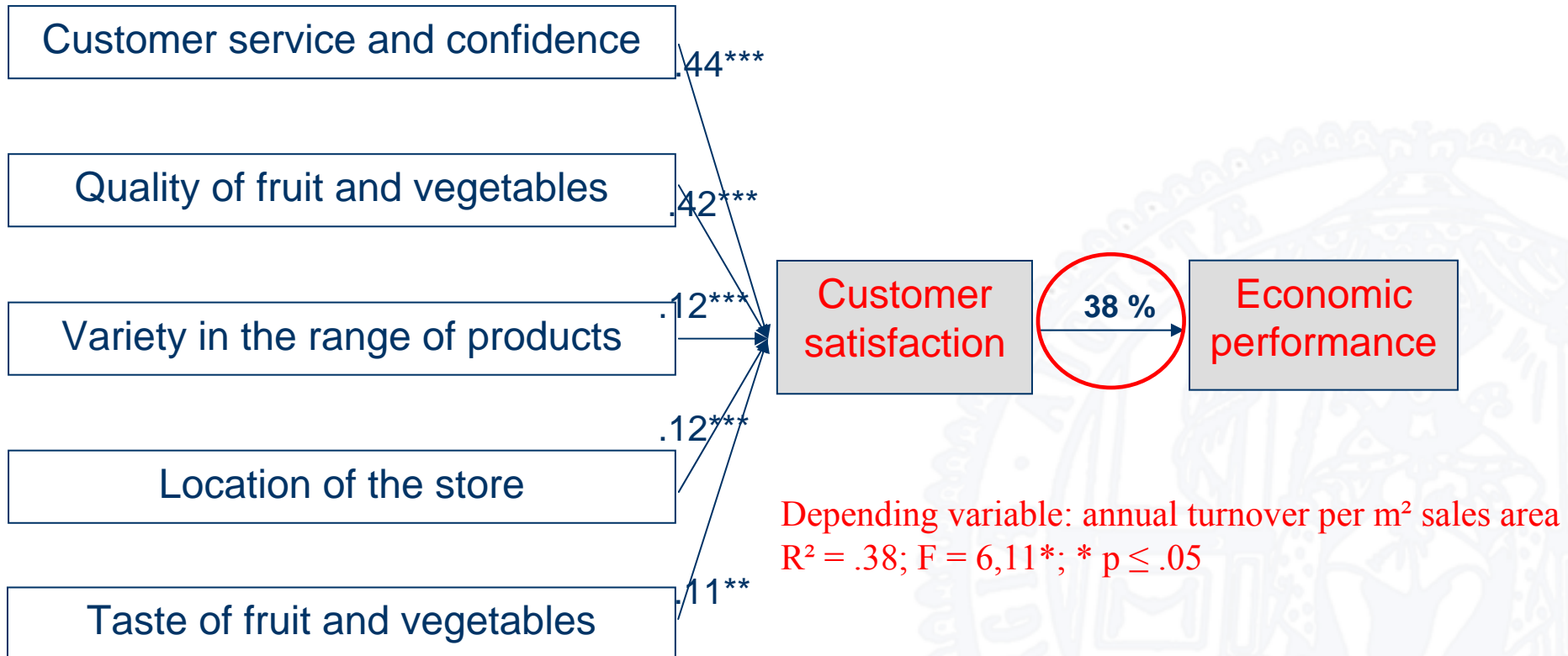
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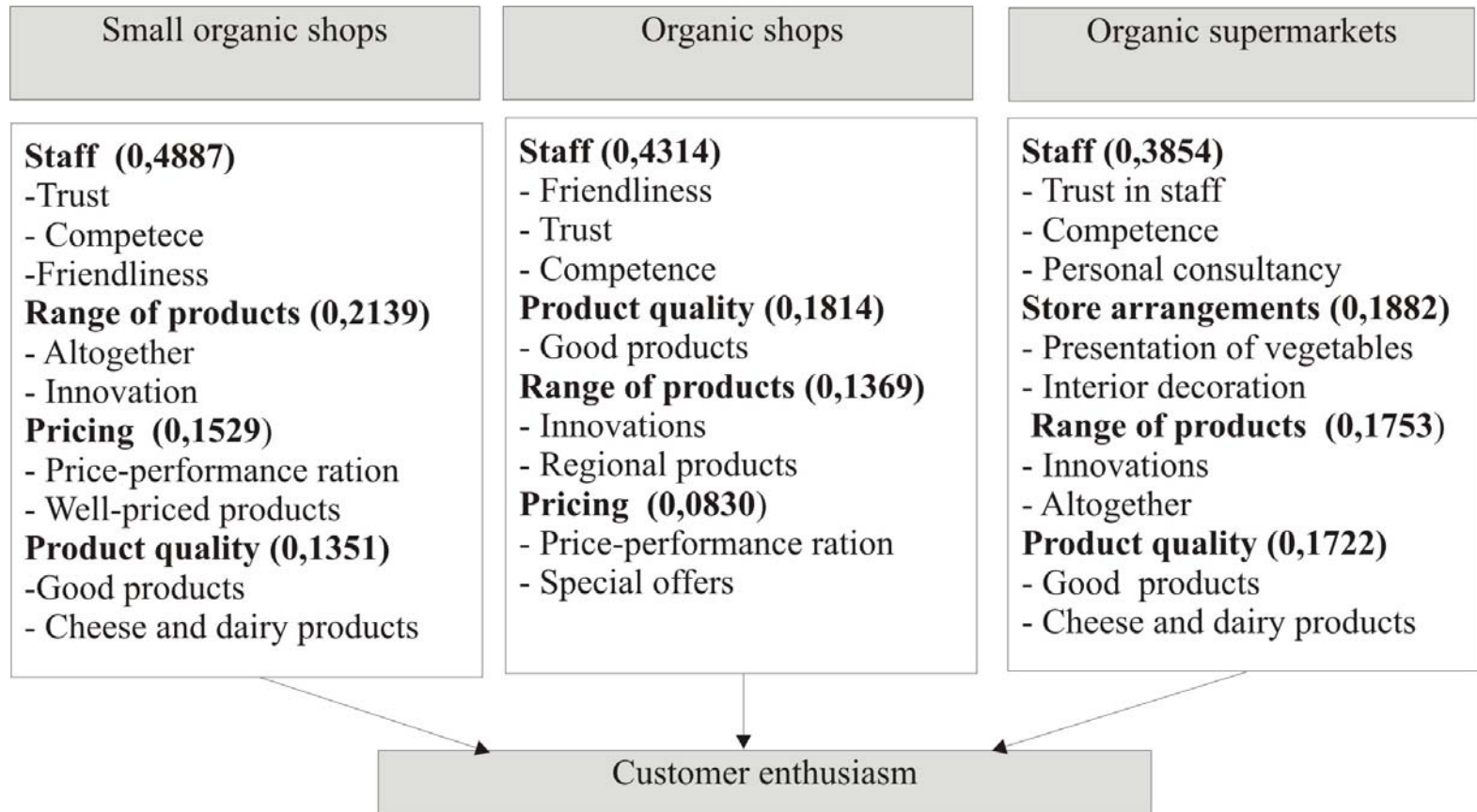
Regression model to explain customer satisfaction



