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RESEARCH INSTITUTE

SCHOOL OF MANAGEMENT

**AN INVESTIGATION INTO CUSTOMER LOYALTY
AND RELATIONSHIP MARKETING: CASE UK
GROCERY RETAILING AND
TELECOMMUNICATION SECTORS**

By

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**A thesis submitted to the University of Salford in partial fulfilment of the requirements
for the degree of Doctorate of Philosophy**

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DECLARATION

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this university or another educational institution.

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A special dedication is the soul of my sister Nadia.

ABSTRACT

This research investigates customer loyalty and relationship marketing theories into two different commercial sectors in the UK, namely grocery retailing and telecommunication. The study is divided into two major parts. The first part examines consumer perceptions of customer loyalty schemes and explores the nature and extent of relationship development in the UK retail grocery sector. Aspects of the Interaction Approach, historically developed and confined to organisational contexts, were used as a conceptual framework for assessing the level of these relationships.

The research methodology consisted of both qualitative and quantitative techniques. Focus group discussions preceded a questionnaire survey administered to a quota sample of 500 Tesco shoppers. The results suggested that customer loyalty schemes did not generate emotional commitment towards the retailer, and that they were not considered important in store choice. Consumers regarded product and service quality and customer service facilities as the most significant factors. Relationships were identified by the development of four constructs, i.e., trust, commitment, concern and involvement. It was found that satisfaction with the retailer, trust, concern, consistency and reliability were key criteria when identifying relationship potential in the grocery sector. The majority of consumers were found not to consider themselves as being in a relationship with their retailer, yet they still displayed fairly high relationship levels (as measured by the key criteria – trust, concern etc.) . It was concluded that consumer perceptions of what constitutes a relationship differ significantly from retailers' perceptions

The objective of the second part of the research was to develop and to test a partial model of customer loyalty. This model can help to explain the process that a customer follows to pledge loyalty, sometimes even subconsciously, to a product or service provider. A complete model would be composed of two sides : the company and the consumer side. The current research, however, focus on the process that occurs on the consumer side. It is specifically proposed that after a first satisfying experience, a customer requires some kind of reinforcement to become loyal.

Previous research suggests that consumer trust and commitment have a key mediating role in the process of building loyalty. Consumer trust and commitment have been regarded

previously as important conditions necessary to increase cooperation and loyalty patterns (Morgan and Hunt 1994, Moorman, Deshpande, and Zaltman 1993).

Guided by a modelled set of relationships, some hypotheses were tested using survey data relating to International Phone calls. Following statistical data analysis (Factor analysis, Correlation analysis, Regression analysis and Structural Equation Modelling). It was concluded that the existence of trust and commitment as mediating variables were important in helping to explain customer loyalty because not all the initially suggested variables were found significant, However, a post-hoc model was developed using only the significant variables. This tested model explains about 40% of the variance of the dependent variable customer loyalty and has goodness of fit indexes that are adequate.

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Chapter One: Overall Thesis Introduction

Overall Thesis Introduction

1.1 The Research Context

Traditional marketing practices have focused on attracting new customers rather than retaining existing ones, as practitioners aimed at selling rather than cultivating relationships. More recently, however, a growing number of companies are emphasizing retention of current customers for the following reasons. Firstly, the cost of attracting new customers can be six times the cost of keeping current customers satisfied (Bender 1976). Secondly, companies can improve profits more than 25% by reducing customer defection by 5% (Reichheld and Sasser 1990). Finally, loyal customers outspend others by ratios that can go from 5:1 in the hotel and motel industry to 16:1 in retailing (Bagozzi et al. 1998).

To date, the treatment of customer retention in the marketing literature has been fragmented. Marketing textbooks often link retention to a general concept of “customer satisfaction”, arguing that a satisfied customer is likely to repeat-purchase, whereas an unsatisfied customer will tend to defect (Kotler 1997, Kurtz and Clow 1998, Rust, Zahorik, and Keiningham 1996, Zeithaml and Bitner 1996). Many researchers, however, have found such statements overly simplistic. First, it has been pointed out (Liu 1998, Schulz 1998) that customer satisfaction is a necessary, but not a sufficient, condition for customer retention. Second, there is evidence (Thomas 1998) that, despite favourable customer satisfaction ratings, companies can and do still lose important buyers of their goods and services. Finally, attempts to use “satisfaction”, an attitude, in order to predict customer loyalty, a behaviour, have not worked well in the past (Neal 1999).

Given these caveats and reservations, many researchers underscored the need for a better understanding of the important but more complex relationship between customer satisfaction and customer loyalty (Hallowel 1996, Heskett et al. 1994, Heskett, Sasser and Schlesinger 1997). And the adoption by some of a wider concept of customer loyalty—decided by factors both intrinsic and extrinsic to a company’s product offerings and associated service standards—has led others to argue that loyalty develops as a result of establishing long-term, mutually beneficial relationships between customers and suppliers: and that these relationships are fostered through explicit customer loyalty schemes embedded in a wider programme of

relationship marketing. (Berry 1983, Berry and Parasuraman 1991, Grant and Schlesinger 1995, Jones and Sasser 1995, Reichheld 1996, Webster 1992).

Customer loyalty schemes are today increasingly recognised as a mechanism for generating higher level of customer retention, and considered to be particularly effective in building loyalty among the mass-market customer base characteristic of retailing. Loyalty schemes are now a key element in the development of relationship marketing programmes. At the same time, the effectiveness of such schemes is under-researched - in particular, more data is needed on how customers themselves perceive such schemes. The first part of the present research, therefore, explores consumer perceptions of loyalty schemes in one particular mass-market service sector of the economy, in order to determine whether such schemes are creating genuine sustainable loyalty (i.e. emotional commitment) or whether they are seen more cynically by customers only as a shorter-term sales promotion strategy.

As a consequence of the increased interest in customer retention/loyalty and customer loyalty schemes, greater opportunities exist for the design, development and testing of models of customer loyalty. To date, however, few attempts to build and to evaluate such models are reported in the literature. Of those that have been developed, most are limited in their scope and effectiveness (Pritchard, Havitz and Howard 1999, Gabriano and Johnson, 1999). The second part of the present research programme attempts to build and test a customer loyalty model derived from a detailed sectoral study of customer trust, commitment and loyalty.

It was initially intended to develop and test a customer loyalty model based on the data generated by the exploration of the relationship between customer loyalty schemes and relationship marketing activities in the first part of the study. However, analysis of results showed that there was no clear "loyalty effect" resulting from the implementation of customer loyalty schemes in the sector under study. This outcome was significant and informative in its own right (see chapter 11) but was an unforeseen development which compromised initial plans to develop a model of customer loyalty in the same sector. Consequently, a second mass-market services sector, where both the literature and general observation confirmed that customer retention and loyalty was recognised as a key issue, was identified and researched in order to provide the data for the second part of the study. A model was subsequently tested and its value assessed as a means of explaining the process that enables a company to achieve

and sustain a high level of customer loyalty over the medium and longer term. The model was also evaluated against two other models previously reported in the literature.

1.2 The Research Process

The present research comprises two principal parts. The first part, which was completed as an M.Phil thesis between September 2000 and February 2002, seeks to measure the impact of customer loyalty schemes and relationship marketing on customer loyalty within one sector of the UK services economy-namely the retail grocery sector.

The effectiveness of customer loyalty schemes and other loyalty-based initiatives is assessed from a purely consumer perspective. To this end, focus groups were used to design and test the questionnaire used in the study and to enrich and inform the data obtained. The population from which the main study sample was drawn consisted of Tesco shoppers in the Greater Manchester area. However, as a sampling frame of Tesco shoppers was not available, probability-sampling methods were not feasible. Quota sampling was, instead, the method of non-probability sampling which was selected and perceived to be the most appropriate for this study. The researcher used his own discretion in the choice of respondents, making selection error of respondents a major limitation (Churchill 1990). Furthermore, the respondents interviewed reflected the characteristics of those people who were shopping at the specific times selected, hence some respondent selection error resulted.

The outcomes of the first part of the research showed that no clear “loyalty effect” resulted from customer loyalty schemes and other initiatives undertaken by the supplier (in this case, Tesco). This was the principal reason why it was not considered possible to research and develop an effective model of customer loyalty based on the retail grocery sector, and why it was deemed necessary to focus further research on another service-based sector of the economy. In order to move beyond grocery sector restrictions and to explore the wider effects of customer loyalty schemes and relationship marketing, it was necessary to identify another services sector which appeared to offer greater opportunities to develop and to test a model of customer loyalty. At the same time the methodological deficiencies identified with the Tesco-based research (see above) could be minimised.

The sector chosen for further research into customer loyalty and relationship marketing was the telecommunications sector-and more specifically the international phone calls sector. It was chosen, inter alia, because it is a fast growing market in the UK, and is now strongly focused on customer retention, given the past high levels of customer turnover and customer “switching” between suppliers. Furthermore, level of competition between competing companies is intense, making customer loyalty a key issue. In choosing this telecommunications sub-sector, it was also possible to work with a much greater sample size and with available data covering a nationwide spread of consumers, in contrast to the far narrower research carried out in the retail grocery sector which was conducted in one location only and with only one specific group of (Tesco) consumers.

The second part of the research, therefore, develops and tests a model of customer loyalty based on data collected from the international phone calls service sector. The model is intended to help explain the process that enables a company to achieve superior marketing performance based on the development of customer loyalty. The model comprises two sides- the company and the consumer side- and is based on three key component parts of overall customer satisfaction identified in the literature. First, consumption-based satisfaction, determined by product or service experience; second, transaction-based-satisfaction, deriving from experiences with particular suppliers; competition-based satisfaction, reflecting a consumer’s positive or negative experiences with competing suppliers. Finally, the model is tested against the hypotheses derived from the key research propositions (again informed by the literature), and its relative effectiveness measured against two other models of customer loyalty reported in the literature.

1.3 Research Aims and Objectives

The present research focuses on key elements relating to customer loyalty and relationship marketing. The aims and objectives of the two parts of the study are detailed below.

1.3.1 In Part One of the thesis, customer loyalty and loyalty schemes are analysed and evaluated in the context of UK grocery retailing. This research has five specific objectives as follows:

1.3.1.1 To review the literature covering concepts of customer loyalty and relationship marketing, with particular reference to the UK grocery sector

Literature on both these academic areas is fairly new, when considered in the contexts of grocery retailing and telecommunication. Relevant literature was collated in order to provide an overall theoretical appreciation of current academic thought on both topics.

1.3.1.2 To identify consumer perceptions of customer loyalty schemes.

Loyalty schemes, as with any other marketing initiative, are only successful if they manage to meet consumer needs and expectations. This objective identifies how important consumers feel loyalty schemes are to satisfying their needs in relation to the overall retail offering. An identification of what factors they place as most important, specifically their attitudes towards loyalty schemes, are also researched.

1.3.1.3 To segment consumers into loyalty types.

Data generated from the research, it was envisaged, could be used to segment consumers into loyalty types using the Diamond of Loyalty (Denison and Knox 1995). The application of this theoretical framework to a grocery retail context may provide significant implications for marketers and practitioners who attempt to segment their customer base. Identification of promiscuous shoppers can help save company resources, both time and money. Hence segmentation is a useful tool for enabling retailers to identify the customers on whom they should be focusing.

1.3.1.4. To identify the extent to which consumers have developed relationships with grocery retailers, from the consumer perspective.

Relationship marketing is a fairly new concept in the mass marketing arena of grocery retailing. Many critics have argued that it is almost impossible to develop relationships with individual consumers in this sector. Retailers, however, realised that in the competitive environment of the late 1990's, this was possibly the way forward. The introduction of customer loyalty schemes has been seen by many as a significant step forward for retailers

wanting to 'get closer to the consumer'. A primary aim of this research is to identify whether customers want to develop relationships with their prime supermarket and whether they have developed such relationships. In order to test the extent to which relationships are being developed, a theoretical framework is devised. This is used to identify the nature of such relationships.

1.3.1.5 To adapt the Interaction Approach (The IMP Group) of buyer behaviour to UK grocery retailing.

The Interaction Approach is developed within the industrial marketing literature to provide a theoretical framework of relationship marketing. The market context it is initially developed for is highly micro, that is, there is a small customer base. However, the UK grocery retail industry is the total opposite, epitomising a completely mass-market environment. The aim is hence to adapt the Interaction Approach (see chapter 3) to a different context and commercial sector for which it is originally developed.

1.3.2 Informed both by the literature review of customer loyalty and by the analysis and findings resulting from the primary, sectoral research carried out in Part One of the study, Part Two of the thesis is concerned with the further identification of those factors which can play a key part in the development and reinforcement of customer loyalty. These findings are then used to develop and test a model of customer loyalty in the services economy, based on a detailed analysis of data relating to the telecommunications sector.

The principal objectives of Part Two of the study are as follows:

1.3.2.1 To examine the extent to which a relationship commitment is a necessary precursor of customer loyalty in business-to customer exchanges.

1.3.2.2. To determine whether increased levels of trust lead to greater relationship commitments in business to customer exchanges.

1.3.2.3 To identify those cognitive and effective processes which precede the formation and performance of commitment and trust and which strengthens customer loyalty in business-to-customer exchanges.

1.3.2.4 To develop and test a model of customer loyalty in the telecommunications sector of the UK services economy.

1.4. Overall Thesis Summary

The current thesis is structured in three major parts, details of which are described below.

Part One of the thesis (Chapters 2-6) examines customer loyalty and relationship marketing in the UK retail grocery sector. As an introduction, Chapter Two identifies the most important literature in relation to customer loyalty schemes within the UK grocery retailing sector. The chapter explains what customer loyalty implies, outlines the concept of loyalty cards, provides a profile of the major UK grocery retailers and their loyalty schemes, and identifies the benefits that retailers may be seeking in implementing a loyalty programme.

Relationship marketing is emerging in the retailing context, primarily through customer loyalty schemes. Chapter Three therefore provides a systematic review of the concept of relationship marketing. It starts with an overview of the way in which marketing has developed over the last few decades. The emergence of relationship marketing and an analysis of the components of successful relationship marketing are then discussed. Relationship marketing in the retailing context is highlighted, with some doubts expressed as to whether customers actually want to develop relationships with supermarkets. Finally, a brief review is given of a number of buyer behaviour models. From these, the Interaction Approach is highlighted as potentially the most suitable conceptual framework for this study.

Chapter Four specifies each of the objectives formulated for research into customer loyalty and relationship marketing in the retail grocery sector, as well as giving the rationale behind them. The most appropriate research methods chosen to achieve these

objectives are then discussed and justified. A description is also given of how each method was applied in this particular study. A brief review of the statistical techniques used in the data analysis is also given.

Chapter Five reports, analyses and interprets information resulting from primary research. The chapter reports on both qualitative (focus groups) and quantitative (questionnaire) results. Both sections are presented with the relevant research questions, the rationale behind each question, the subsequent findings, and an interpretation of results.

Chapter Six addresses the issue of the true worth of customer loyalty schemes, from a consumer perspective. To extent to which relationship marketing is being incorporated into a grocery retail setting is discussed. In this final chapter, each research objective is discussed together with the conclusions reached. Finally, contributions this research can make to marketing theory, as well as implications for retail marketers and management, are identified.

Having completed the study of customer loyalty schemes in UK grocery retailing, Part Two of the thesis (Chapters 7-10) develops and tests a model of customer loyalty in the services sector. However, research conducted into the retail grocery sector in Part One of the study showed that a clear effect of customer loyalty was not found. These results do not oppose parts of the literature, which suggests that emotional loyalty is not universally being developed by customer loyalty schemes (Reynolds, 1995). Consequently, although it would have been preferable to test a loyalty model in the grocery sector, it was considered necessary to base the customer loyalty model developed in part two of the study on another services sector. Subsequently, the telecommunications sector was chosen as an appropriate sector for data collection and model-building.

As an introduction to the study, Chapter Seven describes the research problem. It proposes a model of customer loyalty, and identifies two alternative models (already described and reported in the literature) against which the model is to be tested.

Chapter Eight examines the literature relating to customer loyalty in general and to definitions of “loyalty” in particular. It identifies elements of commitment and trust

necessary to the development of customer loyalty in business-to-consumer exchanges. Informed by this literature review, the study's research prepositions, together with related hypotheses for testing, are identified and explained.

Chapter Nine describes the research methodology designed to test the stated hypotheses. This section includes discussion of research design, instruments of measurement and sampling methodology (size, population and response rates). It also describes the methods of data analysis as an introduction of the following chapter.

Results and findings relating to part two of the thesis are reported in Chapter Ten. Factor analysis, correlation analysis, regression analysis and structural equation modelling are all used to test the validity of the proposed model, and the model's effectiveness is measured against the two other models used as benchmarks to the study.

Finally Part Three of the thesis (Chapter Eleven) summarises the overall results of the research relating to Part One and Part Two of the study, drawing both parts of the study together. It identifies the contributions to knowledge, recognises the limitations of the study and identifies possible directions for future research.

PART I:
**Relationship
Marketing and
Customer Loyalty
in the UK Grocery
Retailing Sector.**

Chapter Two

CUSTOMER LOYALTY LITERATURE REVIEW

Customer loyalty – A Literature review

2.1. Introduction

In an increasingly competitive environment, retailers are seeking that all-important 'leading edge' which will differentiate the service they provide from that of their competitors. The introduction of a range of loyalty schemes designed to tie the consumer to the products or services on offer, are seen by many marketers and practitioners as a way retailers can achieve differentiation.

This chapter explains what customer loyalty implies, outlines the concept of loyalty cards, provides a profile of the major UK grocery retailers and their loyalty schemes, and identifies the benefits that retailers may be seeking in implementing a loyalty programme. Particular emphasis is placed on the leading grocery retailer, Tesco, whose customers formed a significant part of the sample.

2.2. Loyalty cards schemes – background

Customer loyalty schemes have been operating for many decades, one of the earliest examples is the Co-op 'divi'. This was very similar to current schemes, in that there was a membership and a member's personal identification number. Members gave their membership number as they shopped, and the value of their purchases was used to calculate their personal share of the year-end dividend; there was a list of members with their individual account numbers and the value of their purchases over the period. Gradually this was replaced by ordinary trading stamps (Mandeville 1994).

2.2.1. Trading stamps

'Ordinary trading stamps' refers primarily to Green Shield stamps, which were initially confined in the UK to independent food retailers. Participating retailers considered that this innovation helped them retain their share of trade, but as a straight discount on sales, the stamps threatened the profit margins of every single retailer in the business.

Hence, for a long time, members of the National Association of Multiple Grocers stood together in refusing to accept this innovation.

Green Shield stamps were a pre-payment scheme, i.e., the company sold the stamps to the retailers, and used this income to pay out on redeemed stamps. Shoppers were for years entitled to redeem any old stamps they might have lying around, and the Green Shield redemption fund stood at £85million (Mandeville 1994).

From the retailer's point of view, trading stamps not only cut profit margins, but also focussed shoppers' attention firmly on tangible rewards: cut prices, double stamps, special discounts. The abandonment of stamps in the late 1970s was part of an attempt, by retailers not to compete on price but rather on 'value'-a frequently confused concept, which includes things like product quality, product range and store décor. Green Shield stamps also suffered from 'overkill'; as more and more retailers offered stamps, their impact as an incentive declined (e.g. Reed 1996, Mandeville 1994, Smith, Sparks, Hart and Tzokas 2003).

2.3. The new route customer loyalty schemes

The heightened interest in loyalty marketing is a result of the growing recognition that generating more business from existing customers is cheaper than trying to create new customers or to win customers from the competition (Section 3.5). A growing body of research shows that loyal customers purchase more frequently and spend more. (Reichheld 1993). Loyal customers have also become more valued with the recognition that special offers made to entice new customers can too easily be 'cherry picked' by promiscuous customers who do not make the additional purchases which justify the loss-leaders (Reynolds 1995, Sopanen 1996, Chiara Mauri 2003). These factors have led to an appreciation of the importance of valuing, holding and giving incentives to existing customers (Reichheld 1993, Morgan 1996). Retailers can also increase their power over suppliers and minimise the costs of discounts and incentives (Mandeville 1994).

Marketing initiatives aimed at increasing the lifetime value of existing customers are defined as customer loyalty programmes (Rayner 1996). The growth of these schemes has been accelerated by technological developments over the past decade. Retailers now have an increased ability to collect more specific information on their customers, which can include names and addresses, and some other demographic and purchasing information, which may later be used for analysis (Section 2.4).

Reynolds (1996) argues that the success of these schemes depends upon whether such schemes bring genuine, long-term benefits to retailers and their customers. However, the potential benefits that can be gained from a loyalty scheme will depend upon the ability of retailers to increase their retention of loyal customers, in addition to building a comprehensive database.

2.3.1. What is a loyalty scheme?

A loyalty scheme is a mechanism for identifying and rewarding loyal customers. They can include a set of marketing initiatives intended to increase the number of loyal customers that a supplier has and/ or to increase the strength of loyalty that those customers exhibit. They can be seen as a formal way of recognising and rewarding loyal customers, whilst at the same time providing the retailer with the ability to measure loyalty levels and returns (Rayner 1996, Chiara Mauri 2003).

In addition, anything which differentiates a store from its competitors by offering customers long-term added value supports the aim of customer loyalty schemes. It is important for retailers to see loyalty schemes as only part of their overall retail strategy. Elements such as customer service are essential and just as significant to generate loyalty amongst consumers. Reynolds (1995) argues that loyalty schemes can provide an incentive for consumers to become loyal to a particular retailer. He also believes the way in which the rewards are earned can have a considerable effect on 'loyal' behaviour, such as the frequency of visit and spend per visit. For this precise reason, it is essential that any loyalty programme is carefully thought through and structured.

2.3.2. How they work

Loyalty cards look like credit cards and record the amount customers spend when they shop. Once the accumulated total passes a specific figure, e.g. £250, they are entitled to a discount on goods and services. Most loyalty schemes in the UK grocery sector work on the principle that customers get roughly one penny for every pound they spend. However, customers must spend a minimum amount each time they shop to earn points (Seymour 1996), although in most UK supermarkets this is just £1.

To join a scheme, the customer needs to complete an application form. This is the retailer's mechanism to capture certain demographic information. A membership card (usually a magnetic strip card) is issued to the customer with his/her unique number. The card is presented to the staff on each visit to the store and a reward is given to the customer based on some criteria. In the grocery sector, this is usually the amount spent but more recently it has also incorporated the type of product bought (i.e., where 'bonus' points are awarded). Details of the transaction and the customer number are logged for later transmission to the marketing database, while summary data are either written to the customer's card or stored locally. They may contain details of the accumulated points and purchase details. The loyalty terminal communicates with the marketing system (either daily, weekly or monthly) to exchange information. Transaction logs are sent to the central system for analysis, and new promotion details, reward structures etc. are transmitted to the in-store system. Consumers, at some later point, receive vouchers enabling them to redeem their accumulated points (Rayner 1996, Chiara Mauri 2003).

2.4. Customer loyalty schemes – Objectives

The aims of loyalty schemes will be dependent upon the growth strategy of the retailer and the prevailing markets situation. Companies that wish to grow have a number of options available to them. Ansoff (1968) constructed a matrix (figure 2.1), which can be a useful tool in identifying the different options that companies can take in different situations.

Figure 2.1: Alternative directions for development

		Product	
		Existing	New
MARKET	Existing	Consolidation Market penetration	Product Development
	New	Market Development	Diversification

(Source: Ansoff, H.I. 1968)

In the context of loyalty schemes, supermarket retailers are most likely to be in an “existing” market selling an existing product. In such a situation, Ansoff states that they are aiming to either consolidate their position or achieve market penetration.

According to Johnson and Scholes (1993), “*Consolidation implies changes in the ways the company operates, although the range of products and markets may remain unchanged.*” In such a situation retailers may not be able to rely solely on the strength of their product to persuade customers to purchase it. In an established market many retailers may sell almost identical products, hence it is important that once relationships with customers have been created that they are continued. In such a situation organisations may seek to defend their position by placing an increased emphasis on quality (of product and/or service) or by increasing marketing activity.

Market penetration is linked strongly to consolidation, in that improving quality or productivity, or increasing marketing activity, can each be a means of achieving both. The ease by which market penetration can be achieved depends greatly on the structure of the market concerned. In the UK, the grocery sector is quickly reaching saturation point with there being less room for growth. Under these conditions, one increasingly popular way of achieving consolidation and market penetration is through the mechanism of loyalty schemes (Reynolds 1995).

Although loyalty schemes are based on the assumption that only the most loyal and profitable customers are concentrated on, it has been recognised that not all customers are equal. Hence, it would be much more profitable to recognise the best customers and concentrate on them rather than trying to satisfy all customers, which will mean excluding 'promiscuous' customers. The benefits of knowing more about each individual customer can result in more precise target marketing, which will be more effective and less costly than mass marketing (Sopanen 1996).

