Outline

- Introduction
- Survey 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 shops
- Organic shops are the major players today (26 % of organic food sales were generated in organic shops)
- Increasing competition in organic market:
  - Conventional supermarkets have improved their organic range
  - German discounter have entered the market
  - Organic supermarkets have gained relevant market shares
Marketing channels for organic food in Germany 2004

- Organic shops
- Organic supermarkets
- Health shops

~ 35 %

- Hypermarkets
- Discounter
- Supermarkets
- Regional chains
- Drugstores

~ 40 %

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

~ 25 %

Source: Hamm

May 31, 2006
All in all, the pressure on small retailers increases due to their structural cost disadvantages.

In this situation, the customer satisfaction becomes a more and more important factor to prevent switching behaviour.
A Customer Satisfaction Survey – The study

- The study analyses the impact of customer satisfaction on the economic performance of small retailers in the organic market.
- The study is based on 885 customer interviews and an analysis of management ratios of 11 food shops in different German cities.
- The aim of the study:
  - evaluate the relationship between customer satisfaction and profit in organic food shops
  - determine the parameters which influence customer satisfaction
Survey design

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

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

The questionnaire for shops:
- 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

Economic shop data:
- 11 only specialized organic retailers (8 organic shops, 3 organic supermarkets)
- only selling articles produced under the EU organic regulations
- broad spectrum of differently sized shops and different locations
- Success indicator: in our survey it was not possible to get sufficient data about profits and margins. Therefore we used the annual turnover per m² sales area.
# Shop characteristics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Average of the enterprises</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales area in m²</td>
<td>203</td>
<td>50</td>
<td>600</td>
</tr>
<tr>
<td>Turnover in €</td>
<td>610,880</td>
<td>225,028</td>
<td>1,900,000</td>
</tr>
<tr>
<td>Gross margin</td>
<td>44 %</td>
<td>29 %</td>
<td>55 %</td>
</tr>
<tr>
<td>Expenditure on advertising in €</td>
<td>7,204</td>
<td>0</td>
<td>38,000</td>
</tr>
<tr>
<td>Staff (on a fulltime basis)</td>
<td>5</td>
<td>1.7</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: own calculation
Customer satisfaction: conventional retail and specialised organic shops by comparison

Source: GfK 2005, own study in specialised organic shops
Characteristics of the shops with the lowest and highest CS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Shop with lowest customers satisfaction</th>
<th>Shop with highest customer satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales area in m²</td>
<td>203</td>
<td>470</td>
<td>50</td>
</tr>
<tr>
<td>Turnover in €</td>
<td>610,880</td>
<td>513,407</td>
<td>544,363</td>
</tr>
<tr>
<td>Gross margin</td>
<td>42 %</td>
<td>-</td>
<td>40.5 %</td>
</tr>
<tr>
<td>Expenditure on advertising in €</td>
<td>7,205</td>
<td>2,500</td>
<td>2,413</td>
</tr>
<tr>
<td>Staff (full time)</td>
<td>5.04</td>
<td>5</td>
<td>3.5</td>
</tr>
<tr>
<td>Average spending per customer in €</td>
<td>12.44</td>
<td>13.50</td>
<td>6.50</td>
</tr>
<tr>
<td>Number of products</td>
<td>2,888</td>
<td>5,311</td>
<td>2,100</td>
</tr>
</tbody>
</table>
The impact of CS on shop profit

increase of CS about 0.1

1,500 € more turnover/m²

Turnover/m²

Customer satisfaction

good

very good

= shop

May 31, 2006

Marketing for Food and Agricultural Products
Prof. Dr. A. Spiller/ M. Sc. Agr. Frederike Lülfs
Regression model to explain customer satisfaction

Economic success

Customer satisfaction

Further factors of success

Quality of goods

Consulting and Service

Atmosphere

Price-performance ratio

Trust

adj. R²: 0.46

45 %

55 %

0.27***

0.24***

0.19***

0.13***

0.11**
Regression model to explain quality of goods

Economic success
Customer satisfaction
Further factors of success

Quality of goods
Consulting and Service
Atmosphere
Price-performance ratio
Trust

Quality of fruits and vegetables
Freshness of goods
Cleanliness and hygiene
Quality of dairy products

adj R²: .36

May 31, 2006
Summary

- Customer satisfaction (CS) is very high, but it varies between the different shops
- CS is not a question of size
- CS has a high impact on shop profit
- CS explains 45% of annual sales per m² (which is much more higher than in conventional supermarkets)
- We could identify 5 dimensions of CS
Conclusions

- CS is very closely linked with economic performance especially for small and medium sized retailers
  → the organic retailers should manage the CS more professional
- The high relevance of consulting and service indicates, that psychological and emotional factors determine the buying decision
  → the personal atmosphere and a close contact with the customers is a chance for the small and medium sized retailers
- CS is a necessary but not a sufficient condition to prevent switching behaviour
  → creating customer loyalty by surprising the customers (customer enthusiasm)
- A customer oriented marketing strategy will help to get a higher economic success
Thank you for your attention

M. Sc. Agr. Frederike Lülfs

University of Goettingen
Institute for Agricultural Economics
Chair Marketing for Food and Agricultural Products
Platz der Göttinger Sieben 5
37073 Göttingen
Tel. + 49 (0) 551/ 39-4827
Fax + 49 (0) 551/ 39-12122
fluelfs@uni-goettingen.de
www.agrarmarketing.uni-goettingen.de
Results – Regression model to explain the economic success

- CS explains 45% of annual sales per m²

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Beta</th>
<th>t-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>.699</td>
<td>2,933**</td>
</tr>
</tbody>
</table>

N = 11; depending variable: Annual sales volume per m² sales area; adj. R²: 0.432; F-Value: 8.604; ** p ≤ 0.017

Source: own survey

May 31, 2006
## Results – Regression model to explain customer satisfaction

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Beta</th>
<th>t-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of goods</td>
<td>.27</td>
<td>8.954***</td>
</tr>
<tr>
<td>Consulting and service</td>
<td>.24</td>
<td>6.998***</td>
</tr>
<tr>
<td>Atmosphere</td>
<td>.19</td>
<td>5.920***</td>
</tr>
<tr>
<td>Price-performance ratio</td>
<td>.13</td>
<td>4.259***</td>
</tr>
<tr>
<td>Trust</td>
<td>.11</td>
<td>3.286**</td>
</tr>
</tbody>
</table>

N = 885; depending variable: customer satisfaction; adj. $R^2$: 0.46; F-Value: 133.11; *** $p \leq 0.001$; ** $p \leq 0.01$; * $p \leq 0.05$

Source: Own Survey