Reliability of extracted factors

Factor	Cronbach's alpha
Customer service and confidence	.92
Quality and freshness of fruit and vegetables	.84
Quality and taste of cheese and dairy products	.76
Taste of fruit and vegetables	.87
Location of the organic shop	.89
Variety in range of products	.58
Taste of sausage and meat	.78
Self service and speed of shopping	.58
KMO: .88; 68 % explained variance	

Differences between shops: Enthusiasm



Organic retailer market

	Small organic shops	Organic shops	Organic supermarkets
Sales area	< 100 m ²	100 m ² - 199 m ²	> 200 m ²
products	2.000 – 4.000	bis 6.000	bis 10.000
Average annual turnover	300.000 €	420.000 €	1.500.000 €
Number of shops/ supermarkets in Germany	ca. 1100	ca. 900	ca. 415
Growth in sales 2. Quarter 2006	plus 9,9 %	plus 8,6 %	plus 10,5 %

Characteristics of the shops with the lowest and highest CS and CE

Variable	Mean	Shop with lowest customers satisfaction	Shop with lowest customer enthusiasm	Shop with highest customer satisfaction and enthusiasm
Sales area in m ²	203	470	125	50
Turnover in €	610,880	513,407	593,500	544,363
Gross margin	42 %	-	65 %	40.5 %
Expenditure on advertising in €	7,205	2,500	9,250	2,413
Staff (full time)	5.04	5	5	3.5
Average spending per customer in €	12.44	13.50	9.70	6.50
Number of products	2,888	5,311	3,200	2,100

Regression model to explain customer satisfaction in organic retailing

Independent variables	Beta	t
Customer service and confidence	.44	11.20***
Quality and freshness of fruit and vegetables	.42	11.60***
Variety in the range of products	.12	3.12**
Location of the organic shop	.12	2.96**
Taste of fruit and vegetables	.11	2.74**
Quality and taste of cheese and dairy products	.10	2.43*
Dependent variable: Customer satisfaction Adj. R ² = .42; F = 45.93***; *** p ≤ .001; ** p ≤ .01; * p ≤ .05		