Retailers, wishing to differentiate themselves from competition, may find loyalty schemes as a method of achieving this (Reynolds 1995). However, these schemes need to fit into a retailer's overall service differentiation strategy. Edward Bonner, finance and systems director of Savacentre, speaking to European Retail IT Decisions, indicates Sainsbury's attitude to customers;

"The ability to understand better the purchasing patterns of each customer and to find new and better ways of delivering appropriate value to that individual customer. will be one of the hallmarks of successful retailing in the late 1990's...From a customer's perspective in-store systems should supply flawless services and should be invisible to them. It is the added value that should be visible. To some extent we are adding back service elements that existed before the self-service explosion of the 1950's and the 1960's"

(Intel 1996b).

It is the information generated from a loyalty scheme which enables retailers to better understand the purchasing patterns of customers. However, loyalty schemes can also generate short term benefits. The UK's other two top food retailers, Tesco and Safeway, claim that loyalty cards have brought them real commercial benefits, primarily an increase in sales and market share. Tesco has more than 9.5 million Clubcard holders, receiving discounts of about 1%. Tesco's 1.6% increase in market share in 1995-1996 is attributed largely to the card. Safeway reckons that much of its 7% profits rise and 5% sales increase in 1995-1996 were due to its ABC loyalty card. Given these concrete figures, the effects of loyalty schemes can be seen. However, as Edward Bonner identifies, loyalty schemes must not work in isolation but as an integral part of the overall retail offering.

Although all loyalty schemes have similar objectives to some extent, different retailers will have different priorities whether to concentrate on increasing retention, increasing the spend per visit, increasing the frequency of visits or persuading customers to trade-up to higher margin purchases. These objectives will also depend on a retailer's position in the marketplace and environmental factors that are prevalent. These will decide how the rewards of the scheme are structured. Rayner (1996) believes that the right loyalty scheme will be one where the perceived value to profitable customers is greater than the actual cost of providing it. For example, Tesco's administration costs for the first year have been estimated as £64million, yet they believe the benefits far outweigh these costs.

Nevertheless, a set of potential objectives can be identified for grocery retailers wishing to launch a customer loyalty scheme. These include a) developing customer relationships, b) creating customer databases, c) providing a promotional incentive, and d) increasing customer expenditure. Each of these is described in turn below.

2.4.1. Developing customer relationships

The main benefit of building relationships with customers is sustained repeat buying and the retention of existing customers, although the retailer might also hope to gain from higher purchase frequencies, up-grading and cross-selling of related products and services (Uncles 1994). The premise is that loyal and heavy or frequent buyers are rewarded. Retailers are increasingly seeing their customers as their most valuable asset, requirements or preferences.

Barnes (1994) asks whether the concept of a 'relationship' developing between customer and supplier really has any substance, or "*whether it is, as the cynics suggest, merely a buzz-word glorifying the long-established habit of marketing of convincing consumers to part with as much of their disposable income as possible*". Jacobs (1996) argues that customer relationships are built by understanding the needs of individual shoppers and personalising communications.

Peterson and Wang (1993) suggest that the creation of a relationship depends on the ability of the retailer to know the customer. This ability grows with the use of customer databases, allowing the supplier to recognise different groups and even specific individual's needs and desires, where no information is available on the customer they initially remain anonymous and are treated as such. Relationship marketing therefore creates individual marketing relationships with consumers to give an identity to both parties. Although data is collected about individual customers, it is only the first step in building and maintaining a successful relationship with profitable customers.

2.4.2. Creating customer databases

EPoS, EFTPoS, management information systems, bar coding, customer tracking systems and customer self-scanning are just some of the developments which have transformed retailing in the last decade (Rayner 1996). For large retailers, these technological developments have made relationship development plausible. Information gathered on each customer can be used as a basis for developing individually tailored loyalty mechanisms and value added products. Consumers get the benefit of a store card, which they use to acquire 'points'. By being closer to customers, retailers are better able to develop and implement relationship marketing programmes (Copulsky and Wolf 1990).

Many retailers aim to build an extensive database based on customer details and their purchasing patterns which facilitates more personal and direct contact with the customer (Uncles 1994). Boedeker (1996) believes that retailers can use databases to '*direct highly customised marketing to selected existing customers, i.e., deliver differentiated messages based on the customer's characteristics and preferences*'. Hence, more efficient ways become available for organisations to segment and target customers (Peterson and Wang 1983, Morgan 1996), where precise targeting results in greater success. In the long run, the companies that are constantly aiming to fulfil the needs of their customers, by knowing their real needs, will eventually be able to secure the loyalty of their customers.

The most accurate information about customers comes directly from them, and some schemes ask a large number of questions about the household and its spending patterns. In a typical loyalty scheme, data can be derived from three principal sources:

- ◆ Registration details - includes basic information such as name and address.
- ◆ Profiles - lifestyle data that can be overlaid on the initial registration data to provide help in identifying general preferences by geographic area (e.g., age, sex and household composition).
- ◆ Activity data - these are the ongoing, constantly updated data, which are provided by the customer using the loyalty system, i.e. transaction information (such as total budget and the share spent with retailer in comparison to competitors).

(Mandeville 1994, Rayner 1996, Uncles 1994, Boedeker 1996)

It is only the last category of data which must be collected using a loyalty database scheme of the type described. Activity data provide information on frequency of visits, spending patterns, where the money is spent, what is bought, how much is redeemed and how individual named shoppers respond to campaigns. The technology needed to process loyalty cards also enables retailers to identify what is being sold in a store and to which customers. Through this increasingly sophisticated technology, retailers can access the following information, which can be invaluable in identifying consumer behaviour.

- ◆ Frequency - How often does this person visit the store? On what days of the week? Hours of the day? Is the frequency increasing or decreasing? When did the customer last visit?
- ◆ Spend - Is this increasing as required? Do particular types of promotion affect it?
- ◆ Stores visited - Is the customer loyal to a particular store?
- ◆ Products purchased - What special offers are taken-up?
- ◆ Product lines - What is the typical shopping basket of this individual?

(Jacobs 1996)

Activity data thus provide the raw information needed to measure performance and responses to promotions, to profile shopping habits, to forecast the results of future campaigns and to identify niches for new products and services. Jacobs (1996) feels that these data must be captured to build profiles of individual customer's purchasing patterns, *"so that large retailers can be in a position to emulate the corner shop approach to profitable retailing"*. He concludes that the *"key to building such a relationship, regardless of the customer base, is data"*. The points, promotions and other incentives

are there only to attract the customer to join and continue to use the scheme. However, the limitation associated with collecting information from registration forms is that it does not remain current.

Companies can also use databases to track retention rates and conduct root-cause investigations of defections (Reichheld 1993). In addition, detailed customer databases have the ability to merge transaction data with demographic, lifestyle and attitudinal information (Reynolds 1995, Jacobs 1996).

Relational database technology has, hence, given retailers the ability to gather and analyse large amounts of customer information. It allows retailers (and other organisations) to build a far more individualised marketing relationship with consumers (Copulsky and Wolf 1990). British airways (BA) is an example of an organisation using database marketing techniques to focus on retaining targeted customers and increase their share of business (Prokesch 1995).

2.4.3. Providing promotional incentives

Some retailers may only be using loyalty schemes as promotional incentives, whereby customers are rewarded with points for being loyal to the organisation (Boedeker 1996). These points can be converted into money vouchers. Some special product purchases could reward the customer with extra points or some specific purchasing period could give, for example, double points (Sopanen 1996). It is these points which entice the customer into the store. The more frequently the customer shops there, and the more she or he spends, the better the reward. Reynolds (1995) argues that these types of schemes are no more than a short term tactical marketing tool, where loyalty is often created to the incentive (i.e., points) rather than to the retailer, a view also affirmed by Barnes (1994). Therefore, although they may increase sales and profits in the short term, it is suggested that they are unlikely to create loyalty in the long term.

2.4.4. Increasing customer expenditure

By giving bonuses related to the amount of money people spend at their store, retailers hope to increase the amount of money which is spent on each visit. Customers are persuaded to buy more goods in order to achieve higher bonuses. An example of this effect can be seen with the Tesco store card. AGB data showed that out of a shopper's weekly grocery spend of £100, the proportion they spend at Tesco's has increased. It is believed that this figure increased from £43 to £45 over 1995 (Benady, 1995).

2.5. Customer loyalty

“Customer loyalty and the retention of business are ways to safeguard long term business survival”

(Donovan and Sauler 1994).

The above quote summarises the importance to any organisation of developing the loyalty of their customers. This view has seen greater acceptance throughout many organisations and has now spread to the retailing sector. However, it is essential to first define what customer loyalty actually signifies. Jones and Sasser (1995) see customer loyalty as *“a feeling of attachment to or affection for a company's people, products or services”*. This is adapted from the Oxford English dictionary's definition of loyalty. They see the term 'loyalty' as having two dimensions. On one side there are emotional ideas such as faithfulness and allegiance, but on the other there are more practical behavioural ideas such as being constant (unmoved, unremitting, frequently occurring). To inspire all these characteristics in customers is obviously beneficial but it is important to remember that both emotional and behavioural terms mean different things to different people. For example, some customers may shop frequently with a retailer because they want to or some because they have no car and the retailer is within walking distance (Loyalty 1997b). Since it is customer behaviour not customer emotions that create profitability, it is arguable to what extent the emotional aspects of loyalty are relevant to a customer loyalty strategy (Reynolds 1995, Zeithaml 2000).

In addition, the type of market involved will have a great influence on how loyalty can be defined, as will proximity and accessibility. Enis and Paul (1970) believe that it would be unwise to class loyalty in the groceries market as “the unswerving allegiance to one grocery store, since this would probably be over optimistic”. They point out that customers are unlikely to purchase food at only one store every week. Even if a customer uses a particular store predominantly, they are likely to visit an alternative store at some other time due to situational changes. In such a market, retailers would aim to persuade people to make one chain their preference for the majority of the person’s weekly grocery budget. In effect, the objective for retailers would initially be to ensure that customers are ‘more loyal’ to their stores than to their competitors’ (Rayner 1996). In such a situation, the proximity and accessibility of outlets to the customer has an influence on how devoted a customer is prepared to be.

Customer loyalty then, can be defined as;

“The commitment that a customer has to a particular supplier. This may be described in terms of the customer’s behaviour, or in terms of relationship and feeling about the supplier”

(Rayner, 1996)

Customer loyalty in a business context is about attracting new customers into the store, in addition to enriching the experience of existing customers above and beyond the basic image and reputation of the organisation. Berling (1993) believes that “loyalty only happens when a customer feels the company is working in his/her best interests”.

Berry (1993,2002) believes that “customer loyalty emphasises the interactive nature of relationship marketing, and can be seen as an acknowledgement of the personal nature of the commitment of customers to the firm”. Brand loyalty, in contrast, suggests that the commitment is to the product (Buttle 1996,2003). Morgan (1996) identifies the key indicators of loyalty as what customers do, what they say they will do in the future and what they say to other people. The issues include recency and frequency of purchase, amount spent and length of retention of account.

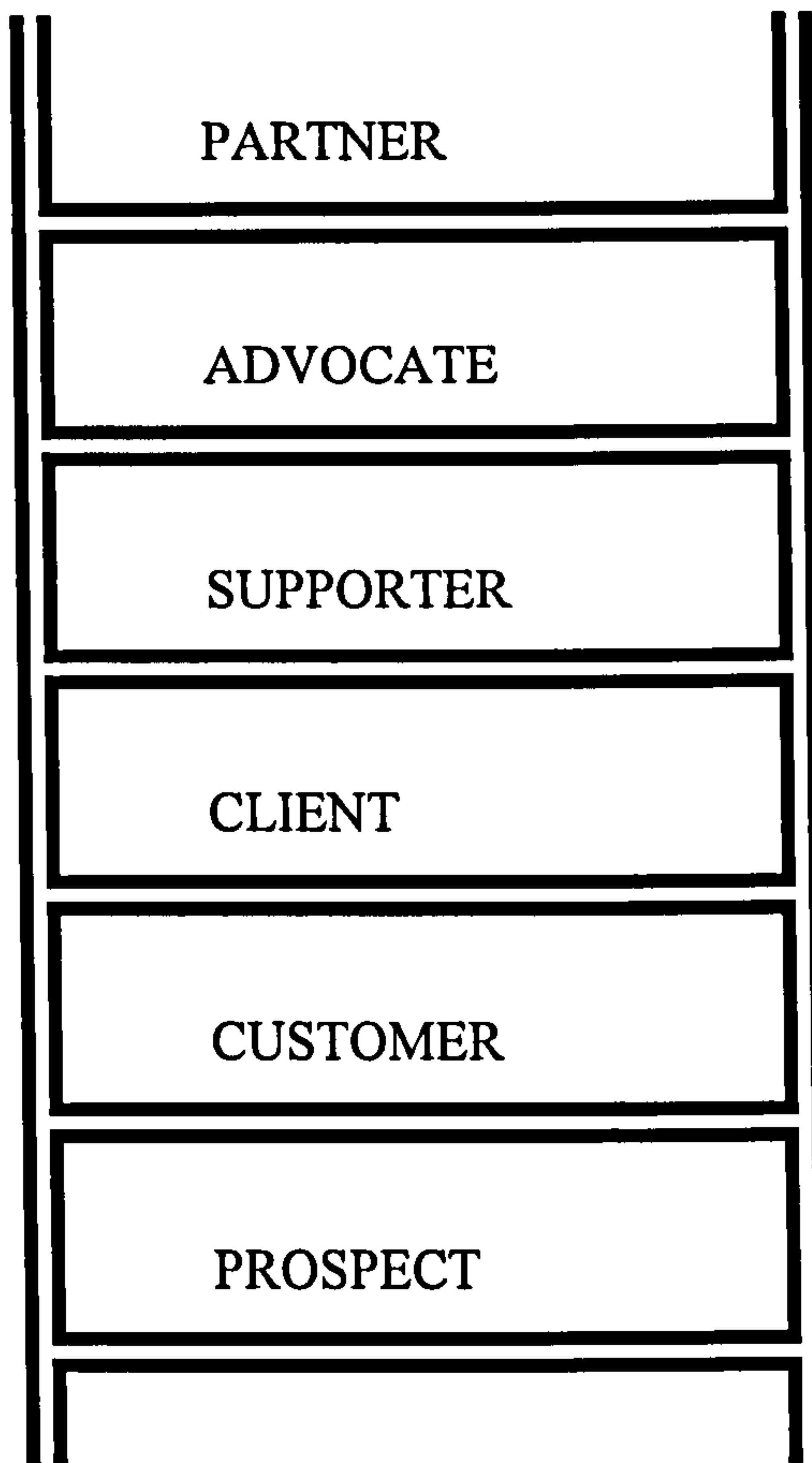
Retailers have traditionally placed less importance on customer loyalty than industrial organisations (Dunn and Wrigley 1984). However, increased competition amongst major retailers has intensified and although store location remains the keystone to gaining customers, there is a growing belief in the value of keeping them loyal (Denison and Knox 1993).

Barnes (1994) emphasises the need to recognise that repeat business alone does not constitute customer loyalty. It is arguable whether loyalty schemes provide a retailer with a sustainable advantage, since most major supermarket chains now have some form of loyalty scheme in operation. Christy et al. (1996) believe that loyalty schemes in operation at the moment need to distinguish themselves, i.e. "show evidence that the supplier is actively seeking to learn more about customers in the scheme, in order to serve their needs more comprehensively". Vavra (1995), an American practitioner; highlights that even though these schemes are attempting to develop relationships they are in fact only based on price. Kau and Ehrenberg (1984) believe that "most shoppers are notoriously 'promiscuous', switching from store to store at will".

Reichheld (1995) argues that managing for loyalty (customers and employees) is the only way to achieve sustainable superior profits, a view also endorsed by Beatty et al. (1996). It is earned by consistently delivering superior value; once customer loyalty is won, market share and revenues go up and the costs of acquiring and serving customers fall (Reichheld 1995).

Christopher, Payne and Ballantyne (1991) develop the idea that there is a relationship ladder of customer loyalty (Figure 2.2). A company's relationship initially starts with a prospect, from which it progresses up several 'rungs', customer, client, supporter, advocate and, at the top, partner. The task of relationship marketing is to develop relationships to partner status. Partners are not only very loyal long-term purchasers, but also influence others through positive word-of mouth. Hence, the benefits of loyal customers can be identified.

Figure 2.2: The relationship marketing ladder of customer loyalty



(Source: Christopher, Payne and Ballantyne 1991)

2.5.1. Measurements of customer loyalty

It is essential to understand what loyalty implies, so that one can devise effective ways to measure the concept. We can see that the concept comprises both behavioural and commitment elements, but in reality loyalty is usually measured only through behavioural measures. Cunningham (1961) and Dunn and Wrigley (1984) measure loyalty in terms of the proportion of total expenditure made in the consumer's favourite store. Robinson (1995) states that the main advantage of this method is that the relative importance of purchases at different stores is considered. Tate (1961) uses two measures of loyalty, taking into account the number of stores visited and the proportion of the grocery budget spent at the favourite store. Enis and Paul (1970) incorporate all these methods to devise an index, the Enis-Paul Index, which uses three behavioural components to construct a measure of loyalty. They define customer loyalty as "*Consumer inclination to*

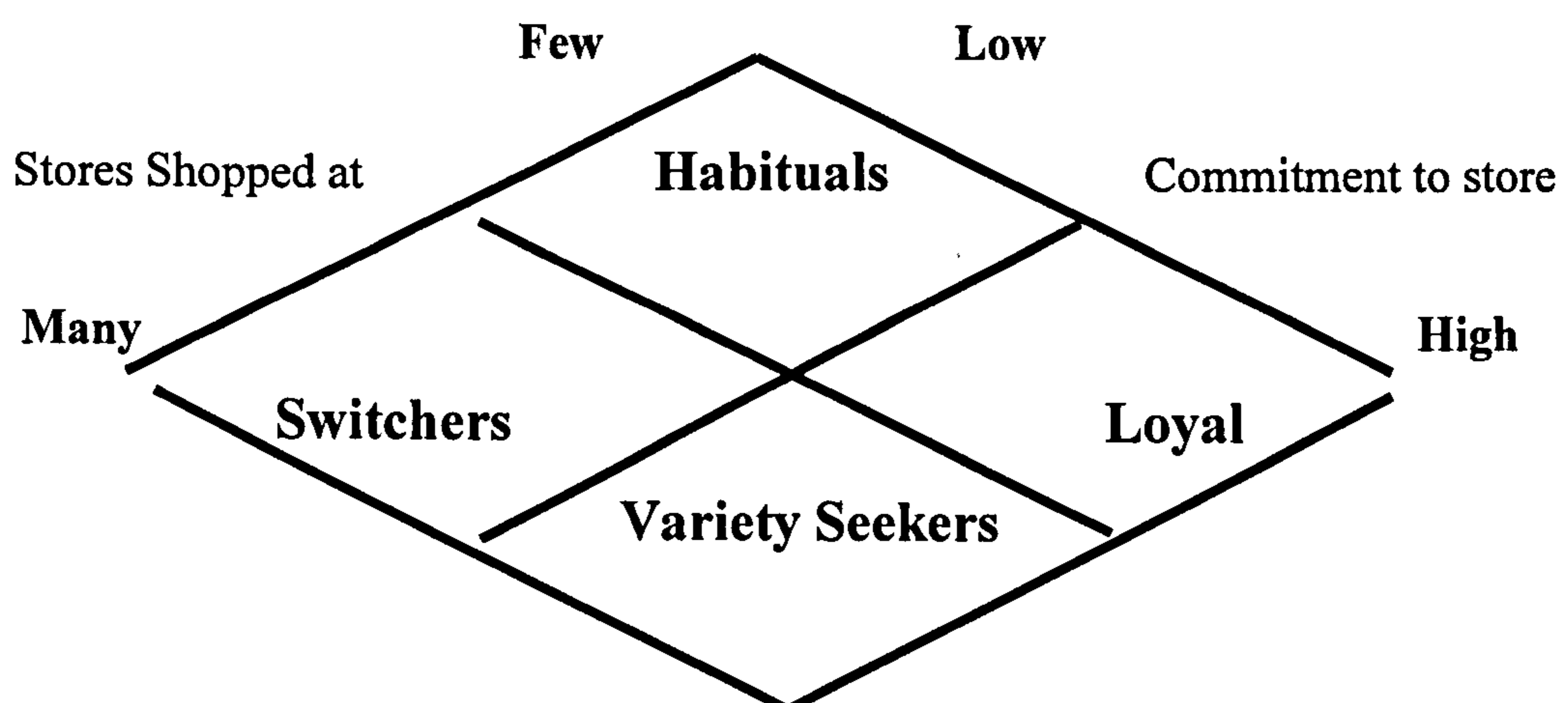
patronise a given store during a specified time period". To measure loyalty, their calculation (geometric mean) is based on:

- Budget ratio, i.e., proportion of budget spent at main store.
- Patronage ratio, i.e., number of stores used.
- Switching ratio, i.e., number of switches away from main store.

The index gives equal weighting to all three ratios and is calculated as a percentage figure. This % ranges from 100% (indicating some purchasing at one store) to approaching zero (indicating complete promiscuity). They found that consumers vary considerably in their store loyalty levels but that the majority hover around the mean.

The Enis-Paul Index has been utilised by a number of other academics, such as Denison and Knox (1993), who attempt to segment consumers on the basis of store loyalty in their "Diamond of loyalty" matrix. (Figure 2.3). They classify shoppers into four broad categories, treating loyalty as having both a behavioural and an affective (or commitment) component. The concept of commitment has been defined as 'an emotional or psychological attachment to a brand' (or store, or service)(Beatty et al, 1988). The model can be used as a theoretical framework to classify shoppers into broad categories of loyalty propensity.

Figure 2.3.: The Diamond of loyalty as a tool for segmentation



2.5.2. Types of loyalty

- Reynolds (1995) attempts to categorise loyalty in terms of the shoppers motives for loyalty. These include;
- monopoly loyalty – where there is no choice available.
- Inertial loyalty – where consumers do not actively seek out an alternative.
- Price loyalty – where consumers evaluate alternatives on the basis of price alone through a discount scheme.
- Incentivised loyalty – i.e., “points mean prizes”.
- Emotional loyalty – the most difficult, intractable and intangible of the types of loyalty.

The majority of the loyalty schemes operating in grocery retailing can be categorised as price or incentivised loyalty. Emotional loyalty is very hard to come by, and hence retailers may find it difficult to achieve (Reynolds 1995).

2.6. The retail grocery market

This section describes the competitive environment, market shares and the use of customer loyalty schemes over the period 1995-2000. It also identifies changes in market conditions which have occurred since the research was undertaken in 2001.

2.6.1 Grocery Retailing in the UK, 1995-2000

In 2000, food retailing constituted the largest sector of the UK retail trade. Retail food sales were estimated at £100.5 billion and accounted for nearly half (48.5%) of total retail trade. At the same time, grocery retailers were faced with increasing competition, greater consumer choice, impending saturation and falling food prices. These environmental changes meant that, since 1995, retailers had to search for new ways in which to remain competitive and increase profitability (Key Note 2000).

Of the top grocery retailers, Tesco led the sector in 2000 with 24.7% market share (see figure 2.5). They were followed by Sainsbury's, with 19.8% and by Asda with some 15.9% of the market.

Figure 2.4: Shares of leading Grocers and Supermarket chains (% by value, May 2000)

Grocery Chain	Store No.'s	Trading area (000 sq.ft)	Turnover excl. VAT (£m)	% market share by turnover
<i>Tesco</i>	659	16,827	16,958	24.7
<i>Sainsbury (total)</i>	432	12,544	13,267	19.8
<i>JS supermarkets</i>	418	11,140	12,365	-
<i>Savacentre</i>	14	1,404	902	-
<i>Argyll Group (total)</i>	489	10,162	7,659	10.7
<i>Safeway</i>	375	6,860	5,930	-
<i>Presto</i>	114	3,302	1,729	-
<i>Asda</i>	289	9,500	8,178	15.9
<i>Kwik Save</i>	720	3,365	1,784	3.4
<i>Somerfield/ Gateway</i>	1,308	11,100	5,466	4.6
<i>Somerfield</i>	958	7,859	3,830	-
<i>Gateway</i>	350	3,240	1,636	-
<i>Food Giant</i>	96	1,986	1,424	1.1
<i>Wm.Morrison</i>	105	3,740	2,970	5.6
<i>Iceland</i>	760	3,636	1,918	3.7
<i>Waitrose</i>	134	2,280	1,895	1.5
<i>Others</i>	165	4,832	3,378	6
Total	5,157	79,972	64,897	100

Source: Mintel www.mintel.co.uk

Over the period 1995-2000, Tesco, Sainsbury, Asda, and other major grocery retailers had focused on customer service as a key competitive tool for differentiation. All the leading supermarkets had introduced new in-store service (e.g. bag packers, carryout service, self-scanning mechanisms) in addition to creating a better shopping environment (Key Note 1999). Retailers' own-labels grew in importance and facilitated an increase in customer loyalty, in addition to enhancing the store image. Own-labels were now focusing on premium products with an emphasis on better quality and value for money. Non-food retailing was also seen as a way of increasing sales and store traffic, with many retailers offering additional products such as books, records, clothes, videos, gifts and stationery (Key Note 1999).

