

CORRELATES OF RETAIL STORE LOYALTY: AN EMPIRICAL STUDY

Ugur Yavas, East Tennessee State University, College of Business & Technology, Johnson City,
TN 37614, 423-439-5382, raxyavas@etsu.edu

Emin Babakus, The University of Memphis, Fogelman College of Business & Economics,
Memphis, TN 38152, 901-678-3857, ebabakus@memphis.edu

ABSTRACT

By using data collected from the customers of a national retailer, this study examines the relative efficacies of merchandise quality, interaction quality, price and store environment on satisfaction, continued patronage and recommendation intentions, and share of wallet. Results and their implications are discussed.

INTRODUCTION

A review of the customer loyalty literature reveals three major shortcomings. First, the bulk of the studies primarily focus on the concept of loyalty for tangible goods at the brand level [1]. Second, studies at the firm level focus on price and store environment in the formation of customer loyalty. Simultaneous examination of the two critical dimensions of perceived quality (merchandise quality and interaction quality) as antecedents of customer loyalty (e.g., loyalty to a store) lags behind [4]. Third, the extant literature suggests that customer loyalty is composed of a) customers' cognitive evaluations of a brand (store) relative to other brands/stores in a relevant set, b) affective preferences manifesting themselves through favorable emotions and feelings of satisfaction towards a brand/store, c) conative or behavioral intentions (e.g., continued patronage, recommendation), and finally d) actual purchase behavior [5]. Despite the recognition that the cognitive-affective-conative-action phases each represent a certain type and strength of loyalty in progression, current research primarily focuses on affective and conative loyalty and their measures. There is a paucity of research studies using all four phases of loyalty [2] [3]. Perhaps more importantly, actual purchase behavior (e.g., share of wallet), which is the most critical loyalty metric, is largely ignored.

This study partially fills in the voids in the literature and examines the relative efficacies of merchandise quality, interaction quality, price, and store environment on satisfaction, two conative loyalty measures (continued patronage and recommendation intentions), and share of wallet.

METHODOLOGY

Data for the study were collected via mail questionnaires from the customers of a national automotive parts and accessories retailer. Target respondents were randomly selected from the

retailer's customer database. Of the 90,000 surveys mailed, 17,034 were returned for a response rate of 18.9%. The questionnaire was prepared after a series of 16 focus groups with current and previous customers and a review of the relevant literature.

Multiple-item scales were employed to measure merchandise quality, interaction quality and store environment. Given the premises that loyalty develops as a result of a consumer's comparative appraisals of various brand and/or store attributes (vicariously or by experience) in relation to a consideration set of available brands or stores; that customers assess service quality relative to competition, and that the ultimate differential advantage of a retail institution is determined by its performance relative to competitors [6], responses to each item were elicited on 5-point scales ranging from 5 = Sponsoring Retailer is much better to 1 = Sponsoring Retailer is much worse. Single-item scales were employed to measure the remaining study variables. The price variable was measured on a similar comparative scale ranging from 5 = Sponsoring Retailer is much lower to 1 = Sponsoring Retailer is much higher. Responses to the overall satisfaction measure were recorded on a 5-point scale ranging from 1 = Very Dissatisfied to 5 = Very Satisfied. Respondents' continued patronage and recommendation intentions were measured by asking them to indicate the likelihood with which they would continue to shop at this retailer and recommend it to others. Responses were elicited on 5-point scales with anchor points of 5 = Very Likely and 1 = Very Unlikely. Finally, share of wallet was measured by asking the respondents what percentage of their purchases was made at this retailer. Responses, in this case, could range from 1 = less than 10% to 10 = 90 to 100%.

During the analysis stage, composite scores were computed for multiple-item measures by averaging scores across items representing a particular construct. As shown in Table 1, the internal consistency reliabilities of these composite measures were .90 or higher.

**TABLE 1
MULTI-ITEM MEASURES**

Measure	No. of Items	Sample Items	Mean	Standard Deviation	Reliability Estimate
Merchandise Quality	6	Quality of parts Variety of products to choose from	3.87	.80	.90
Interaction Quality	9	Having your best interest in mind Listening carefully to you	3.85	.82	.93
Store Image	10	Convenience of store hours Convenience of store location	4.07	.67	.90

RESULTS

To determine which factors lead to satisfaction, continued patronage and recommendation intentions, and share of wallet among customers, using merchandise quality, interaction quality, price and store environment as the independent and satisfaction, continued patronage and recommendation intentions, and share of wallet as the dependent variables, four regression models were run. As shown in Table 2, all the models proved to be significant with explained variances ranging from 47% (satisfaction) to 20% (share of wallet). Furthermore, all the beta coefficients with the exception of store environment in the case of continued patronage intentions were significant. A closer scrutiny of the results showed that interaction quality was the best predictor of satisfaction, and continued patronage and recommendation intentions. In fact, the contribution of interaction quality in the formation of satisfaction and continued patronage intentions was more than twice the contribution of the second most important antecedent, merchandise quality. However, merchandise quality emerged as the most effective predictor of share of wallet. As in the cases of other loyalty measures, store environment was the least effective predictor. Price that emerged as a significant variable in all four models was not as critical as the two perceived quality dimensions of merchandise quality and interaction quality.

TABLE 2
REGRESSION ANALYSIS RESULTS^a

Dependent Variable	Merch. Quality	Inter. Quality	Price	Store Image	R ²	F
Satisfaction	.22	.49	.07	-.03	.47	3443.9
Recommendation	.22	.41	.12	-.02	.40	2635.8
Continued Patronage	.17	.38	.11	-.005 ^b	.34	2010.6
Share of Wallet	.22	.16	.11	.03	.20	959.4

^a All R² values are significant at .0001 or better level of significance. Reported under each independent variable are the estimated β coefficients. Unless otherwise noted, all β coefficients are significant at .001 or better level of significance.

^b Not significant

To discern the extent of agreement in the relative contributions of the independent variables to the loyalty measures, beta coefficients were rank-ordered from 1 to 4 in terms of their size across each dependent variable and Kendall's Coefficient of Concordance for Complete Rankings test was then applied to the data. The test statistic can range between 0 and 1 where a coefficient of 1 signifies perfect agreement. The relative contributions of the independent variables to the loyalty measures demonstrated a very high degree of similarity ($W = 0.93$; $p < .05$).

CONCLUSIONS

The results altogether suggest that interaction quality is perhaps the most effective predictor of customer loyalty and also show that, for the most part, the predictors of various loyalty measures converge. In other words, the factors that emerged as the most influential in explaining one loyalty measure were mostly the same for the other measures. An interesting finding of the study pertains to the price variable. Although a significant predictor of loyalty in all the models we ran, price is not a critical determinant of loyalty. This can perhaps be attributed to the current retailing practice of matching competitors' prices (even offering discounts). Thus, customers may very well feel that the competitor retailers are about the same in terms of the prices of their offerings. Hence, they do not rely on price in making their decisions.

The foremost implication surfacing from our study's findings is that to reinforce loyalty among its customers, the focal retailer should invest in programs to train its employees not only in product knowledge but also in interpersonal skills. Also, the retailer should consider interpersonal skills and emotional expressiveness as critical criteria in recruiting frontline employees.

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