2.6.2. Customer Loyalty Schemes 1995-2000:

The introduction of customer loyalty schemes could also be viewed from the competitive advantage standpoint. They were apparently seen by retailers as providing them with the competitive edge needed in a highly competitive and saturated market (Mintel 2000a). However, considering that most of the major grocery retailers now offered a loyalty scheme of some sort, it was questionable whether these schemes were differentiating one retailer from another.

Over the period 1995-2000, several loyalty schemes were introduced by grocery retailers, with mixed success. Some of the most significant schemes are described below :

2.6.2.1 Tesco 'Clubcard'

Tesco has for many years been one of the top grocery retailers in the UK, having quality stores, a wide product range and a high standard of customer service. Yet, for many years, the store could not establish itself as market leader over prime rivals, Sainsbury's and ASDA. In an effort to combat the impending threat of saturation in the superstore sector, Tesco experimented with new store formats like Metro High Street stores and Express petrol forecourt convenience stores. (Key Note 1999).

It also set about implementing a different approach to the way it saw and treated its customers. Its loyalty card (Clubcard) was only part of a package of measures aimed at building customer relationships through differentiated customer service. In-store initiatives provided services that customers particularly wanted, and Tesco built high profile campaigns around them, such as the 'One in front' (opening extra checkouts when queues increase to over two customers) and 'Customer Assistants' (about helping customers pack and carry bags to their cars). Both initiatives responded to major customer grievance issues, and made sure that customers were aware of these services, and both have apparently had some influence on Tesco becoming the largest UK food retailer with 24% market share and 659 outlets by May 2000. Since the Clubcard was introduced nationally in February 1995, after a year long trial in 14 stores, it had grown to reach over 9.5 million members (Loyalty 1997c).

The basics of the scheme were that a customer picked up a magnetic stripe card, which was then read at the point of sale. The registration form collected name, address and basic demographic details, which were used at the end of each quarter to send the customer cash vouchers earned according to the number of points collected. In addition, each customer received a number of personalised promotional money-off vouchers and a copy of the clubcard magazine, which also contained non-personalised money-off vouchers. The vouchers could only be used in conjunction with the clubcard.

The rewards to Tesco's Clubcard holders were based on a flat percentage rate redemption, the structure of which was as follows:

- One point was earned for every £1 spent.
- 250 points corresponded to £2.50 in Clubcard vouchers, and £1.50 was obtainable for every 100 points earned thereafter.
- Clubcard vouchers could be used for shopping or for Tesco's petrol.
- Points were carried over to the next quarter.

Points were awarded as follows:

Pounds spent per week	£20	£30	£40	£50	£100
Points earned per Quarter	250	375	500	625	1250
Redemption earned per quarter	£2.50	£3.75	£5.00	£6.25	£12.50

Tesco was committed to maintaining 600 core product lines, including petrol (out of 18,000 in a typical superstore) at low prices, with extra Clubcard points only on a few product compared with Sainsbury's Extra Reward strategy where there were bonus points on 200 products (Loyalty 1997a).

Tesco had two extra cards in addition to the original Clubcard. The Student Clubcard allowed students to get vouchers for discounts after spending £150 (instead of £250). The Clubcard Plus also acted as an instant access savings account which paid a competitive rate

of interest (currently 5.12 %) and could be used to pay for purchases at Tesco, or to get cash back.

Research carried out by Loyalty (1997a), found that the average reward earned in a three-month period by a Tesco's shopper using a Tesco Clubcard increased from £4.90 at the end of May 1995 to £6.01 at the end of August 1996.

Grant Harrison, Clubcard co-ordinator, explained the thinking behind the format to the scheme; *"From our point of view Clubcard is an extension to customer service and service is about the relationship with the customer: Clubcard gives us a chance to improve it. Direct mailing offers are very personal and give the customer the chance to think about them before coming shopping. If the rewards were purely electronic the customer would never have to tell you who they are, there would be no form of communication"* (Rayner 1996). He clearly highlighted one of the main purposes being the development of some form of direct dialogue with Tesco and their customers.

The aspects of Clubcard that differentiated it from older established schemes were the way in which the quarterly mailings were used to target promotional money-off coupons and the segmented Clubcard magazines. The basic segmentation of the customer base was reflected in the different magazines. There were six life-stage segments served by five versions of the magazine: aged over 60; aged 40-60 without families; families; aged 20-40 without families; and students.

The customer segmentation was based on the information collected from a simple registration form. The information collected only asked how many members of the family fell into each age range. Thus targeting of the magazine was not precise and there was no way of knowing when a customer moved between segments. Each magazine contained some articles specific to the segment and some which spanned all the versions. Others could be adapted slightly, such as different illustrations, small differences in content and even the paraphrasing of sentences for different age groups (Rayner 1996).

Tesco saw magazines as a good way to offer and introduce different services to individual customers. They provided a way of communicating with customers, reiterating

benefits and reinforcing impressions of what was good about that particular retailer, product or service.

2.6.2.2 Sainsbury's Reward card

John James and Mary Ann Sainsbury, selling butter, milk and eggs established Sainsbury's in London in 1869. Today it is one of the world's leading grocery retailers. It has 365 supermarkets and 13 hypermarkets throughout the UK (Keynote 1996). In autumn 1995, Sainsbury's lost its dominant position to Tesco, which was largely attributed to Tesco's innovative marketing ideas and the launch of their Clubcard.

Upon the launch of Tesco's Clubcard, David Sainsbury notoriously said:

"We estimate that an electronic Green Shield stamp – type promotion would cost at least £10m just to administer. That's wasted money, which brings no benefits at all to customers. We have no plans to go down that route. We will continue to focus our efforts on delivering good food for less".

(Source: Benady 1996)

Soon after the launch of Tesco's Clubcard, Sainsbury's realised it had to get onto the loyalty bandwagon. This loyalty scheme also used a magnetic strip card following in the footsteps of Tesco and Safeway. The card was called the Sainsbury's 'Reward' card and was launched on June 17th, 1997. Again, the scheme worked on the basis of that percentage rate redemption in the following way:

- One point was received for every £1 spent.
- Once 250 points have been collected then a £2.50 Sainsbury's Reward could be redeemed.
- The Reward voucher could be collected as soon as 250 points had been collected or saved for some other occasion.

Sainsbury's, collaborating with other retailers, offered the widest range of outlets where rewards can be redeemed. These included all Sainsbury's stores, coffee shops, restaurants and petrol stations, Savacentre, Homebase and Texas. Other offers had also been set up, such

as exchanging reward vouchers for Air Miles, which could subsequently be redeemed for various travel and leisure offers where a £2.50 Sainsbury's Reward voucher earned 40 Air Miles. Alternatively, a £2.50 Reward voucher could be used to save £5 on any food bill at Beefeater, TGI Friday's or Brewers Fayre. Free minutes of BT calls could also be obtained, plus the option to donate the reward vouchers to the NSPCC, in which case Sainsbury's would match the value of any donation.

Sainsbury's had offered double Reward points on various products under its extra Reward points promotion, which covered about 200 products. Analysis suggested that the card had been successful in that there were approximately six million customers in 1997 who regularly used the scheme (Sainsbury's 1997).

2.6.2.3. Somerfield Premier points

Somerfield built up the 'Gateway' chain during the 1980's by a series of acquisitions, each of which doubled the size of the organisation. Rayner (1996) believed the result was to make it of the largest supermarket chains in the country "with a variety of cultures, locations and systems".

Somerfield anticipated that loyalty would become an important feature of competition in the UK, and had looked at practices in the US when rumours reached it that a major competitor would launch a loyalty card. They subsequently launched their Premier Points card in collaboration with the UK's leading high street catalogue chain, Argos. Premier points were collected using collecting cards supplied by Argos. Each card could contain up to 2,500 points, which represented £5. Cards were redeemed at Argos stores where they were accepted as if they were cash. A card did not have to be full to be redeemed, and a customer could use any number of full or partly completed cards as full or part payment for any item in the Argos catalogue.

Somerfield awarded points at the following rates:

- 1 point for every £1 spent for transactions under £10
- 5 points for every £1 spent for transactions of £10 and over.

In addition some products offered bonus points awarded on top of the standard points.

2.6.2.4. Safeway ABC Card

The third major player in the grocery market was the Argyll group, which operated a total of 489 Safeway and Presto stores (Key Note 2000). Safeway operated the Added Bonus Card (ABC), which was first piloted in only 26 stores, followed by a national launch in the spring of 1996. By 2000, they were approximately 5 million ABC cardholders (Argyll Group 2000).

According to Safeway 'The ABC card differs from competitors' in that not only do customers earn points with every £1 spent, but they can also either redeem these points immediately for cash discounts or use them to buy from a range of products and services in any Safeway store". They saw the card as a more sophisticated approach than just coupons back for money spent.

The introduction of the scheme cost 0.1% of sales in initial start-up costs and an extra 0.3% of sales in points given to cardholders. It was estimated however that the increase in sales, which could be directly attributed to the scheme, paid for the cost of these points. The scheme was primarily concerned with collecting customer data and it was this that was of interest to Safeway. Their aim was to "analyse purchasing patterns to market appropriate products, services and offers to individual customers or groups of customer". The purpose of the scheme was apparently to offer choice to the customer, and the group believed that the card would enable them to communicate with customers individually (Argyll Group 1999).

Safeway's ABC scheme card was based on flat percentage rate redemptions, the structure and operation of which was as follows:

- Points were earned for every £1 spent.
- Once 100 points have been earned they could be redeemed against further shopping bills, Safeway services such as dry cleaning, car washing facilities, or family offers in entertainment, travel, home-wares or healthcare.

In an effort to differentiate the chain, reduce checkout “hassle” and maximise operating efficiency, Safeway installed Handiscan in 60 of its stores. This was a self-scanning system that recorded purchases and calculated the total amount spent by the customers. Safeway also launched an in-store television trial, which it hoped ultimately would enable it to transmit personalised messages to cardholders as they did their shopping. The retailer also distributed a quarterly catalogue that was sent out to cardholders with hundreds of special offers in it.

2.6.3 Grocery retailing in the UK after 2000: An update

The present research into customer loyalty and loyalty schemes in the UK retail grocery market was carried out in 2001, and it is necessary to acknowledge that the market changed significantly over the period 2001-2004 with respect to both market shares and to new type of loyalty schemes which were introduced by the major suppliers.

Figure 2.5: Market shares in the grocery retailing 2001-2004

	Aldi	Asda:-	Iceland	Morrison	M & Sp	Sainsbury	Somerfield	Tesco	UK market
2001	1.30%	14.70%	2.80%	4.30%	3.10%	17.80%	3.70%	25.30%	£104 billion.
2002	1.70%	16.10%	2.60%	5.70%	3.50%	16.20%	2.40%	27.00%	£107 billion.
2003	1.80%	17%	2.30%	6.00%	3.50%	15.80%	5.70%	26.50%	£111 billion.
2004	1.90%	16.80%	2.50%	13.60%	3.50%	15.50%	5.50%	28.30%	£115 billion

Source: (Guardian, www.guardian.co.uk)

Looking at the top grocery retailers (Figure 2.4) by 2004 (figure 2.5), Tesco had increased its market share significantly to 28.3%, while Asda (16.8%) had overtaken Sainsbury (15.5%), By 2004, also, Morrison (after a takeover of Safeway shares) held some 13.6% of the grocery market.

In addition to changes in the market shares of leading suppliers, new types of customers loyalty schemes have been introduced since 2001. Some of the more important innovations and improvements over the period are:

- Nectar Card (Sainsbury's)

Sainsbury's loyalty programme Nectar is run in coalition with 15 other partners including Debenhams, Magnet, BP, Barclaycard and Vodafone. Customer gets two Nectar points for each £1 spent on goods in Sainsbury's excluding items such as tobacco, baby milk and stamps. Shoppers are sent a "points update mailing" four times a year.

Every time a shopper builds up 500 points they can take £2.50 off the checkout bill (equal to 1% discount) or exchange the points for rewards including restaurant meals, holidays, flights and tickets for the cinema, theme parks and other activities.

The customer can also earn one Nectar point for every £2 spent wherever you use a Sainsbury's Bank credit card, which charges 5.9% on balance transfers and 0% on purchases for the first 12 months, then 15.9% APR.

Generally the rewards are better value than taking the cash discount. For example 500 points gives you a £2.50 discount on your shopping, but for the same number of points you can get one video or DVD rental from Blockbuster worth £3.75. However even the rewards programme is less generous than Tesco's.

A standard return to Paris on Eurostar, for example, costs 12,000 Nectar points, which requires a total shopping spend of £6,000. The same trip costs £25 in Tesco vouchers, which require a shopping spend of £2,500.

- Tesco Clubcard

Tesco's Clubcard, originally introduced in 1995, has since been improved and updated the club card now, gives shoppers one point for every £1 spent on most Tesco goods in-store and online, on petrol at a Tesco forecourt, on financial products sold by Tesco Personal Finance and on mobile and home phone calls via Tesco Telecoms. Points can also be collected at 10 Clubcard partners including MFI, Avis, Powergen and Beefeater.

Once the tally reaches 150 points or more, the points are converted into Clubcard vouchers at a rate of 1p to one point — spending £250 in Tesco will give you a £2.50 Clubcard voucher.

Valid for two years, these are sent out every quarter. Like Sainsbury's Nectar card, the effective discount is 1% off shopping bills.

Clubcard vouchers can be swapped for AirMiles or Clubcard Deals including days out, video hire, restaurant meals, holidays and flights. These deals are priced at four times the in-store redemption value of the vouchers. A year's subscription to Cosmopolitan magazine, for example, normally costing £34.20, costs £8.55 in Clubcard vouchers.

A £2.50 voucher can be swapped for a £10 token to spend at participating companies. Shoppers can earn extra points (1 point per £2 spent) wherever they use a Tesco Personal Finance Credit Card.

This gives Clubcard an edge on rival Sainsbury's Nectar, though Clubcard's range of deals is not as extensive as Nectar's and in many cases are more problematic to arrange.

- Somerfield Saver Card

Unlike its rivals, the Somerfield loyalty scheme doesn't award points for purchases. Instead, it offers in-store promotions such as half-price or discounted-priced goods and buy one, get one free offers exclusively to Saver cardholders.

Special saver coupons for use on the next shopping trip are also sometimes issued to cardholders. The savings are automatically taken off the bill when you take your shopping to the till and present the card.

Overall, the grocery retailing market and its use of customer loyalty schemes, has changed significantly over the past five years, and it is recognised that any research carried out in customer loyalty and customer loyalty schemes in 2001 has, to some extent, been overtaken by events. However, the value of the research -both in terms of identifying the key components of customer loyalty and relative effectiveness of the loyalty schemes of the period- is still significant and is a contribution to the better understanding of customer loyalty and its determinants in one key retailing sector.

2.7. Customer perceptions of loyalty schemes

Consumers differ in their perceptions of loyalty mechanisms. A proportion of the population can be incentivised to alter their behaviour, but they see these incentives as a form of discount and do not believe that the scheme alters their relationship with the supplier (Reynolds 1995). Others, however, apparently react warmly to personalised marketing and loyalty incentives without making careful calculation of the true benefits they are receiving. In addition, a proportion of shoppers take a cynical view of loyalty schemes. They may carry multiple cards, accepting the rewards that their normal behaviour generates but resisting incentives to alter their behaviour. In addition, a proportion of shoppers are interested only in low prices (Uncles 1994). Hence, customer loyalty schemes do not have equal effects across the whole shopping population. Price, service, locality, staff, assortment and technology are some of the other key levers which generate customer loyalty (see section 2.5).

The benefit of a loyalty scheme, for loyal and heavy or frequent customer, is to have the sense of belonging reinforced: to feel that retailer is prepared to listen, is willing to innovate on behalf of customer, and is caring, concerned and considerate. An alternative view is that customers are not overtly interested in building relationships, providing their product needs are met. From a customer's perspective, many loyalty schemes offer me-too benefits which may be nice to have (most people like to 'get something for nothing'), but these are no guarantee of continued loyalty and are often marginal to the brand-choice decision. The emphasis of loyalty schemes, therefore, is to identify the loyal customers and retain them, and not to be troubled too much by promiscuous shoppers (Uncles 1994, Andrew Smith, Leigh Sparks, Susan Hart and Nikolaos Tzokas.2003).

2.8 . Summary

There have been widely varying opinions as to the likely future of customer loyalty schemes. Retailers most committed to them see the potential to use customer loyalty schemes and the information they provide to drive genuinely customer –orientated businesses. Given the necessary technology developments, this could lead to a total re-definition of the retail process. Systems more powerful than those currently available would communicate

individual with millions of customers, capturing and directly satisfying individual requirements. At the other end of the scale, those people who are most sceptical about customer loyalty schemes have for many years predicted a backlash against them (Rayner 1996). The greatest risk here is seen to be an emotional reaction against the failure of automated processes to support the personal relationships that some schemes appear to be offering (DeWulf, F. and Odekerken-Schroeder, G., 2003).

Retailers may be beginning to appreciate the real benefit of loyalty schemes as their ability to develop a direct dialogue with customers. Customer relationship marketing is a necessity, as consumers are becoming more and more demanding in terms of the products that are on offer as well as quality and service. However, Pearson (1994) asserted that loyalty is about the future, which is dependent upon the actions taken by the retailer and its competitors, and upon the trends in customer beliefs and behaviour.

Reynolds (1995) felt that few retailers were investing in customer loyalty in a strategic way. Retailers have to decide whether they are using loyalty schemes simply as price incentives for particular kinds of customers or are using them to offer exclusivity and a real difference to the most loyal groups of their customers. Nevertheless, for retailers, customer loyalty schemes provide a powerful tool for getting to the right customer, at the right time, with the right offer.

The aim of customer loyalty schemes is to change customer behaviour to ensure that the most profitable customers concentrate their purchasing with the retailer running the scheme. Database technology is essential in helping retailers to find and retain these most profitable of customers, especially when the customer base is very large (Sopanen 1996).

McGoldrick and Andre (1997) proposed a number of points to be considered by retail managers;

- Loyalty should be a long-term strategic goal, not a series of short-term tactical schemes.

- The best loyalty scheme is to offer more value, as defined by your target customers, than your competitors.
- Do not start what you cannot afford to finish; withdrawal of a scheme can be damaging to the very customers you are attempting to target.

In conclusion, loyalty schemes are an attempt to secure a greater proportion of each customer's total spending, but which may lose their effectiveness once they are universal. As alternative, retailers could make greater use of EPOS sales data for marketing, without incurring the costs of a loyalty scheme. Mintel (1996a) argued that loyalty schemes result in loyalty to collecting points rather than to retailers. They questioned whether loyal customers need rewarding. Their point is that "if the tenets of sound retailing – price, place, promotion and product are enhanced with good service, customers will come back".

While some schemes have been carefully thought out, others have been hastily brought in (McGoldrick and Andre 1997). Some proved too expensive to sustain at the level initiated; others created more loyalty to the loyalty scheme than to the stores using them (Brann 1995). No one can tell how schemes will emerge from their current transitional phase, although multi-retailer loyalty, geographic loyalty and relationship schemes are all obvious developments.

This chapter has highlighted the key issues in the area of loyalty marketing, particularly in the grocery retail context. The term 'Relationship marketing' is often used to describe initiatives aimed at building an ongoing relationship between customers and suppliers. The subsequent chapter will provide a review of the academic literature in relation to the key elements organisations, in particular retailers, need to develop relationships with their customers. Consequently, literature from both chapters contributed to the identification and formulation of the specific objectives of this study.

Chapter three

Relationship Marketing

Literature Review

RELATIONSHIP MARKETING

3.1 Introduction

Many companies are drawing away from the transactional view of marketing, which they believe to be relatively costly and ineffective compared to relationship marketing. Relationship marketing is a term, which has grown rapidly in recognition. Companies are increasingly finding ways of building close, long-term relationships with external customers. These companies have realised that winning new customers costs significantly more than retaining existing ones and that when customers defect they take with them all their future business. Thus the reason for practising relationship marketing is the economics of customer retention. Not all customers are worth retaining though, in that not all contribute equally to a company's performance (Buttle 1996,2003).

Relationship marketing is slowly emerging in the retailing context, primarily through customer loyalty schemes, which were discussed in Chapter Two. The purpose of this research is to explore the extent to which relationships are being developed within the retail grocery sector.

This chapter aims to provide a systematic review of the concept of relationship marketing. It starts with an overview of the way in which marketing has developed over the last few decades. The emergence of relationship marketing and an analysis of the components of successful relationship marketing are then discussed. Further on, relationship marketing in the retailing context is discussed, with some doubt expressed as to whether customers want to develop relationships with supermarkets. Finally, a brief review is given of a number of buyer behaviour models, from which the Interaction Approach is highlighted as the most suitable conceptual framework for this study.

3.2. The history of marketing

Marketing as a concept has developed over the years as a sequence of stages: barter era - production era - sales era - marketing era. The origins of marketing can be traced to peoples' earliest use of the exchange process - the barter era. Here, people traded one resource for

another in what became known as the barter system. From here emerged what was known as the production era, which came about at a time when much of the western world experienced industrialisation. The general goal was to increase production to keep up with demand levels, where not much consideration was given to consumer needs. The next stage took place when companies were able to expand their production capabilities so that they could keep up with consumer demand. Competition was again limited, and as firms developed new products, they still did not have to pay much consideration to consumer needs or demands. Advertising and selling emerged during this period, where their role was to make consumers desire the attributes of the products being manufactured. This was known as the sales era. The marketing era began to dominate when supply began to exceed demand. There was hence a need to have a market-orientated approach. Marketing departments were being created and began to contribute to corporate decision-making. Consumer analysis was conducted to determine how to best meet consumer demands with an attempt to satisfy the end user (Evans and Berman 1992, Kotler 2002).

The marketing era is still existent today. However since its beginning, over 40 years ago, there have been many changes in emphasis, which have captured the attention of researchers and practitioners alike. These shifts include Sales -Industrial - Services (Total Quality Management) -Customer Service -Relationship Marketing. It is this emphasis on relationships which has created one of the most recent auras of excitement within the marketing industry (Evans and Laskin 1994). It has generated a new wave of thought as to what marketing is and which way it is going at the millennium.

3.3. The emergence of relationship marketing

Theodore Levitt (1983) once said that the purpose of marketing was to create and keep customers. Marketers have historically focused on the former, i.e. creating or “getting” customers, giving less consideration to retaining them as well (Buttle 1996, 2003). This emphasis has now been reversed, resulting in what has been termed “Relationship Marketing” (Christopher et al. 1991).

The shifts in emphasis from a transaction focus to a relationship focus are summarised in

Figure 3.1.

(old perspective)	(new perspective)
Transaction-focus	Relationship focus
<ul style="list-style-type: none"> -Focus on single sale - Orientation on product features - Short-term scale - Little emphasis on customer service - Little customer commitment - Moderate customer contact - Quality a concern for production 	<ul style="list-style-type: none"> -Focus on customer retention - Orientation on product benefits - Long-term scale - High customer service emphasis - High customer commitment - High customer contact - Quality a concern for all
(e.g. Consumer Packaged Goods)	(e.g. Services)

(Source: Christopher, Payne and Ballantyne 1991)

This relationship marketing approach focuses on customer retention, where there is a higher emphasis on customer service, customer contact, quality and higher customer commitment (Christopher et al. 1991).

The concept of relationship marketing emerged within the fields of services marketing (eg, Berry 1983,2002, Gronroos 1989, 1990a, 1990b, 1991, Gummesson 1987, 1990) and industrial marketing (e.g., Jackson 1985a, Hakansson 1982). Although still in its infancy, relationship marketing has widely been cited as the future of marketing.

The conceptions of relationship marketing have moved beyond the earlier initial ideas of attempts to attract, maintain and enhance customer relationships (Berry 1983,2002). Today, some believe that relationship marketing describes a network of relationships, which include those between a firm and its buyers, suppliers, employees and customers (e.g. Morgan and

Hunt 1994). Although others (e.g. Buttle 1996,2003) do still emphasise that the dominant focus is on external customer relationships.

There are different ideas as to what relationship marketing should really mean, to both marketers and consumers. Christopher et al. (1991) see it as creating a close alignment between marketing, customer service and quality, all of which need to be bought together and integrated with the objective of strengthening customer relationships. Boedeker (1996) sees it as focusing on developing a continuous relationship between buyers and sellers (i.e. not just getting, but also keeping customers) and other parties in the marketplace, so that the objectives of both parties involved are met. The relationship also needs to be rewarding for both parties (Rapp and Collins 1990). Relationship marketing focuses attention more specifically on the value of buyer-seller relationships over time (Palmer 1996). Such relationships are usually long-term, although this may not always be the case (Christopher et al. 1991, Copulsky and Wolf 1990, Gronroos 1994, Gummesson 1987, 1990).

Christopher et al. (1991) claim that relationship based marketing and the resulting long-term retention of customers leads to significantly improved financial and market performance, a view supported by others (e.g. Reichheld 1996). Relationship marketing represents a new opportunity for organisations to gain a competitive edge in the turbulent business environment of the 1990s. In this situation, high quality products and service alone are often inadequate for companies to gain a competitive advantage (Palmer 1996).

Some marketing authors are hailing relationship marketing as a paradigm shift (e.g. Gronroos 1991, 1994, Kotler 1996,2003, Sheth and Parvatiyar 1995). Gronroos (1994) suggests relationship marketing is moving away from “the restricted focus on the management of the marketing mix to one that emphasises the development and management of relationships with identified customers”. The new focus is not on immediate transactions but is based upon building, supporting and extending customer relationships (Mattyssens and Van den Bulke 1994). Relationship marketing differs from transactional marketing in that the focus is on interactive marketing, with the 4Ps in a supporting role (Gummesson 1994). The 4Ps (Product, Place, Promotion and Price) have traditionally been a universal marketing tool.

Gummesson (1994) believes that “although the 4Ps are still needed, relationships, interaction and networks should form the core of marketing”. Rather than using market share to assess marketing success, relational marketing measures customer retention and acknowledges the lifetime value of customers and desirable customer segments (Payne et al. 1995). Gronroos

(1991) similarly asserts that “If close and long-term relationships can be achieved, the possibility is greater that this will lead to continuing exchanges requiring lower marketing costs per customer”. Czepiel (1990) believes that a relationship only exists when an individual exchange is assessed not in isolation but as a continuation of past exchanges which are likely to continue into the future. Yet, as Barnes (1994) notes, “a succession of interactions does not necessarily lead to a relationship any more than repeat purchasing constitutes loyalty”. These assertions primarily reflect the identification that consumers need to demonstrate emotional commitment, in addition to behavioural (see section 2.5.1).

3.4. Re-defining marketing

The emergence of relationship marketing as a marketing concept has been recognised by many academics and practitioners, which has led to a need to re-define marketing.

The chartered institute of Marketing (CIM), the leading UK professional institute, offers the following definition of marketing;

“Marketing is the management process of identifying, anticipating and satisfying customer requirements profitably” (CIM)

This definition clearly reflects the traditional transaction orientated view of marketing, with no recognition of the long-term value of a customer. A more “modern” definition of marketing, which incorporates the changing nature of the marketing discipline is given by Gronroos (1990a, 1991, 1994):

“Marketing is to establish, maintain and enhance relationships with customers, and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by mutual exchange and fulfilment of promises”

The above definition incorporates both the transactions and the relational qualities of marketing as it is today (Buttle 1996,2003), additionally it recognises the interactive nature of relationship marketing.

Other authors from a variety of marketing sectors offer different perspectives to the definition. A services marketing perspective is taken by Berry (1983,2002), where the importance of “having” customers and not just “acquiring” them is asserted;

“Relationship marketing is attracting, maintaining, and - in multi - service organisations - enhancing customer relationships.”

Jackson (1985b) offers an industrial marketing perspective and refers to relationship marketing as;

“Marketing orientated toward strong, lasting relationships with individual accounts”.

All the above definitions refer to relationship marketing in specific marketing contexts. A very broad definition of relationship marketing is provided by Morgan and Hunt (1994) who, taking an overall perspective, refer to relationship marketing as;

“All market activities directed toward establishing, developing and maintaining successful relational exchanges “.

Having provided a discussion as to what relationship marketing is, the economics of retaining the existing customer base need to be understood. Customer retention is seen by many as a key element of the relationship marketing concept (e.g. Reichheld 1996b, Buttle 1996,2003).

3.5. The economics of customer retention

In addition to attracting new customers as a means to grow a business, many now recognise that they can also build sales by generating more business with existing customers and reducing defection rates. This has given rise to an understanding of the long-term financial benefits of customer retention (Reichheld 1996b). The economics of customer retention are widely recognised (e.g. Czepiel and Rosenberg 1984, McKenna 1991, Buttle 1996,2003, Reichheld 1990, 1993). Barnes (1994) sees the establishment of a relationship as a key element in the retention of existing customers.

Many authors use a variety of statistics to assert that it is more expensive to win a new customer than it is to retain an existing one (e.g., Kotler 1996,2003,Buchanen and Gillies 1990). Christopher et al. (1991) see the relationship marketing approach as drawing attention to this important fact, recognising that an organisation's existing customer base is its most

important asset. The benefits associated with retaining existing customers signify the importance of protecting the customer base.

Generally, the longer the association between a company and a customer, the more profitable the relationship for the firm (Buttle 1996,2003, Reichheld 1993). This idea has led to the growing awareness of the “lifetime value” of a customer. Long-term customers buy more at frequent intervals, take less of a company's time, are less sensitive to price, and bring in new customers. Best of all, they have no acquisition or start-up costs (Reichheld 1993). A relationship - orientated view of the customer considers the revenues and contributions earned from a long-term relationship with a customer (Buttle 1996,2003, Barnes 1994). Reichheld (1993) believes that most companies “do not fully understand the intimate relationships between customer loyalty and profitability”. Reichheld (1996) focuses on the relationship between customer retention and profitability, finding that companies with the highest retention rates tended to be more profitable.

Long-term relationships lead to decreased relationship costs for both the customer and the company (Gronroos 1991). Companies need to focus not just on improving retention rates but also on understanding the fundamental causes of customer defections.

Reichheld (1996) supports this view and feels that it can be a lengthy process to get to the root-cause of defections. He also asserts that companies need to first identify their customer retention performance and then develop strategies to improve these levels. Reichheld (1993), through his research, finds that sales and profits per account rise the longer the relationship lasts. Research conducted by Reichheld and Sasser (1990) shows that companies could boost profits by 100% by retaining just 5% more of their customers. All these figures are not conclusive, yet they can provide a general idea of the benefits derived from customer retention.

“As customers become more satisfied with the service they receive, the more they buy. As purchases rise, operating costs decline, because companies climb the experience curve and become more efficient. Profits therefore improve.”

(Reichheld and Sasser 1990)

Reducing customer defection is obviously central to improving retention rates. As defection rates fall, the average customer relationship life span and profitability increase disproportionately. Reichheld and Sasser (1990) provide an example from the credit card industry which illustrates this assertion; as a credit card company cuts its defection rate from 20% to 10%, the average life span of a customer doubles from five years to ten years. The effect is more than double the profit from each customer, from \$134 to \$300. If the defection rate drops another 5%, the average life span is doubled again. Profits this time rise from \$300 to \$525 - a 75% increase. In addition, retaining customers makes it difficult for competitors to enter a market or increase their mutual share (Buchanan and Gillies 1995). Retailers are acknowledging the benefits of customer retention to long term success.

They are using customer cards as a tool for acquiring and keeping customers (e.g. Boedeker 1996), with advances in technology and specifically the generation of customer databases clearly making it easier for them to identify loyal customers (Sheth and Kellstardt 1993). It is these loyal customers who need to be targeted; organisations should not waste resources on those customers who will never be profitable (Reichheld 1993).

Having received the benefits of relationship marketing and customer retention, the next step is to identify the individual components that any successful relationship between a consumer and organisation (retailer) needs to exhibit.

3.6 Requirement for successful relationship marketing

Relationship marketing is about healthy relationships, which are said to be characterised by trust, commitment (Morgan and Hunt 1994), concern, service (Buttle 1996,2003), interdependence (Crosby et al. 1990) and fulfilment of promises (Gummesson 1990). It is these components which contribute to the effectiveness of relationship marketing and distinguish it from other marketing.

3.6.1. Trust

The first key component is trust, upon which many authors have focused considerable attention (e.g. Morgan and Hunt 1994, Ganesan 1994, Buttle 1996,2003, Berry and Gupta 1983, Barnes 1994, Moorman et al. 1993). Trust is seen as a fundamental relationship building block. Most definitions of trust involve a belief that one relationship partner will act in the best interest of the other partner (Wilson 1995).

Morgan and Hunt (1994) see trust as the confidence that one partner has in the other's reliability and integrity (Moorman et al. 1993). Confidence is associated with the partners "consistency, competence, honesty, fairness, willingness to make sacrifices, responsibility, helpfulness and benevolence" (Buttle 1996,2003).

Honesty refers to the belief that the partner stands by their word, fulfils promised role obligations and is sincere. Benevolence reflects the belief that one partner is interested in the other's welfare and will not take unexpected actions to the detriment of the partner. Trust has the effect of bringing about a feeling of security, reduces uncertainty and creates a supportive climate (e.g. Morgan and Hunt 1994, Christy et al. 1996). Trust in the relationship partner can also be affected by the frequency of interactions, in that more frequent interactions can strengthen social bonds with the partner (Bendapudi and Berry 1997,2002). It is also asserted, by a number of authors that trust in a relationship partner will lead to greater dedication to maintaining and strengthening the relationship, and will have an effect on the success of the relationship (e.g. Bendapudi and Berry 1997,2002, Peck 1993).

Cottrell (1995) attempts to view trust from a consumer's perspective and sees it as desired products, at a fair price, and an ongoing mutually beneficial relationship between the customer and the company. It is part of the interactive relationship between customer and company, whereby the customer trusts the company (i.e. retailer) to meet or exceed expectations consistently (Beatty et al. 1996), and the company trusts the customer to remain loyal (Berling 1993). Berry (1993,2002) identifies that trust can be used as a basis for loyalty, where it is recognised as the cornerstone of relationship commitment; without trust, commitment flounders (Wilson 1995, Morgan and Hunt 1994).

3.6.2. Commitment

Commitment and trust are clearly inter-linked. According to Morgan and Hunt's (1994) Commitment-Trust theory, commitment and trust are the key indicators of a social bond between a customer and a supplier. They define commitment as “an enduring desire to maintain a relationship”. It is the desire to continue the relationship and to work to ensure its continuation. Wilson (1995) asserts that commitment implies the importance of the relationship to both parties. He sees it as a critical variable in measuring the future of a relationship. Commitment enables discrimination between “stayers and leavers” (Wilson and Mummalaneni 1986). It is also “central to relational exchanges between the firm and its various partners” (Morgan and Hunt 1994).

Commitment and trust are influenced by the communication received and the perceived benefits associated with relational exchanges. However, they in turn, influence a number of outcomes such as co-operation and the propensity to leave a relationship (Christy et al. 1996, Fullerton, G., 2003).

3.6.4 Co-operation

Co-operation is an outcome of relationship commitment and trust and is a necessary element of relationship marketing success. It requires the active participation of both parties concerned to achieve mutual benefits (Morgan and Hunt 1994). It is defined as “working to achieve mutual goals” (Anderson and Narus 1990).

Wilson (1995) sees the interaction of co-operation and commitment as resulting in “co-operative behaviour allowing the partnership to work ensuring that both parties receive the benefits of the relationship”. Co-operation is also strengthened if both parties concerned have shared values, which are seen as a direct indicator of both relationship commitment and trust (Buttle 1996, 2002). Shared values involve the extent to which both partners have common beliefs on what behaviours, goals and policies are important or unimportant, appropriate or inappropriate and right or wrong (Morgan and Hunt 1994).

3.6.5 Concern

Buttle (1996,2002) argues that the outcome of concern, in an environment where relationship commitment and trust exist, is the desire to provide customers with excellent service. The high quality service provided needs to be 'reliable, empathic and responsive' and should have the whole organisation committed to ensure that it is achieved. Excellent service can have positive effects on profitability, a view supported by others (e.g., Berry 1983,2002, Rust and Zahorik 1993). Hence, concern is an important element in developing relationships, alongside the other pre-requisites (e.g. trust and commitment).

3.6.6. Fulfilment of promises

The importance of fulfilling promises is strongly advocated by Gronroos (1994). A firm preoccupied with giving promises may attract new customers and build relationships. However, if promises are not kept, the evolving relationship cannot be maintained and enhanced. Fulfilling promises is an important means of achieving customer satisfaction, retaining the customer base, and achieving long term profitability (Gronroos 1994).

All of these factors are clearly inter-related and need to be considered in combination rather than in isolation, if a retailer is to develop a successful relationship marketing programme.

3.7. Elements of a marketing relationship

For organisations to successfully adopt a relationship marketing philosophy, they need to fulfil a number of essential conditions; they must have an understanding of customer expectations, appreciate the need for internal marketing and development of a customer database. These three conditions are discussed in turn below.

3.7.1. Understanding customer expectations

Relationship orientated organisations need to be concerned for the welfare of their customers. There needs to be a commitment to meet, or preferably exceed, customer expectations with

the result of producing satisfaction or preferably delight (Donovan and Samler 1994). To satisfy or delight customers, their expectations need to be intimately understood. As these expectations change continuously (Parasuraman et. al.1994, Evans and Laskin 1994, Buttle 1996,2002), only occasionally can expectations be fully determined (Buttle 1996,2002).

Organisations need a continuous flow of information and 'dialogue' with their customers to define current and future expectations in order to create customer satisfaction (Buttle 1996,2002). Customers' evaluations of a purchase experience influence their likelihood of re-purchasing, hence affecting the long-term financial performance of the company.

3.7.2. Internal Marketing

The second key criteria that organisations must address in order to provide a potent basis for developing relationships with customers, is the need for internal marketing. Gronroos asserts that the need for internal marketing is an important pre-requisite for successful external marketing, a view supported by others (Gummesson 1987, Beatty et al. 1996, and Christopher et al. 1991). In this respect, the focus is on how to “get” and “retain” customer conscious employees.

The goal of internal marketing is to convert employees to the vision of relationship marketing, and to motivate them to develop and implement relationship marketing strategies (Buttle 1996,2002, Gronroos 1991). The concept views employees as internal customers and jobs as internal products (Berry 1980, Lewis 1995). Companies need to sell jobs to employees if these staff are to sell their products or services effectively to external customers (Sasser and Arbeit 1976). Thus satisfying the needs of internal customers enhances the company's ability to satisfy the needs of external customers, the importance of which is discussed in section 3.8.1 (Lewis 1995).

Christopher et al. (1991) believe that there is a need for employees to feel that they have formed a long term relationship with the organisation and have a shared understanding of its mission. Reichheld (1993) asserts that, “the longer employees stay with the company, the more familiar they become with the business, the more they learn, and the more valuable they become to the organisation”, hence employee retention is a key to customer retention.

Reichheld (1993) believes that organisations must be willing to reward employees with additional benefits for them to commit themselves to relationship marketing programmes. These include both financial rewards as well as enhanced or additional company benefits. Once committed, employees will apparently be motivated to deliver consistent, reliable, responsive and flexible service - resulting in more loyal customers (Murphy 1996). Organisations that neglect the importance of internal marketing will find their employees defecting before they are able to build lasting relationships with customers (Buttle 1996,2002).

Hence, the implementation of a relationship marketing programme will already have reached a significant stumbling block. In the case of retailing organisations such as supermarkets, store staff are often the first point of contact with customers, and can build lasting impressions for consumers. If the employee mix is not right, then it is likely that it will affect consumers' overall inclination to remain loyal to a particular retailer.

3.7.3 Effective implementation of a customer database

The effective formation and implementation of a customer database is the final essential element in developing effective relationships. Copulsky and Wolf (1990) view relationship marketing as a “process where the main activities are to create a database, which includes existing and potential customers”. Databases provide actionable information to organisations (i.e. retailers) for use in developing and monitoring relationship marketing strategies and tactics (Barnes 1994, Buttle 1996,2002, McKenna 1991).

It is important to remember that not all customers are appropriate targets for relationship marketing, in that not all are worth retaining (Reichheld 1993). Consequently, the initial database must be carefully refined to enable more efficient segmentation (Copulsky and Wolf 1990). Hence the groups selected through segmentation should be the most “attractive” and should receive superior value. For relationship marketing, segmentation variables can include customer needs and preferences, loyalty levels and the length of the relationship.

Each one of these can be useful in highlighting the attractiveness and profitability of each of the customer groups (Copulsky and Wolf 1990).

The role of database marketing has been discussed in greater detail in Section 2.4.2. However, on a final note, database technology should enable organisations to take a more proactive role, rather than just a reactive one. Yet, as many authors note (e.g., Christopher et al. 1991, McKenna 1991), this must occur on the customers' terms.

3.8. Key factors in enhancing relationship marketing

When companies have understood all the requirements and the individual elements of a marketing relationship, they need to begin to identify ways in which all can be combined to offer better service to customers and build a relationship. Three key factors, for enhancing relationship development, have been identified in the literature, which are; a) to provide customer satisfaction, b) to ensure high standards of customer service, and c) to develop segmentation techniques. If a retailer can ensure that all these are fulfilled, then the greater the chance of successful relationship development. Each of these is now discussed in turn.

3.8.1. Customer satisfaction

The first key element for organisations wishing to develop successful relationship marketing strategies is customer service. Many authors recognise the need to improve customer satisfaction in order to develop successful relationship marketing strategies (e.g. Evans and Laskin 1994, Buttle 1996,2002, Donovan et al. 1994). Buchanan et al. (1990) believe that “improving customer satisfaction is a key driver of business success and profitability”. They assert that satisfied customers are more likely to re-purchase. The benefits of fully satisfied customers are identified as customer loyalty, repeat purchases (Reichheld 1993), referrals to others, positive word-of-mouth and the lower costs associated with retaining existing customers compared with attracting new ones (Evans and Laskin 1994). Many authors have highlighted the importance of word-of-mouth as being directly related to the level of satisfaction (e.g. Buchanan et al. 1990, Reichheld 1993).

Customer satisfaction and consequently improved levels of customer retention are ultimately based upon serving customers better than competitors do, and being perceived by customers as offering superior service and enhanced value (Reichheld 1993,Gomez et al.,2004).

Reichheld (1993) believes that perceived value results from comparisons of service or product quality with the price and other costs of acquiring the service or product. *“Value and service quality are driven in turn by employee retention, employee satisfaction, and the quality of the internal service support that employees use to help customers”*.

Jones and Sasser (1995) state that “High quality products and associated services designed to meet customer needs will create high levels of customer satisfaction. High levels of customer satisfaction lead to greatly increased customer loyalty. Increased loyalty is the single most important determinant of long term financial performance”. Schlossberg (1993) stresses the need to produce “customer delight” which involves satisfying customers' deeper emotional needs. However, it is important to note that satisfaction is only one indicator of loyalty, with retention rates being seen as a more reliable (or concrete) measure (e.g., Reichheld 1993, Gomez et al., 2004).

Swinyard and Whitlock (1994) found that higher levels of satisfaction lead to higher expectations. They conclude that positive dis-confirmation should create satisfaction, whereas negative dis-confirmation should create dissatisfaction. However, customers may not be satisfied with the service they receive, yet may remain loyal. Nevertheless, in the long-term the likelihood of retaining these customers will be minimal.

The greater the satisfaction with past experiences, the greater should be the customer's trust in the company (Bendapudi and Berry 1997). Evans and Laskin (1994) believe that *“companies that respond and listen to customer needs have satisfied customers, and are more likely to develop strong relationships that lead to customer loyalty”*.

3.8.2. Customer service

Customer service is considered the second key requirement for enhancing relationships with customers. Christopher, Payne and Ballantyne (1991) see customer service as the core of business activity and assert that it is about getting and keeping customers. It is concerned with the building of bonds with customers and other markets or groups to ensure long-term relationships of mutual advantage. Customer service is seen as being a key determinant of profitability (Buchanan et al. 1990) and customer satisfaction. Other authors (e.g., Berry and Parasuraman 1991, Christopher et al. 1991), feel that at the heart of relationship marketing is

the quality of customer service, which should not be treated as a separate discipline, but as a central element to the overall network. Through a relationship marketing strategy, firms are encouraged to improve quality levels and can identify its contribution to overall success (Evans and Laskin 1994). Quality of service and customer satisfaction allow organisations to create differentiation opportunities, permit premium pricing and provide a more pleasant environment for employees to work in.

“From the customers perspective, the quality and value of the product are determined to great extent by the people delivering the service” (Sir Colin Marshall cited in Prokesch 1995).

The role of employees is therefore a crucial element in delivering high customer service levels. Customer service involves customer care, which includes service to the customer, delivery/operations, employee relationships with customers, and internal relationships between employees and management. It is directly linked to customer satisfaction, and involves anticipating and meeting needs and establishing customer relationships (Lewis 1995). Customers are increasingly aware of the alternatives on offer and also the rising standards of service. Thus expectations rise and consumers become more critical of the quality of service received (Zeithaml, 2000).

Quality and customer service should be assessed from the perspective of the customer (Gummesson 1987). Parasuraman et al. (1994) identify five categories of consumer expectations for service that comprise their SERVQUAL model: reliability, tangibility, assurance, responsiveness and empathy. It is essential that service strategies incorporate all these factors to ensure high levels of service quality. However, according to Crosby et al. (1990), service quality is a necessary but not sufficient condition for relationship quality.

3.8.3. Segmentation

The third key element in enhancing any marketing relationship is segmentation. This is essential when one considers the vast investment costs in relationship building, which include the costs of prospecting, identifying customers needs, modifying offerings to meet those needs, and monitoring performance. Given these costs, it is essential that firms make choices regarding the customer groups they wish to target for relationship marketing. Resources spent on customers who do not want to develop a relationship with the firm are wasted.

Firms should therefore focus on identifying those customers who are most likely to remain in long-term relationships with the firm (Bendapudi and Berry 1997).

Customers typically fall into two categories; the right customers or target groups whom the company should be able to serve profitably, and the wrong customers, whose needs it cannot serve profitably (Berling 1993). For various reasons, some customers do not ever stay loyal to one company, no matter what value they receive, and those who buy at the standard price will be more loyal than those who buy on price promotions (Reichheld 1993). However, customers who are not loyal may still be profitable. Organisations should tailor their approach to different groups of customers to reflect both their differing needs and potential profitability.

The ability to segment the customer base in order to enhance relationships with customers is a crucial part of relationship marketing. The better the segmentation, the more tailored the offer to the customer can be both in terms of the product offering and the service delivery (Morgan 1996). Donovan and Samler (1994) believe that customers need to be segmented according to their “needs and expectations”. The importance of understanding the maturity of the relationship is also essential to segment customers effectively. Companies should be protecting those customers who they have a long relationship with and those who frequently spend the most.

“Companies that have achieved extraordinary levels of loyalty discovered they must concentrate their efforts on that subset of customers to whom they can deliver consistently superior value”

(Reichheld 1996)

3.9. Relationship Retailing

Most of the work on relationships has been in contexts other than retailing, as mentioned earlier in Section 3.3 (i.e., services and organisational marketing). Relationship marketing within a retail context can refer to relationships the customer has with the firm, specific branches, stores or personnel (Beatty et al. 1996).

The development and implementation of relationship marketing programmes is necessary for retailers to attract and keep customers. Yet, as retailers exist in a competitive and dynamic environment, they can achieve a sustainable competitive advantage through building relationships (Christopher et al. 1991). As Bendapudi and Berry (1997,2002) assert, the greater the dynamism of the environment, the greater the customers' dependence on the partner. Thus, relationship marketing programmes in retailing may be very difficult to produce but are also highly worthwhile.

Relationship retailing implies attracting, retaining and enhancing customer relationships (Berry and Gresham 1986, Payne et al. 1995). A number of themes from the relationship marketing literature can be applied to the retailing context. Relationships are likely to persist only when both parties obtain benefits which outweigh the costs (Jackson 1985a, 1985b). For a retailer these benefits include greater sales, more positive word-of-mouth, lower costs per transaction, and most importantly, customer loyalty and retention. For the customer both financial and social benefits are possible (Czepiel 1990). In a retailing context, consumers are busier and more time impoverished than ever before (Mayer 1990). Through developing relationships with retailers they are encouraged to shop in one store, enabling them to obtain time savings and convenience. Hence, both parties can derive satisfaction from an ongoing relationship (DeWulf, and Odekerken-Schroeder, 2003).

Service and sales to existing customers are considered just as important to long-term marketing success as the acquisition of new customers. Berry and Gresham (1986) believe that “good service is necessary to maintain the relationship, and good selling is necessary to enhance it”. Retailers also need to be reliable and responsive in the service they give to customers, which will add to the overall quality received.

Service encounters with employees are also of paramount importance, where individualised service makes customers feel special (Berry and Gresham 1986). Customers' perceptions of the performance of staff tend to determine their satisfaction and the extent of their relationship with the firm as identified in Section 3.7.2 (Beatty et al. 1996). Reichheld (1996) contends that “customers build bonds of trust and expectations with employees, not with the company, and when these people leave, the bond is often broken”.

The key factor in assessing the potential for relationship retailing is the degree of personal interaction, service and selling involved in the retailer/customer encounter (Berry and

Gresham 1986). Berry and Gresham (1986) feel that relationship retailing is only appropriate when the consumer periodically re-buys in the product classifications sold by the retailer or when the consumer has alternatives from which to choose.

Grocery retailers are typically dependant on a large number of customers, high sales volume and low margins; conditions which tend to lead to greater difficulty in adopting relationship marketing. Buttle (1996, 2003) believes that retailers do not generally make effective use of their customer databases and subsequently know little about their customers at a personal level. For successful relationship marketing, retailers need to learn the sales potential of individual customers, capturing this information so that it can be readily accessed and then using it to best advantage to serve customer requirements.

It is also essential that a relationship retailing strategy builds “extras” into the retail offer which enable differentiation from competitive offerings. Loyalty and patronage can be advocated, for example, by bonuses such as reward points. Payne et al. (1995) believe that customers may need an incentive to remain loyal. Retailers predominantly use monetary based incentives, when an attempt should be made to entice the psychological feelings of the consumer making them attached or committed to the retailer (Reynolds 1995).

In conclusion, as Berry and Gresham highlight (1986);

“Client loyalty cannot be assumed, it cannot even be earned. In relationship retailing, performance is what counts”.

3.9.1. Benefits for retailers

The increasingly competitive nature of retailing has resulted in product and service quality alone being inadequate for an organisation to gain competitive advantage. Day and Wensley (1983) feel that “By developing relationships with customers, retailers add to the differentiation of their products and give customers a reason to remain loyal”.

Enduring relationships with customers cannot be duplicated by competitors, and therefore provide for a unique and sustained competitive advantage (Buttle 1996,2003).

Retailers have identified the need to attract and retain customers who spend more money in their shops, hence the desire to develop customer loyalty (Palmer 1994). The benefits generated from developing relationships with customers are summarised below.

Customer loyalty - Increased customer satisfaction should result in increased loyalty and retention rates, and hence improved profitability (File et al. 1995, Storbacka et al. 1994, Christy et al. 1996, Zeithaml, V., 2000).

Lower costs - Cross-selling of multiple services should result in economies of scope, as well as additional cost savings from retaining existing customers rather than attracting new ones (Sheedy 1997).

Competitive advantage - It is harder for competitors to entice loyal customers from the organisation (Juttner and Hans 1994, Palmer 1996).

Greater trust by the customer - trust enhances a buyer's commitment to the relationship (Moorman et al. 1993, Morgan and Hunt 1994, Ruyter, Moorman and Lemmink 2001).

More referrals - Highly satisfied customers who have developed trust in the retailer are much more likely to recommend the retailer to others (Reichheld 1993, Ruyter, Moorman, and Lemmink, 2001).

Higher margins - Loyal customers are less price sensitive and are seen to spend more, which results in greater and more stabilised profits (Moriarty, Kimball and Gay. 1983, Palmer 1996).

Collaboration - Establishing a customer database can facilitate further marketing initiatives, including NPD and product launches, together with the potential to monitor customer satisfaction more closely (e.g. Copulsky and Wolf 1990).

3.9.2 Do customers want to enter into relationships?

The process of building and maintaining customer relationships involves both investment and opportunity costs. Firms need to understand that customers differ in their receptiveness to relationship development (Bendapudi and Berry 1997). They should therefore focus on those customers receptive to relationship development and attempt to attract and build relationships with this group, whilst excluding promiscuous shoppers.

The motivations of relationship seekers are not fully understood. Research into shopping motives (e.g. Tauber 1972, Buttle 1992,2003) finds that some shoppers seek out social contact and value. In a retail context, customers generally seek quality, value and convenience in their transactions with suppliers (Buttle 1996,2003). Customers who are transaction orientated may have greater concern with the economic outcomes of their purchase, whereas relationship orientated individuals are perhaps more concerned with the social exchange aspects of the transaction process (Blau 1989, Palmer 1996). Relationships are also likely to be important to customers where purchases involve high levels of perceived risk (Berry 1983,2002, Lovelock 1983).

The Henley Centre's (1995) report, "The Loyalty Paradox", shows that "while companies often talk about their need to manage relationships with their customers, few customers use this language or indeed behave in this way." Hogg et al. (1993) also support this view, observing that the decision to initiate what is considered a customer relationship is usually one-sided, in that the company decides unilaterally to build a relationship with its customers. Bendapudi and Berry (1997,2002) find that customers might maintain relationships either because of constraints (they "*have*" to stay in the relationship) or because of dedication (they "*want*" to stay in the relationship). A greater understanding of customer motivations is therefore needed (Ruyter, K., Moorman, L. and Lemmink, J., 2001).

3.10. Models of buyer behaviour

An understanding of the consumer buying process is fundamental to the development of appropriate relationship marketing strategies (McKechnie 1992). If retailers are to be able to anticipate likely customer reactions to their marketing strategies and influence them where appropriate, it is crucial that they understand the needs and motivations of their customers and prospects (McKechnie 1992).

In the context of relationship marketing, it is consumer attitudes that are of paramount importance. The series of attitude changes required to effect a purchase require different marketing approaches (e.g., Betts 1994). Consumers are said to progress through a series of attitude changes, initially acquiring knowledge of the product (cognitive component), then developing liking (affect), taking them closer to the act of purchase. Models of this type include AIDA (Strong 1925), predominantly used in advertising theory, which characterises the stages of awareness, interest, desire and action; and the “Hierarchy of Effects Model” (Lavidge and Steiner 1961).

Comprehensive models of buyer behaviour provide a framework for analysing all the factors known to influence consumer behaviour. Most depict buying behaviour broken into a sequence of stages (e.g. Engel, Kollat and Blackwell 1968). Here the consumer passes through five stages.

Problem recognition is the initial point at which the consumer recognises the need for a product, where needs may be driven by psychological, social or physical factors. The next stage is Information Search, which is seen as a tool for risk reduction and entails both external information search and an internal search of the consumer's memory. Experience of the retailer is an internal source, which may encourage loyalty. When a service is high in “experience qualities”, personal sources or word-of mouth recommendations become particularly credible external sources of information (Zeithaml 1981).

Alternative evaluation leads to the formation of, or changes in, beliefs, attitudes and intentions to purchase (Engel, Blackwell and Miniard 1986). Turnbull (1991) adds, from an

industrial perspective,"evaluation is often made against pre-determined criteria, often relating to the relationship". Purchase decisions logically follow alternative evaluations. Post purchase behaviour involves the natural comparison of the actual purchase outcomes with the results anticipated, people need to confirm that they did in fact make the right choice.

The stages of the buying decision process are fundamental to understanding models of buyer behaviour. The purpose of modelling buyer behaviour is to clarify the relationships between various inputs, such a previous experience and competitor activity (Turnbull 1991), and outputs which are the purchase or rejection of a product/service from a particular source.

In selecting a model of consumer behaviour applicable to retailing,one can first identify the models which have been used in an industrial and consumer context.Howard and Sheth (1969) develop a consumer brand choice behavioural model based on social, psychological,cultural and economic variables, whereas Webster and Wind's (1972) organisational buying model stresses the role of the individual in an organisational buying unit. Each individual's motivation, personality, perception, learning and experience are all vital to the actual decision process. Such complex models have generated criticism from various sources. Foxall (1980) feels that they are all founded on a rational decision sequence which assumes too rational a consumer and that they do not offer any empirically testable hypothesis. A further problem with consumer choice models is that they are often concerned with one-off purchases rather than recurrent ones (McKechnie 1992).

None of the earlier consumer or organisational buying behaviour models make reference to the personal relationship that exists between customer and supplier and neglect to account for the interactive nature of the buying process which is a necessity in the context of relationship development. As a result, in the early 1980's, the International Marketing and Purchasing (IMP) Group (Hakansson 1982) developed a model of industrial marketing and purchasing seen as an interactive process based on long term relationships (Turnbull 1991). They assert the importance of understanding both sides of the buyer-seller interaction process.

The Interaction Approach considers broad categories of factors that influence the character of long-term relationships. A series of “episodes” take place, which create the “atmosphere” pervading the relationship. The IMP model represented a major departure from earlier approaches (McKechnie 1992). It is the emphasis on relationships which identified that the IMP model may provide a useful tool of analysis for the consumer buying process in the grocery retail sector.

3.10.1. The Interaction Approach

The Interaction Approach could be a useful tool of analysis for the consumer buying process in the grocery retail sector which covers relationships and interactions. McKechnie (1992) considers this with respect to financial services and states that it addresses the interactive process which takes place between the buyer and the seller in an exchange situation, and bases this not just on a single transaction but as a series of transactions over time which results in a relationship being formed between the two parties.

It clearly views marketing as an interactive process in a social context where relationship building and management are vital cornerstones. In essence, it considers the role of marketing to be the establishment, development and maintenance of relationships between buyer and seller (Hakansson 1982). The approach takes relationships as the major unit of analysis rather than individual transactions, and analyses the attitudes and actions of both parties in the exchange.

The Interaction Approach is built on a number of fundamental principles, which include;

1. Both parties involved are active participants in the market.
2. The relationship between the buyer and the seller is frequently long-term, close and involving a complex pattern of interaction between and within each party.
3. The links between buyer and seller often become institutionalised into a set of roles that each party expects the other to perform.
4. Close relationships are often considered in the context of continuous purchases.

Between the parties in a network various interactions take place, where exchanges and adaptations to each other occur. Flows of information as well as financial and social exchanges take place in a network. All exchanges, and all forms of interaction have an impact on the position of the parties in the network.

The Interaction Approach(in this research) is focused on the interaction process where episodes are identified which contribute to the nature of the relationship. The Interaction process breaks down the formation of relationships between buyers and sellers into a set of episodes. Each individual episode contributes to the character of the overall relationship which develops over a period of time. These episodes include;

- **Product or service exchange** - The exchange of product or service is often the core of the exchange. The exchange process will be quite different depending on whether or not the product fulfils a buyer's need that is easy to identify and for which the characteristics of an appropriate product are easy to specify.

- **Information exchange** – The content and formality of the information is important in shaping the relationship, in addition to affecting how the markets are developed and structured (Hakansson 1982).

- **Financial exchange** – Money is the third element, where the quality of the economic exchange is an indicator of the economic importance of the relationship.

- **Social exchange** – This has an important function in reducing uncertainties between the two parties (Hakansson and Ostberg 1975). Perhaps the most important function of social exchange is in the long-term process by which successive social exchange episodes gradually interlock the two parties with each other. Trust is an additional element of social exchange, which comes about from personal experiences and the way in which the other episodes are dealt with.

All of these episodes affect the overall nature of the relationship, where the routinisation of these exchange episodes over a period of time leads to clear expectations in both parties of the roles and responsibilities of their opposite numbers (Ford 1980).

In the context of grocery retailing, these episodes are analysed to identify whether relationships are being developed, in addition to summarising the nature of these relationships. It is the exchange of information, developed radically in the past decade, which may be shaping relationships, i.e. database technology.

3.11 Summary

The evolution of relationship marketing has come about from a recognition that the nature of inter-relations with customers is changing with emphasis moving from a transaction focus to a relationship focus (Christopher et al. 1991) and from mass markets to target markets (Copulsky and Wolf 1990; Gronroos 1994).

This chapter highlighted the concept of relationship marketing and discussed the components needed in any marketing relationship. These included trust, commitment, co-operation and concern. Trust, in particular, is seen as one of the critical components in the formation of relationships and the benefits of engaging in a relationship need to exceed costs for both parties, be they financial or social (Beatty et al. 1996).

To be successful at relationship marketing, companies need to develop a supportive organisational culture, which involves top management commitment (Beatty et al. 1996, Evans and Laskin 1994). The relationship marketing concept also needs to be marketed internally. In addition, companies need to understand customer expectations, create and maintain a detailed database, and reward employees in such a way that the objective of relationship marketing, customer retention, is achieved (Buttle 1996,2003,Beatty et al. 1996).

Relationship marketing in a retailing context has been focused upon identifying any key differences from other marketing sectors. Finally, the chapter concluded by providing a brief overview of a number of buyer behaviour models, both consumer and industrial. From this, the Interaction Approach was identified as possibly having some particular relevance to this research topic.

This literature review provides a general framework for current marketing knowledge. From this, a number of objectives were developed through an analysis of the areas that had been researched. These objectives are detailed in the following chapter.

In developing the objectives, the key components of a successful relationship marketing strategy, identified through the literature, were seen to be important pre-requisites in identifying whether relationships exist in a grocery retail context (e.g. trust, commitment, concern and involvement). Once the objectives had been identified, the methodology then had to be devised. Both the objectives and the chosen methodology are exposed in the next chapter, along with reasons behind choosing the methodologies selected, and how they were used.

Chapter Four

RESEARCH METHODOLOGY

RESEARCH METHODOLOGY

4.1. Introduction

In order to identify the current phase of both academic and practitioner thought on customer loyalty and relationship marketing, a literature search was conducted. This chapter begins by highlighting each of these objectives in turn and the rationale behind them. The most appropriate research methods for achieving these objectives are then discussed and justified. Hence, the reasons for selecting the research methods chosen are highlighted in addition to describing how each method is applied in this particular study. There is also a brief review of the statistical techniques used in the data analysis.

4.2. Research Objectives

This research is devoted to answering the following research question: To what extent, can relationship marketing and customer loyalty be applied to the grocery retail sector in the UK? Both of these concepts are researched from the consumers' perspective rather than from the viewpoint of supermarket retailers. More specifically, this research has five general objectives, as detailed below.

4.2.1. To review literature covering the concepts of customer loyalty and relationship marketing, with particular focus on the grocery retail sector.

Literature on both these academic areas is fairly new, when considered in the context of grocery retailing. All the relevant literature was collated in order to provide an overall theoretical appreciation of current academic thought on both topics.

4.2.2. To identify consumer perceptions of customer loyalty schemes.

Loyalty schemes, as with any other marketing initiative, are only successful if they manage to meet consumer needs and expectations. This objective identifies how important consumers feel loyalty schemes are to satisfying their needs in relation to the overall retail offering. An identification of what factors they place as most important, specifically their attitudes towards loyalty schemes, are also researched.

4.2.3. To segment consumers into loyalty types.

Data generated from the research, it is envisaged, will be used to segment consumers into loyalty types using the Diamond of Loyalty (Denison and Knox 1995). The application of this theoretical framework to a grocery retail context may provide significant implications for marketers and practitioners who attempt to segment their customer base. Identification of promiscuous shoppers can help save company resources, both time and money. Hence segmentation is a useful tool for enabling retailers to identify the customers whom they should be focusing on.

4.2.4. To identify the extent consumers who have developed relationships with grocery retailers, from the consumer perspective.

Relationship marketing is a fairly new concept in the mass marketing arena of grocery retailing. Many critics have argued that it is almost impossible to develop relationships with individual consumers in this sector. Retailers, however, realised in the competitive environment of the late 1990's that this was a way forward. The introduction of customer loyalty schemes has been seen by many as a significant step forward for retailers wanting to 'get closer to the consumer'. A primary aim of this research is to identify the extent to which consumers have developed. In order to test the extent to which relationships are being developed, a theoretical framework is devised. This is used to identify the nature of such relationships.

4.2.5. To adapt the Interaction Approach (The IMP Group) of buyer behaviour to UK grocery retailing.

The Interaction Approach is developed within the industrial marketing literature to provide a theoretical framework of relationship marketing. The market context for which it was initially developed is highly micro, that is, there is a small customer base. However, the UK grocery retail industry is the total opposite, epitomising a completely mass-market environment. The aim is hence to adapt the Interaction Approach (see chapter 3) to a different context and industry from that for which it was originally developed.

These are the overall objectives for this study. The tasks therefore are to broadly assess the literature and the theoretical frameworks available to achieve each of these and to determine the extent to which various loyalty and relationship marketing concepts are applicable in the grocery retail context. The research methodology therefore aims to provide effective methods with which to accomplish each of the objectives. The following sections discuss each of the methods chosen, their suitability and weaknesses in each case to the research objectives and how they are executed to elicit the required information.

4.3. Research Design

It is essential prior to conducting research to design an effective research strategy. This incorporates the most suitable methods of investigation for the objectives set at the beginning of the research, determining the nature of the research instruments, the sampling plan, and the types of data, (i.e. qualitative, quantitative, or both). This stage can reduce the risks associated with bad research designs and can set a framework for the entire research process (Churchill 1991, Chisnall 1992, Tull and Hawkins 1992).

"if it is a good design, it will ensure that the information obtained is relevant to the research problem and that it was collected by objective and economic procedure " (Green and Tull 1975).

In this particular study, both exploratory and descriptive research methods are used. The objective of exploratory research was to gain an insight into the research question and help generate hypotheses for the later stage of the research process. This involved primarily a literature search to identify the current frame of marketing thought on the subject under

investigation. Focus group discussions are also used to identify, the nature of the research question and to generate ideas for the principal research phase. Descriptive research is used for the bulk of the study in the form of a questionnaire survey. Specific information is sought, where the attempt is to make definitive statements about relationships and interactions among variables.

Research Techniques

Both primary and secondary data collection methods are employed. Secondary research methods are discussed below, followed by an in-depth discussion of the primary tests used.

4.4. Secondary data (desk research)

Tull and Hawkins (1990) define secondary data as "data already, gathered or published for purposes other than the problem at hand" There are numerous sources of such information, which can come from either internal sources (e.g. sales reports, EPOS data, customer feedback etc.) or external sources (e.g. government reports, private studies, periodicals, trade press etc.). The advantages of using secondary research are summarised by Aaker et al. (1995);

- Information gathered does not require a significant amount of time, cost or effort from the researcher.
- Information may sometimes be more reliable and accurate than primary data collection methods.
- On occasions, information can only be obtained from secondary sources, for example, when it is neither physically nor financially possible for a single company or researcher to carry out the research needed.

However, with these advantages come a number of disadvantages which need to be considered.

- Secondary data is often collected for other purposes, hence it will rarely fit the problem defined. Therefore, the available information may not meet the data requirements perfectly (Churchill 1991, Aaker et al. 1995, Tull and Hawkins 1990).

- The accuracy of much secondary data is questionable. There are numerous sources of error possible in the collection, analysis and presentation of marketing information (Aaker et al. 1995).
- Secondary data may also be outdated, which affects the researcher in that many marketing decisions require current, rather than historical, information. For example, census data can take up to three years to get published (Aaker et al. 1995, Churchill 1991, Chisnall 1992).

For this particular study, the principal sources of secondary data are published material on customer loyalty programmes and relationship marketing. These primarily included academic journals, e.g. the Journal of Marketing Management and the Journal of Retailing. Academic sources were used in order to identify the current frame of academic thought for this research topic. They were also useful in generating ideas as to how to conceptualise the subject, form the research, formulate the hypothesis and compare results with those of other surveys. Additional sources are gathered from commercial reports and the trade press (e.g. Marketing Week, Loyalty, Admap and Marketing), which are used to understand the current market situation as well as the future trends anticipated for grocery retailing.

4.4.1. Primary data collection

Primary research techniques are used when information provided from secondary sources is not sufficient for the demands of the research. Tull and Hawkins (1990) define primary research as "data collected in order to solve a specific problem or answer a specific question". The most common method of collecting primary data, is survey research (i.e. questionnaires). "Surveys can provide information on attitudes, beliefs, past and intended behaviour, personal characteristics and other descriptive items" (Tull and Hawkins 1982). Other techniques for primary research include focus groups, in-depth interviews, projective techniques, direct observation, consumer panels etc.

For the purpose of this study, combinations of both qualitative and quantitative research methods are used. Focus group discussions were used for the former and a questionnaire survey is used for the latter. Both these methods are discussed in the subsequent sections and their contribution to the research study are highlighted.

4.4.2. The focus group discussion (preliminary research)

Focus group discussions were used in this study to gain an insight into consumer motives, attitudes and opinions towards grocery retailers and in particular customer loyalty programmes. The focus group has been identified as a suitable technique to conduct preliminary explorations into these issues (Tull and Hawkins 1990).

Focus groups are a qualitative method of research in which small samples of respondents discuss elected topics as a group. A moderator directs the discussion, attempting to follow a rough outline while simultaneously encouraging each person to make comments and express their opinions freely (Churchill 1991).

The use of focus groups for the preliminary stage of this study was to;

- * Identify consumer motives, attitudes and opinions on the topic being researched (Fahad 1986).
- * To bring out ideas in a dynamic group situation which may not be elicited through other methods.(Fahad 1986, Oppenheim 1992)
- * To attempt to understand 'why' consumers behave the way they do (Fahad 1986).
- * To help develop and design the main research tool, i.e. the questionnaire.
- * To ensure that relevant consumer issues, in relation to grocery retailers and customer loyalty programmes, are addressed in the questionnaire, which achieve the objectives of the study.

The idea of conducting a focus group discussion is further enhanced by identification of the advantages associated with this data collection technique. The advantages are summarised below;

Advantages

- It enables the researcher to obtain the desired information more quickly than, for example, a questionnaire (Gordon 1969).
- It ensures the respondents understand the topics and questions being asked (Gordon 1969).
- Anonymity and safety in numbers gives participants a sense of security (Fem 1982)
- Its flexible nature allows the researcher to adjust his/her line of questioning (Gordon 1969).
- Individuals feel a lack of pressure in answering questions (Tull and Hawkins 1990).
- Much more control can be exercised over the context within which questions are asked and answers given (Gordon 1969).
- Synergistic benefits can also be achieved as the combined effect of the group produces a wide range of information and ideas (Fahad 1986).
- A comment by other individuals triggers a chain of responses from other respondents (Fahad 1986).
- As individuals are not required to answer specific questions, their responses are likely to be more spontaneous and less conventional (Fahad 1986).

However, focus groups are associated with a number of disadvantages, which have been identified by Fahad (1986) as;

Disadvantages

- There are doubts about the validity of verbal responses, particularly in relation to behaviour.
- The sample size is often too small or not representative and so limits the generalisability of the data obtained.
- Interaction between participants can bias the responses generated.
- Self-appointed leaders in the group may influence the opinions of the rest.

Respondents are usually selected so that the groups are generally homogeneous, minimising both conflicts among group members on issues not relevant to the study objectives and differences in perceptions, experiences and attitudes. Focus group discussions typically last between 1/2 and 2 hours (Tynan and Drayton 1988, Fahad 1986).

4.4.3. Implementation

Focus group discussions require a considerable amount of pre-planning to ensure that disadvantages are kept to a minimum (Fahad 1986). An informal agenda was devised to assist the moderator in conducting the interviews (Table 4.1)

For this study, two focus group discussions were organised. Recruitment for the first group, was through friends and family who willingly participate. For the second focus group, a local community group agreed to participate. There were seven participants in the first group and eight in the second, with each discussion lasting for approximately 80 minutes. A demographic profile of the participants is provided in Table 5.1.

Table 4.1. description of focus group participants

Focus Group One		Focus Group Two	
Gender	Age	Gender	Age
Female	19	Female	28
Female	20	Female	26
Female	25	Male	34
Female	24	Male	46
Female	29	Female	23
Female	33	Female	39
Female	33	Male	29
		Female	25

Table 4.1 Focus group discussion: informal agenda

Why do you do the majority of your shopping at the store in which you spend the most?
What are the attracting factors of this store?
Do you own a store loyalty card from any supermarket? If yes, answer the questions below.
What initially made you join the scheme?
What do you think the supermarket is getting out of the scheme?
Do you receive any form of communication from the supermarket?
How, if at all, do you feel your shopping behaviour has changed since the introduction of the store card?
Would you continue to shop at the store, regardless of the scheme?
What could your supermarket do, in relation to the loyalty scheme, to make you do more of your shopping there?
Has the scheme lived up to you initial expectations when you signed-up?

4.4.4. Data recording and analysis

Each discussion is summarized by writing in full, providing the bases for many of the scales developed for the pilot questionnaire. To facilitate analysis, comments are ordered into subject categories. The pertinent findings from the focus group discussions are presented as preliminary qualitative results in the next chapter.

4.5. Questionnaire survey: the principal research

A questionnaire is the method of obtaining a specific information about a defined problem so that the data analysis and interpretation, result in a better appreciation of the problem" (Chisnall 1992), the function being measurement (Oppenheim 1992). Questionnaires are the most frequently used means of collecting primary data, whereas other methods (e.g. secondary data, observational and qualitative research etc.) are more likely to supplement survey research rather than take its place (Aaker et al. 1995).

There are a number of methods by which questionnaires can be administered. These include by personal interview, by telephone, by mail, or self-administration (Chisnall 1992).

Questionnaire design is dependant upon the survey administration method, which is in turn dependant on the nature of the problem being investigated, the kind of population being sampled and the sample size.

The main advantage of questionnaires stems from the fact that they can collect a lot of information about a respondent at one time. However, even though a questionnaire can be a rich source of information, there are many issues to be considered in order to ensure that these data are relevant, accurate and useable as well as to avoid various kinds of errors (Chisnell 1992, Tull and Hawkins 1990, Churchill 1991).

4.5.1. Questionnaire design

The questionnaire for this study was designed as a structured-undisguised questionnaire which primarily means that each question is presented with the same wording, and in exactly the same order, to all respondents (Churchill 1991). Questionnaire design is seen by Churchill

(1991) as an art rather than a science, where there needs to be much attention to detail. Chisnall (1992) affirms that whichever way the questionnaire is formed, "individual questions must be designed to attract respondents to give valid and reliable information about the subject of the enquiry" this should be achieved with minimum distortion or bias.

Prior to designing the questionnaire there were a number of issues that needed to be considered which were identified as having an influence upon the type of data generated. The criteria perceived to be important are outlined below;

- All the data generated needed to be relevant and had to meet the objectives of the study.
- Each question needed to be specific so that it addressed one topic alone.
- The questionnaire length had to be moderated, so as to reduce respondent fatigue.
- The scales utilised are a combination of various response formats. The majority of the questions are closed, although dichotomous and multi-chotomous questions are also used extensively. The choice of these is to facilitate easier questionnaire coding and data analysis. The time and costs associated with coding open-ended responses (e.g. Kinnear and Taylor 1991) are hence avoided. The disadvantages of closed questions can, to a large extent, be minimised through preliminary conceptualisations and prototyping.
- Questions requiring limited responses were essential, given the large amount of information requested and the limited time and attention span of the respondents. The potential for interviewer bias is also reduced by using the structured-undisguised questionnaire format as this ensured that the questioning was similarly administered to all respondents (e.g. Weiers 1988).

Following these considerations, an additional number of factors needed to be carefully thought about to reduce the likelihood of measurement error. These had to be incorporated into each individual question and can be seen below;

- Questions should be understood by all respondents.
- Simple language should be used.
- Wording can bias questions, therefore there should be no leading questions.
- Respondents should not feel pressurised to answer in a particular manner.
- Question order effects need to be considered as earlier can bias later ones.
- Ambiguous questions and words should be avoided.
- Missing response categories should be accommodated.
- Instructions should be clear and adequate.
- Double-barrelled questions should be avoided.
- Respondent fatigue needed to be considered, e.g. questionnaire length, attention spans, boredom.
- Each question should be necessary and relevant. (Source: Oppenheim 1992, Chisnall 1992, Churchill 1991, Tull and Hawkins 1990)

These hazards were identified prior to the questionnaire design and every attempt was made to overcome them.

4.5.2. Response scale format

Likerts' "summated" scales are used for a major part of the research, as they are felt to be an effective tool for measuring attitudes (Figure 4.1). Likert scales are seen to be a good research tool due to their reliability, and the greater information generated about the depth of respondents' feelings. They are also easy for respondents to understand and quicker to complete (Chisnell 1992). For this research, a five item Likert scale is used.

Figure 4.1: Likert Scale Response Format

Strongly Agree	Agree	Neither Agree	Disagree	Strongly
Disagree	not Disagree			

In order to offer variety to the questionnaire format and some relief from pages of identically structured questions and scales, an itemised rating scale is used for Q8, and a semantic differential scale was used for Q9.

4.5.3. Pilot testing

'Questionnaires do not emerge fledged; they have to be mated or adapted, fashioned and developed to maturity after many abortive test flights. In fact, every aspect of a survey has to be tried out beforehand to make sure that it works as intended' (Oppenheim 1992)

The above statement highlights the importance of pre-testing a questionnaire, which may result in more than one re-edition. Piloting can help not only in question-wording, but also in the ordering of question sequences and the exclusion of questions which do not elicit the information sought. Oppenheim (1992) asserts that it is essential to pilot "every question, every question sequence, every inventory and every scale" in the study.

Piloting may result in questions having to be re-written several times, changes in their composition or style of composition, and also constructing multi-choice questions from the answers received from earlier open-ended questions. Chisnall (1992) asserts that this requires much attention to detail to ensure that the questionnaire used in the final survey contains questions which, are specific, clearly understandable, capable of being answered by the particular population sampled, and free from bias.

Churchill (1991) sees the pilot test as fulfilling the same role in questionnaire design as test marketing does in new product development. There are two elements of piloting, namely the pre-testing of individual questions and checking the sequence and overall design of the questionnaire (Churchill 1991). Churchill believes the first pilot test should be done by personal interview, regardless of the actual mode of administration that will be used.

The questionnaire shown in Appendix 1, was subject to significant changes during the piloting process. Ten pilot tests were completed for the initial questionnaire, four of which were through the personal interview method.

4.5.4. The questionnaire: individual question aims

A model of consumer attitudes towards supermarkets and loyalty cards are developed to guide the questionnaire design. It would facilitate a more effective and disciplined questionnaire as each question had to fit into the model, i.e. have a specific purpose to be included in the questionnaire. In addition, it would provide a systematic framework and aid analysis

The model, shown in Figure 4.2, includes the individual question numbers representing each construct (the questionnaire can be seen in Appendix 1).

Bargain-seeking/
Promiscuity
(Q1/4/5/17/18)



Individual difference

Product/Service Exchange

Loyalty to me one chain

Age
Sex
Income
Occupation
(Q39-42)

Store shopped at (Q1/2)
Amount spent (Q7)
% Loyalty (Q4)

Store loyalty card (Q5)
Communication Q10, 11,12
No of card held (Q6)

Variables
Influencing
Store choice (Q8)

Level of Overall
Of Satisfaction (Q9/15)

Re-purchase
Intentions (Q32/36)
Behavioural
Changes (Q38/31-33)

Interest in
Shopping (Q9/16)

Commitment
Trust
Involvement
Concern
(Q3/4/18/21/22/29/31/34/35)

**LEVEL OF RELATIONSHIP
(DEPENDENT VARIABLE)**

A number of questions (e.g., Q4, Q10, Q14) were devised in order to identify elements of the interaction process (the Interaction Approach). In terms of loyalty, the questionnaire aimed to identify consumer motives for acquiring a card, and their attitudes toward loyalty cards in relation to other store services. Consumer satisfaction was also measured (Q12-15), as this may be seen as a key indicator of loyal behaviour (see Loyalty Chapter). Consumer demographic characteristics are also identified (e.g. age, sex, social class and household income). In terms of attitudes, the issues researched included loyalty to retailers, consumer perceptions of retailers and loyalty schemes, and changes in consumer attitudes since the introduction of loyalty cards. It is also the aim for questions to identify whether consumers both wanted to develop relationships with their supermarkets and to what extent they had been developed.

The academic literature review revealed that trust, service and commitment are key factors in budding relationships with customers. Satisfaction is also considered essential in this process, as is a thorough understanding of customer needs and expectations. Hence the questions attempted to identify each of these elements in different ways. A significant amount of literature in recent years has concentrated on the issue of loyal and promiscuous shoppers (i.e. McGoldrick et al. 1997), hence an attempt is made to identify the two groups through the questionnaire. It was essential that all the relevant constructs relating to loyalty and relationship marketing were considered in the questionnaire design process.

4.5.5. The questionnaire survey

The survey method used for this study is personal interviewing outside supermarkets. This is a variation of the acknowledged 'mall-intercept interview', which "involves stopping shoppers in a shopping mall, qualifying them if necessary, inviting them into the research firm's interviewing facilities and conducting the interview" (Tull and Hawkins 1990).

The advantages of this method are that the interviews are conducted in a relevant shopping environment, hence customers can instantly identify with their behaviour. Another advantage stems from the personal interaction with the consumer. Even though it is acknowledged that this might influence consumers' responses to some degree, problems of unclear questions, misunderstandings and irrelevant responses can be eliminated.

The main survey was undertaken between 01 July and 14 July 2001. The surveys were conducted outside three Tesco stores in the Greater Manchester area (Figure 4.3).

Figure 4.3: Supermarket Store Sample: Tesco's

Prestwich, Salford

Market Street, Manchester city centre

Didsbury, South Manchester

Respondents were approached by the researcher personally and were interviewed for approximately five minutes. Even though a 'notable' number of shoppers refused to participate, those who did were patient enough to answer the whole questionnaire and thus the number of invalid or incomplete questionnaires was nil.

4.5.6. Sample size

500 respondents comprised the non-probability quota sample, based on the following criteria;

- a) **Store:** Tesco was the chosen retail store for the research, primarily because it was felt that as the Tesco Clubcard was the first of the new style loyalty schemes on the market, there would be more time for a relationship to have developed between the retailer and consumers. Hence, it was perceived that the results would be more meaningful for the purpose of this research (Objectives).

- b) **Age:** An attempt was made to include similar proportions of all age groups, hence, the quota targets were based on the interviewer's visual identification.

In order to acquire the information sought it is necessary that the population is defined correctly, that the sample is representative of the population, and that the respondents are willing to co-operate and understood each question.

The population, for this survey, comprised all Tesco shoppers who happened to visit the store during the times and days specified in section 4.5.6. An effort was made to ensure the sample was representative of all Tesco shoppers, by adhering to the quota variables.

4.6. Analytical techniques

This section gives a brief overview of the techniques that are used in the analysis of the survey data. Basic frequencies for each of the variables are obtained for most of the variables. However bivariate and multivariate analysis methods are also used in order to identify differences as well as relationships between variables. These methods are discussed below. All of the analyses are conducted on SPSS/PC+ version 10.0.

- **Correlation**

The correlation between two variables measures the extent to which there is a relationship between the two. The correlation coefficient can lie anywhere between -1 and +1, where -1 indicates perfect negative fit (one variable decreases as another increases); 0 indicates that no relationship exists; +1 indicates perfect positive fit (both variables increase at the same time). Correlation analyses are used on the majority of variables and the results are presented in the next chapter.

- **Cross tabulation**

This fully describes the relationship between two categorical variables. Basically it is a table containing counts of the number of cases that fall into each of the several categories when the categories are based on two or more variables considered simultaneously. A cross tabulation can help identify how the dependent variable varies from subgroup to subgroup. Cross-tabulations require fewer assumptions to construct than other analyses methods, and they serve as a basis of several statistical techniques such as chi-square and log-linear analysis.

- **Chi-squared test**

Calculating a chi-squared statistic for the given cross-tab tests the degree of association between two categorical variables. The first stage is to obtain an expected count for each cell of the cross tab, assuming that no association exists between the two variables. The chi-squared value is then computed, which measures the difference between actual and expected cell counts. A high chi-squared value indicates that there is a particular association between the variables. It is then possible to check the individual table entries to check where the association has arisen. The test is concerned with establishing whether the discrepancies between the observed and expected frequencies are statistically significant, and whether they may be attributed to chance sampling error or variations in the data.

One-way Analysis of Variance (ANOVA)

This is a statistical method that tests a hypothesis regarding the difference between several means. The test's main purpose is to determine if two or more samples come from populations with equal means. A number of ANOVA tests are used in the data analysis, forming a substantial part of the hypotheses testing .

Techniques to explain themes in data

On occasions where there are a large number of variables on each individual, there are a number of techniques that help unravel the themes or underlying factors that result in the measured variables. The input variables are the sets of variables that are subjected to theme findings, where the output variables are the themes generated by the procedure.

Factor analysis is one of the techniques for data reduction. Its main purpose is to explain the variation between individual items that the input variables have in common. Therefore, factor analysis searches for factors that explain the structure of the relationships between inputs and does not try to account for the variation that is unique to each input. Hence, sets of variables are combined to formulate a number of factors. Factors can then be used as combined summary variables in subsequent analyses (correlation, ANOVA), maximising the amount of information analysed whilst reducing the number of variables to be analysed (Tull and Hawkins 1990)

4.7. Summary

The purpose of this chapter is to mention briefly the various types of research methods available, to examine the ones used for this study, and justify the reasons for selecting the chosen methods. The advantages and disadvantages associated with each method are also acknowledged, followed by an explanation of how the survey is conducted.

Secondary data is used to embrace the theoretical aspects of customer loyalty and relationship marketing, and as a source of ideas as to how to conceptualise the subject and carry out the research. Primary research is used to fulfil the remaining research objectives, adopting both qualitative and quantitative methods. Focus group discussions are used at the preliminary research stage to generate ideas and facilitate the design of the quantitative technique, the questionnaire. The objective of the questionnaire is to examine both behavioural and attitudinal issues.

A brief description of all the statistical techniques is also given. The survey data is generated and then analysed with the aid of SPSS/PC+ for Windows, with the results being presented in the next chapter.

Chapter Five

Results and

Discussion

RESULTS AND DISCUSSION

5.1. Introduction

The preceding chapter identified the research methodology employed in this study, which included exploratory focus group 'interviews and a questionnaire survey that comprised the bulk of the research. Both generated vast amounts of data, hence the purpose of this chapter is to display, analyse and interpret the information.

This chapter firstly deals with the qualitative findings (focus group), followed by the questionnaire results (quantitative) which were analysed through the use of SPSS/PC+ for Windows. Both sections are presented with the relevant research questions, the rationale behind each question, the findings and their interpretation.

5.2. Focus group discussions

Two focus group discussions were conducted in the preliminary stage of the research process. Primarily the results were used as an aide to questionnaire design, although consumers who responded in the discussion groups raised some interesting points concerning their attitudes towards supermarket loyalty cards. The findings of these discussion groups provided greater insight and detail regarding the extent of consumer attitudes and perceptions.

5.2.1. Sample description of participants

The composition of the two separate focus groups can be seen below in Table 5.1. The benefits of focus groups were discussed in section 4.4.2. For both of the groups a number of participants had to withdraw from the group at the last minute, hence seven individuals participated in the first discussion group and eight in the second. The results from both groups, collated in a content analysis, are presented in the subsequent section .

Table 5.1. description of focus group participants

Focus Group One		Focus Group Two	
Gender	Age	Gender	Age
Female	19	Female	28
Female	20	Female	26
Female	25	Male	34
Female	24	Male	46
Female	29	Female	23
Female	33	Female	39
Female	33	Male	29
		Female	25

5.2.2. What attracts consumers to the supermarket in which they regularly shop?

Generally respondents felt that it was the bigger supermarkets which offered the greatest benefits. They had a wider range of products and hence special offers, e.g. "When you go to the bigger supermarkets you can end up saving quite a bit of money as well as getting quite a few bargains". Although another participant said that "...these days all the supermarkets offer discounts on certain products week in week out".

Most of the participants agreed that they preferred larger stores, as they were less 'claustrophobic'. Tesco, Sainsbury's and Safeway were favoured over other grocery retailers, as their quality was considered better than other stores, also they felt there was less 'risk' involved. The larger stores also meant that participants could get everything under one roof, "which is convenient especially when you're working all day".

Participants also noted the importance of additional facilities in enticing them to the store. For example, one participant said "I go to Tesco's which isn't my local store, mainly because they've got car parking which is great if you've got kids. It makes me feel safer. Also they've got toilets and baby-changing facilities. The aisles are really spacious and I don't have to worry about my children knocking things over or grabbing everything in sight". Another participant noted that parking facilities made shopping 'hassle free'.

Another participant said he liked going to the same store as he then knew where everything was, which made shopping easier and faster. The store atmosphere was also recognised as being important, which included cleanliness. Convenience to either work or home was also recognised as being important .

One participant said she avoided supermarkets if she could. She said, "Smaller local shops are more convenient with better choice, better food and shorter queues. You also know the staff on a personal basis. The service received from supermarkets is not that good. Prices may be slightly higher in smaller shops, but you are paying for the quality and the personal service. It would be a shame if all the smaller shops close because of these bigger supermarkets. They can't offer us the same thing." The majority did not agree that the smaller shops offered either better prices or choice, but yet did agree that it would be a shame if they were driven out of the market by the bigger supermarkets .

5.2.3. What made those respondents join a loyalty scheme?

The majority of participants generally felt that they initially joined the scheme due to a feeling of 'getting something for nothing'. One participant noted that it was like an added bonus, which just meant you might actually be getting something in return. She felt this was a rare occurrence. Another felt it was 'an added incentive to purchase from a particular store'. Other respondents generally agreed .

In contrast, one respondent felt that 'cards' were a waste of time and she didn't feel as if she got anything out of it. On the whole, however, participants were not overly excited about loyalty cards but appreciated that they were finally receiving something in return from the supermarkets .

5.2.4. What respondents thought the supermarket was getting out of the scheme?

One respondent felt that it was the information that was disclosed on the registration form which was what supermarkets really wanted "They can see what we are buying and get us to buy additional products so that we spend even more than what we do". One participant was concerned about who received the information which she referred to as "a feeling of intrusion of privacy, I feel that sometimes they might pass on the information to others, I do not like that".

Another respondent saw the introduction of loyalty cards as a result of the increased competition amongst supermarkets, which meant they had to do something different apart from just cutting prices. One respondent summed the general feeling up by saying, "At the end of the day both us and the supermarket are gaining, we get a few pence off our shopping and they get information on us and can track what we are buying'. He also identified that "most people would end up going to one store all the time to do the majority of their shopping". This means that people end up buying more frequently, which is again where the supermarkets benefit .

5.2.5. How many loyalty schemes do people participate in?

A number of respondents did not participate in any loyalty card scheme. Of those who did, the majority had only one loyalty card. Most felt that it was only worth having cards for the stores that they visited 'regularly'. One respondent said she was not attracted by other store schemes for stores that she did not regularly visit. The general consensus was that cards 'tempt you to purchase more or visit the store more frequently'.

One respondent felt that it was worth her while if she visited a number of stores and that if they had a loyalty card she would obtain one. In response a participant said it was 'annoying to have a number of cards in your purse', and that as the majority of the shopping was done in one store it was only worthwhile to keep one card .

5.2.6. Have there been any changes in shopping behaviour since the introduction of the scheme?

A number of participants felt they did more shopping which was not intentional. One participant said that the card encouraged her to buy products that she would not normally buy from the supermarket, i.e. children's clothes, CDs and medicines. It was the additional points attained from buying these products from the supermarket, rather than other non-grocery retailers, which was the enticement. Most participants generally agreed that they were more likely to purchase in the supermarket of their loyalty card. One participant actually pointed out that she now ends up going to the store in question even when she has only a few bits to purchase.

5.2.7. Would participants continue to shop at the supermarket regardless of the loyalty scheme?

All the participants in the focus groups said they would continue to shop at their primary supermarket regardless of a loyalty scheme being offered. "Convenience of the store to home or work is more important than any scheme. At the end of the day you only save a penny for every pound spent, which in real terms does not amount to much."

Another participant noted the importance of level of service received as being more important than a loyalty card, and went on to say "The fact that all the supermarkets offer them (loyalty cards) means it has become less of an issue." It was hence recognised that consumers did not rate loyalty cards as that important in overall store choice .

5.2.8. Is there anything related to the loyalty scheme on which the supermarket could improve?

A number of participants commented on in-store staff, i.e. "Staff need to be nice mannered and should smile more often, it makes the shopping trip more pleasant". Another noted that it would "make shopping more enjoyable and easier if you knew them on a personal basis, where there is mutual recognition". She felt that it was nice to see the same person every week. One respondent felt that although staff were not over friendly a good level of customer service was received The Tesco 'two per queue' policy was widely appreciated throughout the whole group, one participant felt that it attempted to resolve 'one of the worst things about shopping queues'.

5.2.9. Did customers ever complain to the supermarket about products or services relating to the loyalty scheme?

The majority of the group did not complain to the supermarket, primarily because they had 'no time to do so', or they couldn't be 'bothered with the hassle'. A few respondents did say they would if they had time available.

One participant said she had complained a few times, and in all cases (Tesco) staff were always "very pleasant and responded in a positive way". In contrast, a participant who went to complain at Kwik Save said the response she had received was not at all pleasant, and she

felt 'intimidated by staff, as if I had done something wrong'. The response deterred her from going to the store again

Another respondent noted that when she complained at Tesco, the staff had made her feel comfortable about the whole situation. She said that receiving a goodwill gift voucher and an apology made her 'pleasantly surprised'.

5.2.10. Has the scheme lived up to initial expectations?

The majority felt the scheme had lived up to their expectations, as they had not expected anything initially. 'It is like getting something out of nothing'. A few participants were, however, annoyed when they had to retain their receipts in order to receive their points (if they forgot their card). They felt it was an added hassle, where they frequently forgot to bring their receipts back. One respondent felt that shopping had become far more interesting and 'less routine'.

5.2.11. Attitudes towards special offers

The majority of respondents were fairly conscious of value for money, and warmly welcomed any special deals offered by the supermarket. It was felt that special offers encouraged additional spending, such as the '3 for 2' offers, which were seen to be "too good to miss". One respondent said when products were on a special offer, she often purchased a number of quantities in order to fully benefit from the promotion taking place .

One respondent was not excited about special offers, she said, "They are not an enticement as I would not go to a particular store just to purchase a few products. Life is far too busy to worry about saving a few pence off your shopping".

5.3 Questionnaire Findings

500 personal interviews were conducted outside four Tesco stores, aiming to identify consumers' attitudes towards customer loyalty schemes, behaviours attributable to grocery retailers and the potential for developing relationships with grocery retailers.

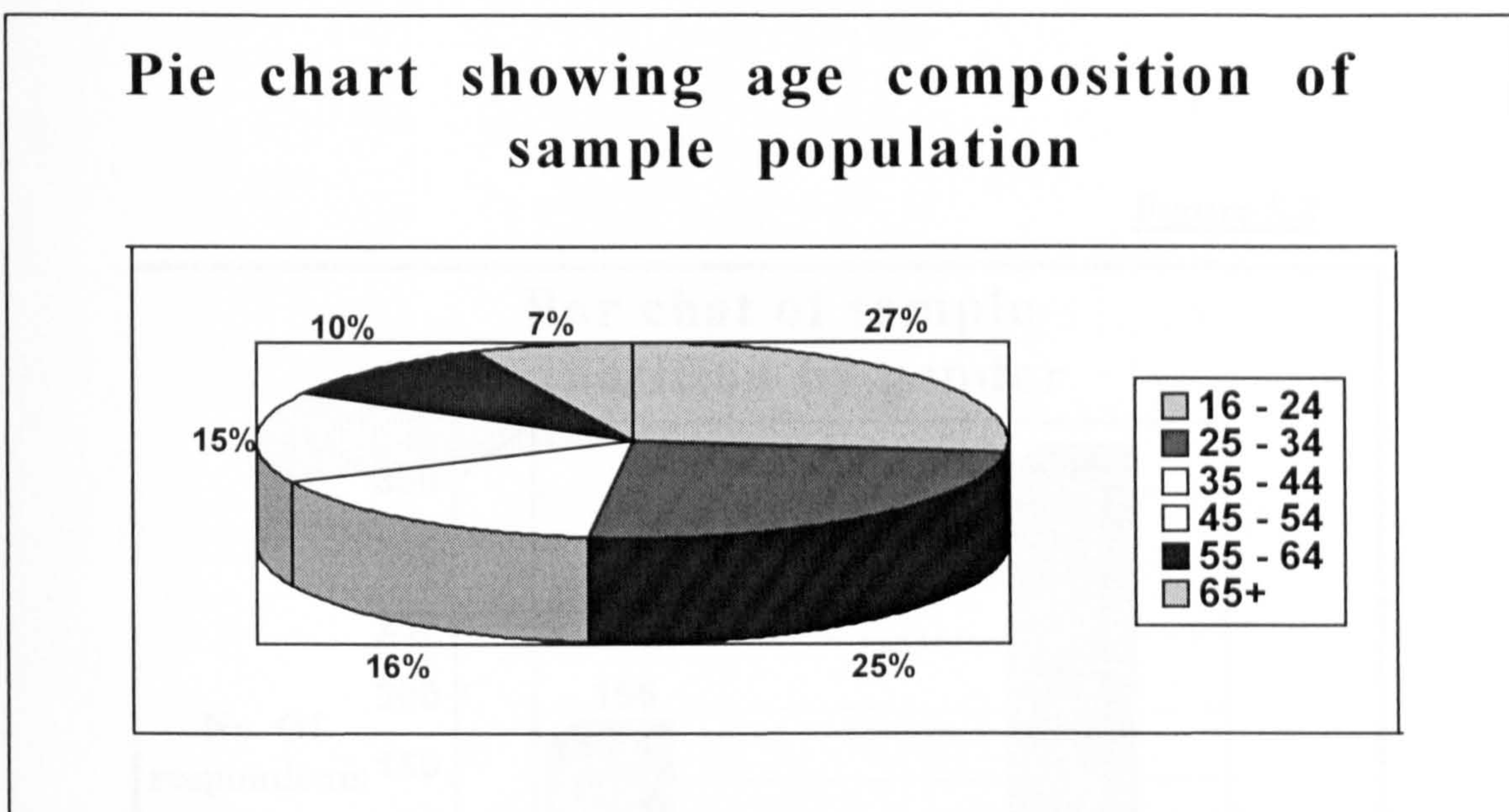
A description of the sample is given first, followed by an analysis of the inter-relationships between specific variables in order to answer the research objectives.

Sample description

A non-probability quota sample was used, for reasons outlined in section 4.5.7. Being reasonably observable, age and gender were used as quota variables; the sociodemographic characteristics of the resulting sample are described in the following paragraphs .

Age

Figure 5.1



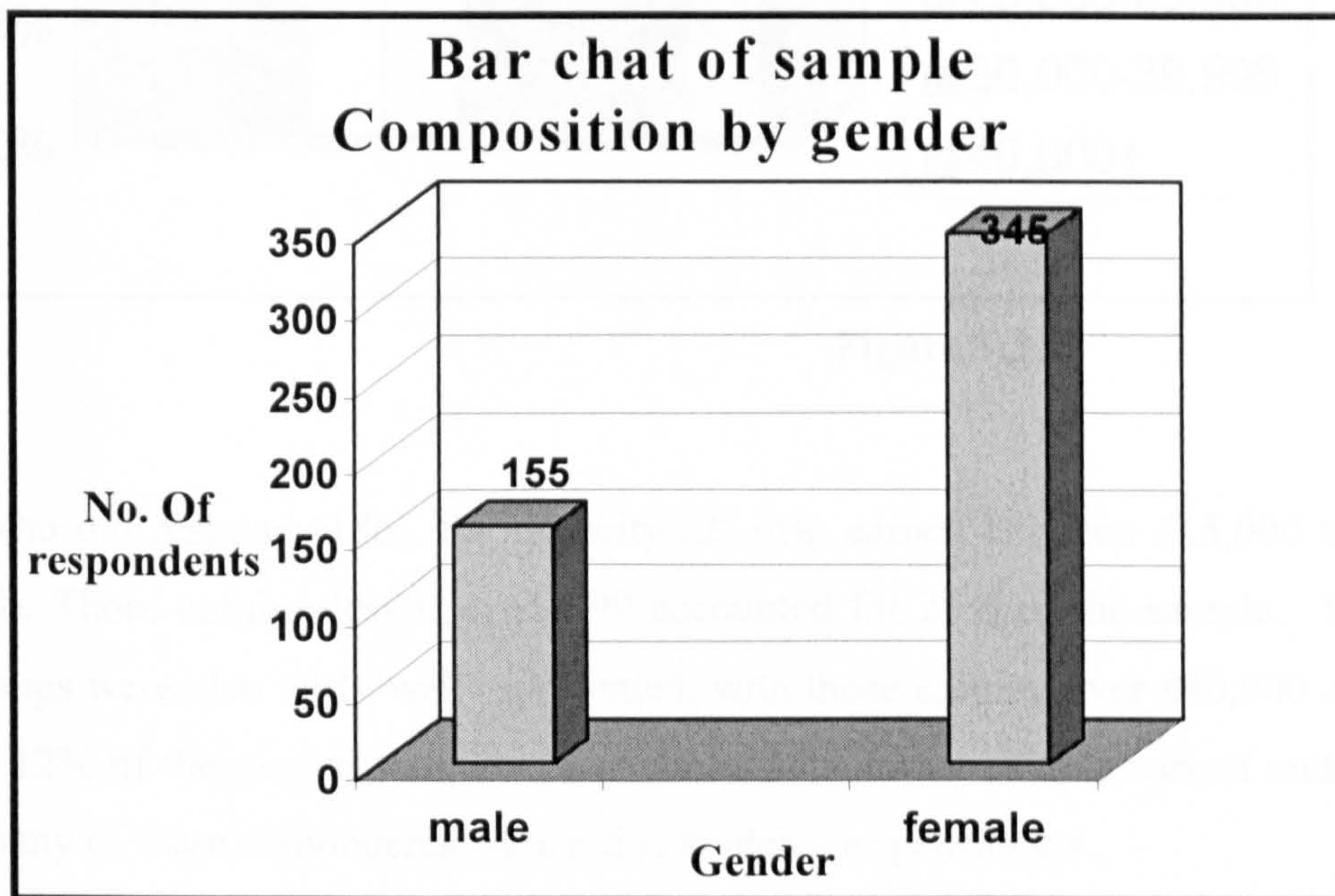
The majority of the sample comprised the 25-44 year age group. Using only subjective judgement, an attempt was made to include similar proportions of respondents from all age groups. However, the majority of respondents were relatively young, with the under 44 age group accounting for 68% of the total sample (Figure 5.1). The high refusal rate proved to be a problem among the older age groups; only 7% of the sample comprised respondents over 65.

Gender

The majority of respondents were female 69% (Figure 5.2). Although gender was a quota variable, there were difficulties encountered in adhering to the quota targets. This disparity is consistent with the greater likelihood of encountering females in supermarkets. The researcher also recognised females were more receptive to being interviewed.

The sample may also have been influenced by the time of day during which the research was conducted. The majority of the research was carried out during weekdays, yet it is acknowledged the sample composition by gender may have differed had weekend shoppers also been interviewed.

Figure 5.2



Annual household income

Many respondents were reluctant to reveal their annual household income, whilst some others simply did not know.

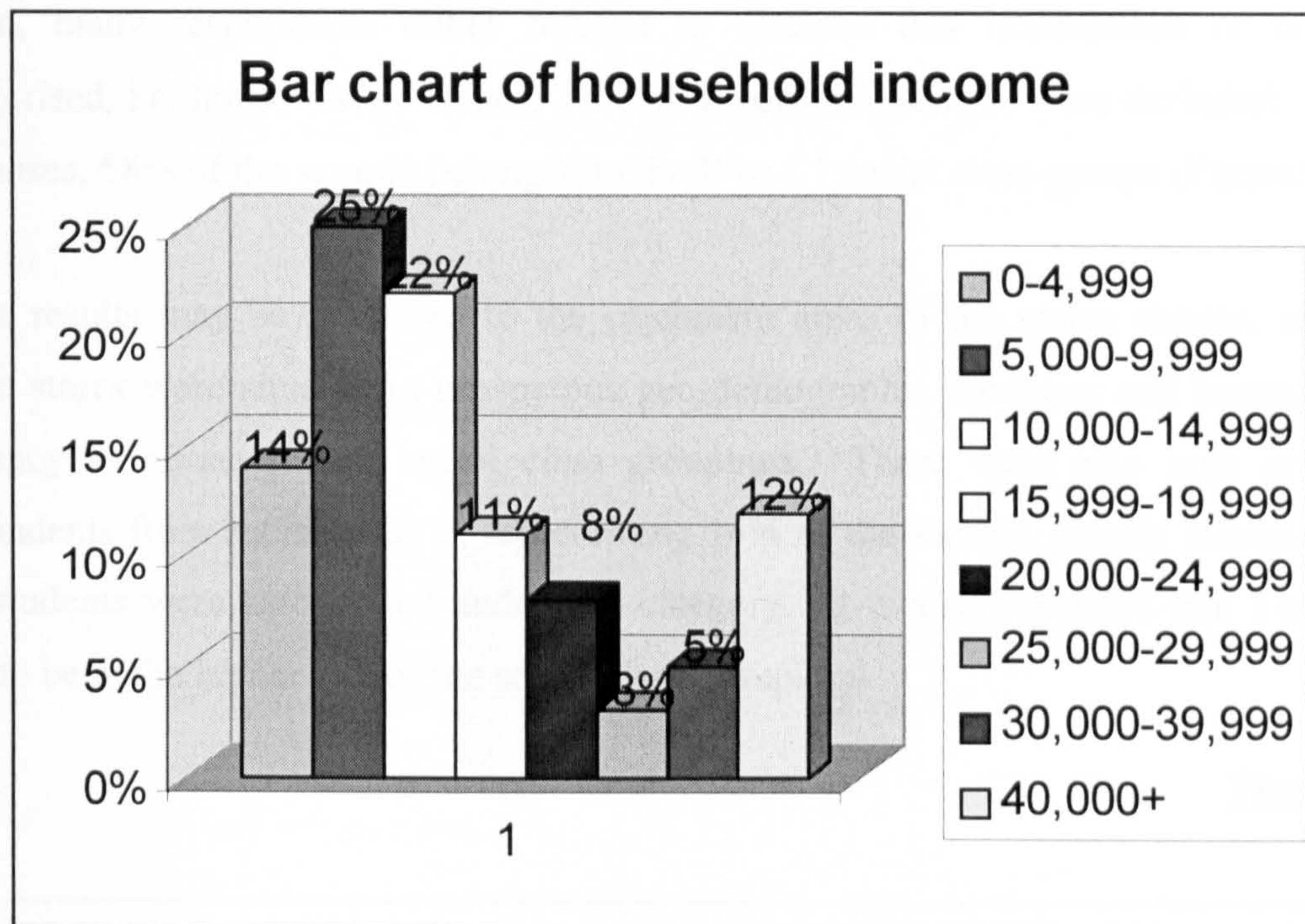


Figure 5.3

Of those who did respond (186), the majority (22.6%) earned between £15,000 to £19,999 (Figure 5.3). Those earning less than £9,999 accounted for 25% of the sample. The higher income groups were also fairly well represented, with those earning over £40,000 accounting for around 12% of the overall sample. In contrast, 14% of the sample earned under £5,000, although many of these respondents were either students or pensioners .

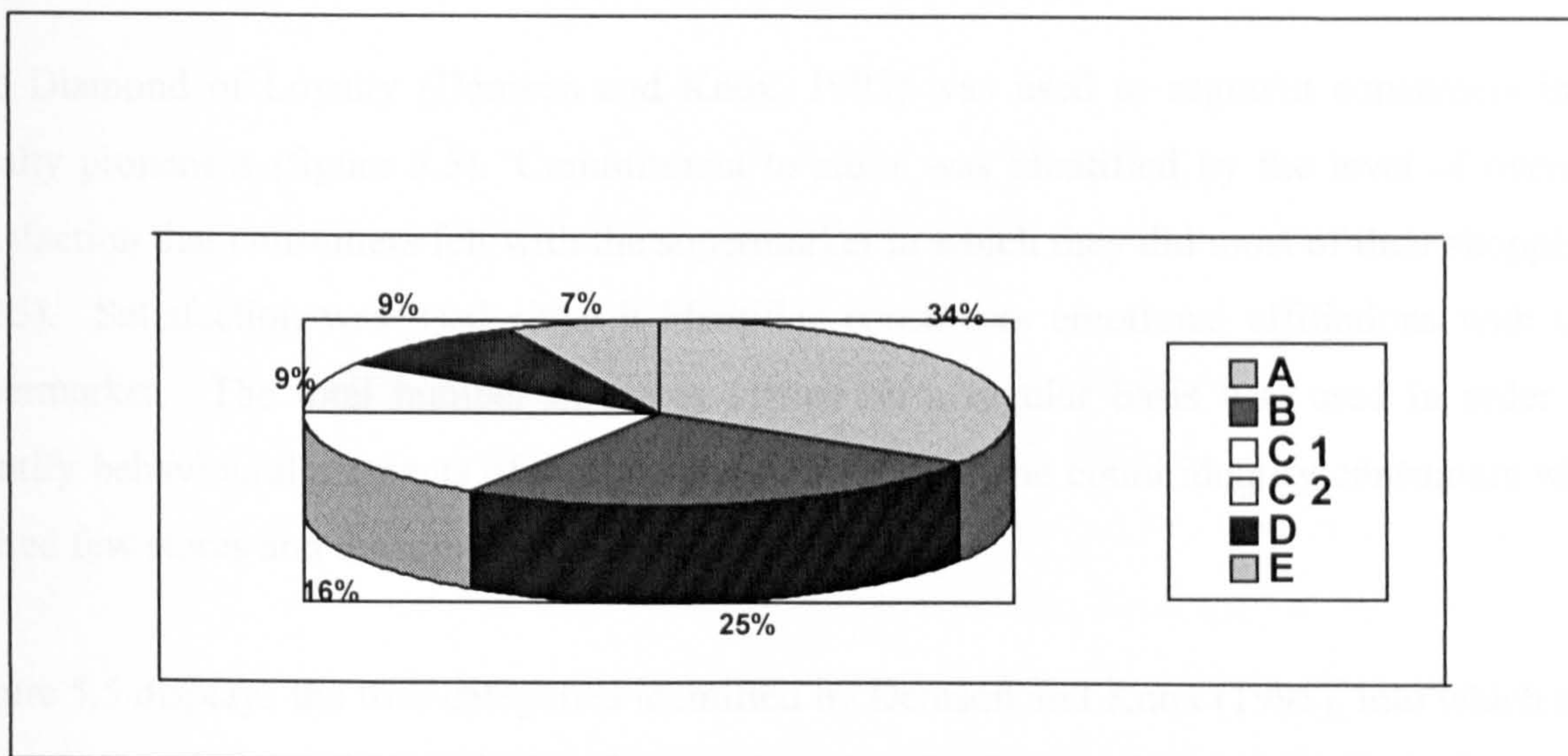
Social Class

In order to identify social class, respondents were asked their occupations, where their responses were subsequently categorised using standard occupation classifications (volume 3), provided by the government statistical service.

Again, many respondents either refused to disclose this information or could not be categorised, i.e. housewives. Hence, 27% of the original sample were excluded. Of the valid responses, 58% of the sample belonged to the B or C1 social class groups (Figure 5.4.).

These results may be attributed to the catchment areas of the stores chosen, as two of the Tesco stores were situated in prosperous geo-demographic locations and hence, there was a tendency to attract higher social class groupings. There were also high proportions of respondents from social class E, representing 16% of the sample, largely because pensioners and students were categorised under this category. It is also conceded that Tesco shoppers tend to be at the higher end of the social class groupings .

Figure 5.4



In conclusion, the typical respondent was female, between the ages of 25-44 years old, having an annual household income of between £15,000 -£19,999, and belonging to social class B or C1.

5.4. Store Choice and attitudes towards loyalty cards

Having provided a description of the sample, consumer behaviour and attitudes toward store choice will now be identified. This will be followed by an identification of their attitudes and perceptions specifically to loyalty cards .

Firstly, an attempt was made to identify promiscuous shoppers from loyal shoppers, which was done by identifying the number of stores respondents visited on a regular basis (Q1, see Appendix 1). If either one to three stores were visited, respondents were categorised as having loyal tendencies, whereas four to six represented promiscuity. These groupings were selected as the research identified that respondents used up to six stores on a regular basis. Only 16% of the sample were completely 'loyal' in that they patronised only one grocery store. The majority of respondents regularly shopped in at least three stores, 11% of respondents were identified as shopping in at least five or more stores on a regular basis, indicating the promiscuous behaviour of grocery shoppers .

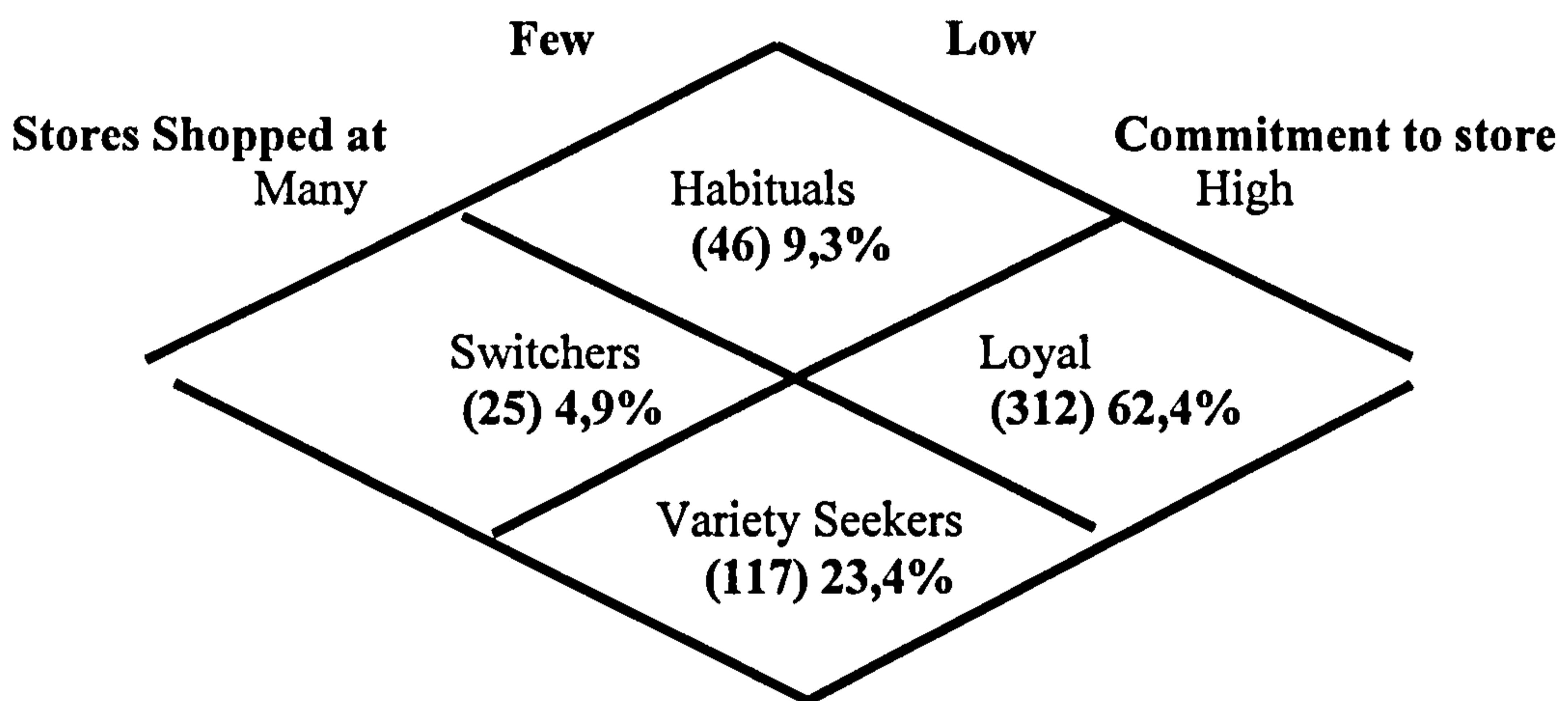
5.4.1. Segmentation of respondents

The Diamond of Loyalty (Denison and Knox, 1995) was used to segment consumers into loyalty proneness (figure 5.5). 'Commitment to store' was identified by the level of overall satisfaction that consumers felt with the supermarket in which they did most of their shopping (Q15). Satisfaction was used since it identifies consumers emotional affiliations with the supermarket. The total number of stores visited on a regular basis was used in order to identify behavioural elements of the matrix (Q1). Hence, one could identify consumers who visited few stores and those who visited several .

Figure 5.5 displays the four categories identified by Denison and Knox (1995), into which the data generated from this study has been incorporated. It was found that the majority of respondents (62.4%) could be categorised as 'loyal', with only (4.9%) being classed as 'switchers'. The reliability of these findings is questioned as the majority of respondents (60%) were regular Tesco shoppers. This may have had a significant influence upon the

results, since the researcher identified that respondents who used Tesco as their main store tended to be highly satisfied with the store on the whole. Of all Tesco shoppers, 61% were satisfied with the supermarket and a further 30% were highly satisfied.

Figure 5.5 : The Diamond of Loyalty as a tool for segmentation



5.4.2. Factors influencing store choice

Respondents were asked to rate the importance of 13 factors regarding store choice, on a scale of one to seven (Q8). The mean rating scores can be seen in Table 5.2.

The results of these ratings indicate the importance consumers rate in store selection toward product quality, range and prices. Consumers also place considerable importance on proximity and additional customer service facilities, such as opening hours, parking facilities and the attitudes and behaviour of store staff. Childcare Facilities were rated the least important overall. However, it is important to acknowledge that the majority of respondents had no need for such facilities, either because they had no children or because their children were old enough not need such facilities. Customer loyalty cards rated twelfth out of the thirteen factors considered in store choice. Hence, it can be assumed that loyalty cards do not entice consumers to stores, as consumers consider other factors far more important. Many consumers may just view them as additional 'bonuses' and nothing more .

The implication for retailers attempting to use loyalty schemes as a mechanism for creating loyalty among consumers could be that they should not neglect enhancing additional services offered in their retail strategy, such as products and customer service facilities, in order to encourage consumers to remain loyal.

Table 5.2 Factors influencing store choice

Influences upon store choice	Mean score ratings*
Product quality	1.492
Product range	1.655
Prices	1.724
Neatness	1.735
Convenience to work / home	1.806
Opening hours	1.832
Customer service	2.122
Staff friendliness / responsiveness	2.136
Store layout	2.260
Parking facilities	2.448
Special offers	2.760
Store loyalty cards	3.884
Childcare facilities	5.439

Where 1= Very important and 7= Not at all important

5.4.3. Number of loyalty cards held

Most of the consumers surveyed did not just have one loyalty card, but possessed either two or three cards. 19% of respondents had no cards (Table 5.3). Of those who did have either one or more cards, 44.1% had only a Tesco Clubcard and 25.3% had both a Tesco Clubcard and a Sainsbury's Reward Card. A further 3% possessed a Tesco Clubcard, in addition to a Sainsbury's Reward Card and a Safeway ABC card. Hence, just under half of the respondents held loyalty cards from competing retail stores .

Table 5.3 : Total number of loyalty cards held

cards held	Number	Percentage
Safeway ABC	2	0.6%
Sainsbury's Reward	26	7.8%
Somerfield Premier Points	14	4.2%
Tesco Clubcard	146	44.1%
Tesco Clubcard plus	4	1.2%
Tesco / Sainsbury's	84	25.3%
Tesco / Safeway	8	2.4%
Tesco / Somerfield	18	5.4%
Tesco / Sainsbury's / Safeway	10	3.0%
Sainsbury's / Safeway	10	3.0%
Sainsbury's / Somerfield	4	1.2%
Tesco / Safeway / Sainsbury's / Somerfield	2	0.6%
Tesco / Sainsbury's / Somerfield	2	0.6%
Tesco / Tesco Clubcard plus / Sainsbury's	2	0.6%

5.4.4. What do consumers think of loyalty schemes?

It has already been identified in section 5.4.2 that consumers do not rate customer loyalty schemes as highly in relation to other factors influencing store selection. However, much of the remainder of the questionnaire was designed to explore consumer attitudes specifically towards loyalty schemes.

The statement, "Store loyalty cards are not worth having, they are just a con from the supermarkets who want us to feel more positive about them" (Q30), attempted to identify what respondents thought was the true worth of loyalty cards. 36% of respondents disagreed with the statement and hence felt that loyalty cards were worth having, where a further 8%

strongly disagreed. 29% of respondents had negative feelings towards loyalty cards and hence, agreed with this statement. The results indicate the variation in opinions as to the true worth of such schemes there are therefore a proportion of consumers who value such schemes. whilst others fail to see them as being worthwhile .

A cross-tab analysis was conducted (Table 5.4) to identify whether promiscuous shoppers differed from loyal shoppers in their opinions towards loyalty cards (for categorisation of loyal and promiscuous shoppers see section 5.4. Of those consumers who visited only one, two or three stores regularly, the majority disagreed with the statement to some extent (43.2%). and felt loyalty cards were worth having. 20.5% agreed with the statement and a further 9.6% strongly agreed. In contrast, when looking at only promiscuous shoppers, 45.6% of respondents disagreed to some extent with the statement. A greater proportion of promiscuous respondents strongly disagreed in comparison to loyal respondents, additionally, fewer promiscuous respondents (3.5%) strongly agreed with the statement compared to loyal respondents (9.6%).

Table 5.4 : Attitudes towards loyalty cards and promiscuous behaviour

Loyalty cards are not worth having	Few (1-3)	Many (4-6)
Strongly disagree	16 (5.5 %)	18 (15.8 %)
Disagree	105 (37.7 %)	34 (29.8 %)
Neither Agree nor disagree	78 (26.7 %)	30 (26.3 %)
Agree	30 (20.5 %)	28 (24.6 %)
Strongly Agree	28 (9.6 %)	4 (3.5 %)

Promiscuity is therefore disclosed through this statement, where these shoppers are more likely to feel loyalty cards are worth having, with fewer feeling they are 'just a con'. However, a one-way ANOVA statistical test was conducted to identify whether these differences in attitudes are significantly viable. The results disclosed a p value of 0.1794, which, at the 95% confidence level, indicate that there is no significant difference between the two samples (see Table 5.5).

Table 5.5 : Statistical test : promiscuous and loyal shoppers and loyalty cards.

variable	Test statistic	Significance value (p=)	conclusion
'loyalty cards a con'	1.5860	0.1794	Accept null hypothesis

5.4.5. Changes in behaviour since the introduction of loyalty cards

Respondents were asked whether their behaviour had changed since loyalty cards were introduced. The majority felt there had been no change in their shopping habits as a direct result of the loyalty scheme. However, 40% felt that there had been a change. Of these, the most notable one was that respondents said they visited the supermarket with the store card more frequently (33%). 22% of respondents felt that they spent more money in the supermarket, which issued the loyalty card, and 17% said loyalty cards encouraged them to buy things that they usually would not buy.

5.4.6. Satisfaction results in loyalty

Consumers generally agreed that being satisfied with a supermarket results in them being loyal to that supermarket (Q31). Only 13% of respondents disagreed with this statement to some extent. This emphasises the importance that satisfaction plays in a retailer's strategy.

Respondents were also asked whether they were encouraged to re-purchase in the store, which issued their loyalty card, the majority (55%) agreed to an extent with the statement. Therefore retailers attempting to use loyalty cards as short-term tactical tools to get consumers into the store and continuously re-purchase in order to increase sales, seem to be successful .

5.4.7. Gender and promiscuous behaviour

An attempt was made to identify whether there were differences in promiscuous behaviour between males and females. The results indicated that males were more likely to visit fewer grocery stores than females (Table 5.6). 19% of males regularly visited only one store, in comparison to 14% of females.

Table 5.6 : gender and promiscuous / loyal behaviour-cross Tab

Gender	1	2	3	4	5	6
Male	19%	28.5%	27%	19%	5%	1.5%
Female	14%	27.5%	29%	17%	9%	3.5%

Females were more likely to visit five or six stores (12.5%), in comparison to only 6.5% of males visiting a greater number of stores. The explanation may be that males visit fewer stores either as a result of lack of time or interest in shopping.

An Independent samples t-test was conducted to identify whether these differences were statistically significant (Table 5.7). The results revealed a p value of 0.226. At the 95% confidence level, it can be identified that there are no significant differences between males and females in the number of grocery stores they regularly visit.

Table 5.7 : statistical test : Gender and promiscuous / loyal behaviour-statistical Test

Independent variable – gender	Independent samples t-test (t value)	Significance value (p=)
Total number of stores visited	- 1.22	0.226

5.4.8. Summary of attitude statements

Consumer attitudes towards loyalty cards and supermarket retailers were measured by a series of questions concerning shopping patterns, behaviour and the extent of relationships. Responses to questions on each of the topical areas were measured on a five-point ordinal scale. Typical responses to the questions on shopping behaviour and activities are shown in Appendix 3.

The majority of the respondents agreed with most of the statements, although in the case of whether consumers had a relationship with the retailer, the majority disagreed.

Overall satisfaction and intentions to re-purchase in the same store had high average ratings, with both having mean scores above two. Responses to relationship indices, loyalty and loyalty cards were fairly positive. Consumers generally agreed that they would be willing to recommend the supermarket to others (2.103) and that they were conscious of receiving the best value from their purchases' (2.079).

5.5. Significant correlations

Correlation analyses were conducted on a number of variables with the purpose of identifying the strength of the relationships between sets of variables. The following relationships between variables were identified as having some significance .

Respondents who rated special offers highly in store selection were likely to search for special deals being offered by supermarkets in the local area. The high correlation (0.4460) between these two variables suggests that consumers who display promiscuous characteristics place a high emphasis on bargain seeking .

Respondents classified as being loyal to their supermarket (section 5.4) were likely to:

- Be highly satisfied overall with the supermarket in question (0.3410), indicating the importance of satisfaction in generating loyalty (Section 3.8.1).
- Trust the supermarket more than respondents who were classified as promiscuous (section 3.6.1)
- See themselves in a 'relationship' with the supermarket.
- Be willing to recommend the supermarket to others.
- Intend to continue re-purchasing from the supermarket in the future.
- Want to shop in just one store for all their shopping.

These correlations are summarised in Table 5.8.

Table 5.8 : Significant correlations – loyalty

Influences on loyalty (dependent variable)	Correlation
Intention to recommend	0.4794
Have a 'relationship' with the supermarket	0.4356
Trust the supermarket	0.4090
Would prefer to do all shopping in one store	0.3833
Overall satisfaction	0.3410
Re – purchase intentions	0.3337

These correlations indicate the increasing need for retailers to generate satisfaction and develop trust, which will in turn influence repurchase intentions and loyal behaviour. However, the correlations do not indicate the extent of their influence on loyal behaviour .

A relationship index of whether respondents felt retailers were concerned about their well being (Q24) (Table 5.9), was highly correlated with the willingness to recommend the store to others (0.4608). Overall satisfaction (0.3778) and trust (0.5924) were also significantly correlated with a feeling of concern, as was the recognition of the supermarkets consistency and reliability (0.3175). Concern was identified in section 3.6.4) as being a key criterion for organisations wishing to develop relationships with their customers. This indicates that trust and concern, both relationship indices, are highly correlated with each other. Hence, when both are evident, there is a greater opportunity for a relationship developing between a retailer and a consumer. So, for retailers wishing to develop relationships with consumers; customer service facilities, overall satisfaction, trust in the supermarket and overall consistency and reliability are key criteria .

Table 5.9 : Significant correlations – ‘concern ‘(Relationship Marketing)

Influences upon a supermarket perceived concern	Spearman’s correlation co-efficient (r)	Significance value (p)
‘Trust the supermarket’	0.6113	0,000
Intention to recommend	0.4608	0,000
Supermarkets consistency and reliability	0.3175	0,000
Overall satisfaction	0.3778	0,000
Satisfaction with store staff	0.3526	0,000
Supermarket will not ‘trick me’	0.5059	0,000

A supermarket perceived consistency and reliability (Q22) were also correlated with intentions to recommend the store (0.4396) and a feeling of trust, i.e. the supermarket would not 'trick' them (0.3784). Respondents who felt the supermarket would not trick them rated concern highly (0.5059) (Table 5.9). Satisfaction with store staff also correlated significantly with a feeling that the supermarket would not 'trick me', i.e. trust (0.3570). In addition, satisfaction with store staff correlated significantly with other relationship factors such as concern (0.3526) (Table 5.9), consistency and reliability (0.3251) (Table 5.10). These results highlight the importance of internal marketing, discussed previously in section 3.7.2.

Table 5.10 : Supermarkets consistency and reliability

Significance correlation : Consistency and reliability	Spearman’s correlation co-efficient (r)	Significance value (p)
Satisfaction with store staff	0.3251	0.000
Intention to recommend	0.4396	0.000
Supermarket will not ‘trick me’	0.3784	0.000
Additional correlation with staff satisfaction		
Supermarket will not ‘trick me’	0.3570	0.000

5.6. Hypotheses Testing

In the previous sections the data generated by the questionnaire were used in a descriptive analysis of consumers' attitudes and behaviour. The data used in hypothesis testing were mainly ordinal (e.g. age, income and consumers perceptions of retailers and loyalty schemes), where only a few variables were classified as nominal (i.e. gender). As a result non-parametric tests were used. The variables were all treated as independent, since each variable was not affected by another variable having occurred. Therefore the tests used were Chi-squared (for nominal-nominal data) and Kruskal-Wallis One way ANOVA (for ordinal - nominal data). A factor analysis was also conducted in the later stages in order to reduce the amount of data derived from measuring attitudes to retailers and relationships .

Primary rules for hypothesis tests

For hypothesis testing, the stated **null hypothesis (H₀)** always indicates **no** relationship exists between the two test variables. Hence, the **alternate hypothesis (H₁)** denotes a ' significant relationship existing. For example, if the significance value (p) is below 0.05 ($p < 0.05$), the null hypothesis (H₀) is rejected and hence, the alternate hypothesis is accepted (H₁). The following analysis are based on the above and presented along with the relevant hypotheses tested .

5.6.1. No. of stores visited and loyalty.

A χ^2 analysis was conducted to identify whether consumers who said they were loyal to the supermarket where they spent the most (Q27), were also likely to visit fewer stores (Q1), i.e. were less promiscuous. The χ^2 analysis indicated a significant value of $p = 0.02503$, which at the 5% level of confidence indicated the null hypotheses should be rejected. Hence, consumers said to be loyal (Section 5.4), were less likely to visit more stores .

Of those who agreed to some extent that they were loyal to the supermarket in question, 21% shopped in only one store, and a further 26% shopped regularly in only two stores .

Only 10% shopped in five or six stores on a regular basis. Of those who strongly disagreed that they were loyal to their supermarket, no respondent shopped in only one or two stores. These results indicate the long-term benefits of generating feelings of loyalty .

5.6.2. Socio- demographic characteristics and consumer loyalty.

In identifying attitudes to relationships and loyalty, consumers were asked whether they perceived themselves to be loyal to the supermarket (Q27). The characteristics tested were age, gender, social class and household income. It was initially perceived that middle-aged consumers, with higher incomes and a higher social class would be more inclined to be loyal, primarily because they may have less time to 'shop around' . However, according to the results, presented in Table 5.11., this preconception was unfounded. It was found that all consumer segments share, more or less, the same views regarding loyalty. In all cases the significance value was far greater than 0.05, and thus the null hypothesis is not rejected.

The results indicate that in terms of identifying themselves as loyal, consumer socio-demographic characteristics do not produce significant variations in opinions. Also, there are differing views as to what connotes loyalty.

Table 5.11 : Socio-demographic characteristics and loyalty

Variables	One way anova test statistic	Significance Value (p=)	Conclusion
Q39 Age	1.1905	0.3162	Accept Ho
Q41 Social class	0.5154	0.7245	Accept Ho
Q42 Household income	0.4275	0.7336	Accept Ho
	Independent samples T-test statistic	Sgnificance Value (p=)	Conclusion
Q40 Gender	0.59	0.557	Accept Ho

5.6.3. Trust in the supermarket and consumer loyalty.

An attempt was made to identify whether consumers who trusted the supermarket in which they shopped (Q25) were likely to remain loyal (Q27) to the supermarket. It was assumed that trust had a significant influence on the creation of loyalty. The test statistic revealed that the null hypothesis should be rejected, as the significance value was less than 0.05 (Table 5.12).

Table 5.12 : Trust and loyalty

Variable	One way anova Test statistic	Significance Value (p=)	Conclusion
Trust	11.1815	0.0000	Reject Ho

The assumption proved to be correct, and it can be concluded that there is a significant relationship between trust and loyalty. Hence, if trust is existent between retailers and their customers, then loyalty is more likely to be generated.

5.6.4. Percentage of total budget spent in the main store and consumer loyalty.

It has been assumed that if consumers spent the majority of their shopping budget in their main store (Q4), they are more inclined to be loyal to the supermarket in question (Q27). For example, this percentage of total budget has been used as an indication of loyalty (Tate 1970, Cunningham 1961).

The results generated a significance value (p) of above 0.05 (Table 5.13), hence the null hypothesis was accepted and it was concluded there was no significant relationship between the two variables. This has implications for marketers and retailers who use the percentage of budget method as a measure of customer loyalty. Loyalty is a far more complex concept and needs to be treated as such through its measurement criteria.

Table 5.13 : The significance of % of total budget and loyalty to the main store

Variable	One way anova Test statistic	Significance Value (p=)	Conclusion
loyalty	1.7169	0.1477	Accept Ho

5.6.5. Intentions to recommend and trust.

It was suggested that if consumers are more likely to trust the supermarket in which they shop, they would also be more likely to recommend (Q26) the supermarket to others .

It was identified in section 3.6.1 that trust was an important criteria in relationship development. Hence, if trust is developed, consumers should be more likely to recommend the store to others . The results revealed the null hypothesis should be rejected, and thus it was concluded that trust is significant for recommendation intentions. For retailers this enhances the potential importance of developing trust with consumers, not just for relationship development but also for referrals .

Table 5.14 : Intention to recommend and trust in the supermarket

Variable	One way anova Test statistic	Significance Value (p=)	Conclusion
Q25 trust	20.3394	0.0000	Reject Ho

5.6.6. Supermarkets perceived concern and trust.

Buttle (1996) identifies concern as a key criterion for relationship development. Hence it was felt that concern (Q24) and trust may be significantly associated, i.e., if consumers felt the supermarket was concerned then they were likely to trust the supermarket more .

Table 5.15 : The supermarkets perceived concern and trust

Variable	Test Statistic	Significance Value (p=)	Conclusion
Concern	28.6804	0.0000	Reject Ho

This assumption was accepted through the probability value, which, at below 0.05, indicates a significant result (Table 5.15). Retailers therefore need to display concern for their customers in order to generate trust and hence develop a relationship .

5.6.7. Overall satisfaction with the supermarket and trust

Developing satisfaction was identified in Section 3.8.1 as being an essential criterion for relationship development. Hence, it was assumed that consumers satisfied with the supermarket on the whole would be more likely to trust the supermarket. In addition to trust, Buttle (1996) also identified satisfaction as being an important relationship criterion. The result of the statistical test can be seen below Table 5.16. A significance value of 0.0004 indicated that the null hypothesis should be rejected; there is a significant probability, at the 95% confidence level, that a relationship does exist between the two variables. The importance of generating trust is therefore essential, and it can be seen that satisfaction has a direct influence on loyalty levels and relationship proneness.

Table 5.16 : Significant association with trust

Variable	One way anova test statistic	Significance Value (p=)	Conclusion
Q22 Supermarkets reliability and consistency	28.6804	0.0000	Reject Ho
Q15 Overall satisfaction	5.3100	0.0004	Reject Ho
Q26 Willingness to recommend	20.3394	0.0000	Reject Ho

5.6.8. Supermarkets' consistency and reliability and trust

The consistency and reliability of any service provider are essential considerations in a service strategy-Buttle (1996) believes that consistency and reliability are essential in building a relationship with customers. Consumers in the 1990's seem to have higher expectations of the level of service they receive. Hence, an attempt was made to identify whether consumers felt that their supermarket was consistent and reliable and whether this was associated with trust in the supermarket. Table 5.16 reveals the test results, where it can be seen that the significance value is below 0.05. The null hypothesis can therefore be rejected and it can be concluded that the initial assumption was correct. Supermarkets therefore need to ensure they continuously strive for consistency and reliability throughout, as this has shown to have a positive association with the level of trust that consumers have in the supermarkets.

All the above hypotheses tests attempted to identify the statistical relevance of a number of data variables on relationship indices. However, it was deemed useful to see whether they would be associated with overall respondent relationship levels .

5.7. Factor analysis on relationship variables

A factor analysis was conducted on all the scales that aimed to measure the level of relationship development within the grocery sector. Relationships were identified by a number of factors such as trust, concern, reliability, consistency, commitment and involvement (see section 3.6). The factor analysis was conducted on thirteen statements each attempting to elicit the level of relationship development in the UK grocery sector .

The process of principal component analysis was used to group these statements. Factor loadings in excess of 0.5 are shown in Table 5.17. Factors with Eigenvalues greater than 1.00 were retained in the above table, resulting in five significant factors. Most of the variables did cluster together into the perceived grouping factors, i.e. relationship variables primarily comprised factor one .

However, since three factors only extracted two variables, it was decided that factor analysis was not the most appropriate method in which to determine whether relationships existed in the UK grocery sector.

5.8. Identification of relationship levels in grocery retailing

In order to identify the level of relationship development in the grocery sector, individual respondent scores were calculated on each of the variables that aimed to measure commitment, concern, involvement and trust (C.C.I.T). Hence, mean scores were determined as well as an identification of the extent to which all four elements were evident (see Appendix 4).

Table 5.17 : Responses to relationship indices – factor analysis

RESPONSE FACTORS Variables	Mean	S.D.	Factor loading
Factor one: TRUST			
Q25 1 trust the supermarket	2.450		0.83993
Q23 The supermarket will not 'trick me'	2.601		0.81603
Q24 The supermarket is concerned	2.534		0.81298
Q26 1 would recommend the supermarket to others	2.103		0.58952
Variance: 20.9%		Scale alpha: 0.53498	
Factor two: BARGAIN HUNTERS			
Q16 Interest in bargain-hunting	2.717		0.74462
Q17 Interest in shopping	2.907		0.71477
Variance: 12.6%		Scale alpha: 0.64431	
Factor three: RE-PURCHASHE INTENTIONS			
Q36 Repurchase intentions	1.907		0.75655
Q29 Would prefer to shop in one store	2.239		0.71610
Variance: 10.3%		Scale alpha: 0.57722	
Factor four:: OPINION ORIENTATED			
Q18 Interest in special offers in local area	2,970		0.74712
Q21 Opinions are formed depending on supermarket	3,305		0.61789
Q20 Value –consciousness	2,079		0.59195
Variance: 9.7%		Scale alpha: 0.59723	
Factor five: INVOLVEMENT			
Q35 Supermarket should make more effort	2.706		0.72358
Q19 Most of the supermarkets are all alike	2.931		0.61160
Variance: 8.3%		Scale alpha: 0.52415	

The eleven variables, which were used to measure the relationship levels of respondents, are outlined below;

Commitment: Q27, Q29, Q36	Overall respondent score ranging from 3-15
Involvement: Q20, Q21, Q35	Overall respondent score ranging from 3-15
Trust: Q23, Q25, Q2	Overall respondent score ranging from 3-15
Concern: Q22, Q24	Overall respondent score ranging from 2- 10

These four relationship indices were grouped together to identify the overall level of relationship development. The scores had a possibility of ranging between 11-55, hence five relationship levels were identified. This method enabled identification of relationship levels and provided a tool for testing the influence of additional variables on relationship levels (see Table 4.3).

Figure 5.18 displays the number of respondents within each score grouping as well as the overall percentage within each category .

Since there were eleven statements, each measured on a Likert scale of 1-5, the scores could range from 11 to 55. Five groups were devised with each being represented proportionately (Table 5.19) .

Table 5.18 : Overall relationship levels

Total scores of CCIT	Number of Respondents	Percentage
11	4	1.0%
12	0	0.0%
13	0	0.0%
14	4	1.0%
15	2	0.5%
16	4	1.0%
17	0	0.0%
18	6	1.5%
19	8	2.0%
20	6	1.5%
21	12	3.0 %
22	24	6.1%
23	24	6.1%
24	26	6.6%
25	38	9.6%
26	42	10.7%
27	30	7.6%
28	34	8.6%
29	24	6.1%
30	16	4.1%
31	18	4.6%
32	20	5.1%
33	18	4.6%
34	14	3.6%
35	6	1.5%
36	8	2.0%
37	2	0.5%
38	2	0.5%
39	2	0.5%
Mean : 26.660		S.D : 4.980

Table 5.19 : Relationships level groupings

Overall relationship Score	Nature of relationship	Percentage of respondents
11 – 19	Very high relationship level	7.1%
20 – 28	High relationship level	59.8%
29 – 37	Average relationship level	32.1%
38 – 46	Low relationship level	1.0%
47 - 55	Very low relationship level	0.0%

It can be seen from the above table that the majority of the sample displayed high levels of relationship development with grocery retailers. Only 1% of the total sample exhibited low relationship levels and 7.1% of respondents displayed very high relationship levels. Clearly it can be seen, that in the UK grocery sector, the majority of consumers display positive relationship levels .

A separate variable was created with each respondent's relationship level score, which was then tested against other data derived from the questionnaire. It was hence, perceived that identification could be made of any associations that existed between other data and respondent relationship levels .

5.8.1 Relationship levels and interest in shopping

It was suggested in Figure 4.2 that an interest in shopping would be associated with the four relationship variables and hence, on the overall relationship level. A one-way ANOVA statistical test was conducted with the results displayed in Table 5.20 .

Table 5.20 : Relationship levels and interest in grocery shopping

Variable (Shopping is...)	ANOVA test Statistic	Significance Value (p=)	Conclusion (if p<0,05 → reject null hypothesis)
Important	2.1643	0.0483	Reject Ho
Interesting	2.3006	0.0363	Reject Ho
Exciting	2.8691	0.0107	Reject Ho
Fun	3.1151	0.0062	Reject Ho

Hence, it can be seen that all four variables (Q9), which aimed to identify consumer interest in grocery shopping, have a significant association with the level of relationship that respondents display. It can be assumed that the more interested consumers are in grocery shopping, the more likely they are to display high relationship levels.

5.8.2. Relationship levels and overall satisfaction with the supermarket

It was assumed that respondents highly satisfied with their supermarket would exhibit higher levels of relationship development. Satisfaction has previously been identified as a key criterion in building customer relationships (Section 3.8.1).

Table 5.21 : Relationship levels and satisfaction

Variable	ANOVA test statistic	Significance Value (p=)	Conclusion (if $p < 0,05 \rightarrow$ reject null hypothesis)
Q15 Overall satisfaction	16.6961	0.0000	Reject Ho
Q14 Satisfaction with store staff	11.7949	0.0000	Reject Ho

The results revealed that there was a significant association between overall satisfaction with the store and relationship levels. These results are in line with previous findings of this research (sections 5.4.6 and 5.6.7) which show the importance of generating customer satisfaction for relationship development, i.e. trust and loyalty. Mean scores were identified for each individual sub-group. Respondents who said they were very satisfied with the supermarket had a mean rating of 23.5192, whereas respondents who were dissatisfied with the supermarket had a mean relationship level of 31. Clearly, there are differences between groups of respondents who were highly satisfied with the supermarket and those who were dissatisfied and their overall relationship levels. Hence, highly satisfied respondents are more likely to exhibit higher levels of relationship development.

Satisfaction with store staff was also assumed to influence the overall relationship level of respondents. Again the test revealed that the null hypothesis should be rejected and that there was a significant relationship between the two. Again when looking at the individual sub-groups, it was identified that respondents had higher relationship levels the greater their satisfaction with staff at the supermarket.

5.8.3. Re-purchase intentions and relationship levels

It was suggested, in the research framework (Figure 4.2), that re-purchasing intentions would be highly dependent on the relationship level of respondents. This was assumed, as respondents with higher relationship levels would be more likely to be loyal to the supermarket in question and hence, would be more likely to re-purchase with the particular supermarket .

Table 5.22 : Relationship levels and future behaviour

Variable	ANOVA test Statistic	Significance Value (p=)	Conclusion (if $p < 0,05 \rightarrow$ reject null hypothesis)
Q35 More effort from the supermarket	6.9339	0.0000	Reject Ho
Q36 Re-purchasing intention	16.6346	0.0000	Reject Ho

The test statistic (p=) revealed that there was a significant association between respondent re-purchase intentions and relationship levels (Table 5.22). It was also identified that respondents who had higher relationship levels would like the supermarket to make more effort in getting to know what they like and dislike. Respondents who strongly agreed that they would re-purchase had a mean relationship level of 23 (i.e. high level), whereas respondents who disagreed had a mean level of 29.6571 (i.e. average level).

5.8.4. Relationship levels and respondent recognition of being in a relationship

It was assumed that respondents with higher relationship levels were more likely to feel they were loyal to the supermarket in addition to stating they had a relationship with their supermarket .

Table 5.23 : Relationship levels and loyalty or relationship recognition

Variable	ANOVA test statistic	Significance Value (p=)	Conclusion (if $p < 0,05 \rightarrow$ reject null hypothesis)
Q27 Loyal to the supermarket	34.9289	0.0000	Reject Ho
Q28 Relationship with the supermarket	6.7390	0.0000	Reject Ho

In terms of loyalty recognition, respondents clearly had higher relationship levels the more strongly they agreed to being loyal to the supermarket (Table 5.23). The differences between the sub-groups were also identified, which evidently displayed the disparities of opinions .

Respondents who strongly agreed they were loyal displayed a very high relationship level, whereas respondent who disagreed had low relationship levels. Hence, retailers need to clearly understand that the first step in developing relationships with customers is the creation of loyalty.

Table 5.24 : Relationship levels between loyalty sub-groups

Loyal rating (likert scale 1-5)	Mean relationship level
Strongly agree	20.2500
Agree	24.9600
Neither agree nor disagree	28.8810
Disagree	30.9459
Strongly disagree	37.000

Table 5.24 also displays the results of relationship levels and respondents who felt they had a relationship with their supermarket. Again, there was a clear association between the two variables. The differences between the sub-groups can be seen in Table 5.25.

Table 5.24 : Relationship levels between loyalty sub-groups

Loyal rating (likert scale 1-5)	Mean relationship level
Strongly agree	20.2500
Agree	24.9600
Neither agree nor disagree	28.8810
Disagree	30.9459
Strongly disagree	37.000

Again, there are clear differences respondents who felt they were a relationship with their supermarket and their overall relationship level. Respondents who strongly agreed that they had a relationship had very high overall relationship levels, whereas respondents who strongly disagreed had just above average relationship levels. The results indicate that consumers may be in a relationship with the supermarket, even if they do not recognise this as such .

The results hence, indicate that satisfaction is a key prerequisite for relationship development. Also, the higher the relationship level that consumers exhibit the more likely they are to re-purchase in the same supermarket. Loyalty and interest in shopping were also significantly associated with higher relationship levels .

5.8.5. Significance of relationship indices (C.C.I.T)

It was also deemed interesting to identify whether there were any significant associations between satisfaction, re-purchase intentions and loyalty recognition with the four individual relationship indices of commitment, concern, involvement and trust (C.C.I.T). Table 5.26 displays the statistical test results conducted to identify any significant associations between these variables .

For commitment, concern and trust, the test results indicated that there was a significant association with satisfaction, loyalty and re-purchase intentions. In addition, trust was also significantly associated with staff satisfaction. The results re-affirm the importance of internal marketing in generating trust and hence enhancing relationships with consumers .

All these variables can be identified as being key criteria in relationship development in the UK grocery sector. However, involvement was not significantly associated with these factors, although there was a significant association with repurchasing intentions .

Table 5.26 : C.C.I.T and satisfaction, loyalty and future behaviour

Variables	ANOVA test Statistic	Significance Value (p=)	Conclusion (if p<0.05 → reject null hypothesis)
Commitment			
Q15 Overall satisfaction	7.2156	0.0000	Reject Ho
Q32 Re-purchase intentions	30.6578	0.0000	Reject Ho
Q27 Loyalty	81.2792	0.0000	Reject Ho
Concern			
Q15 Overall satisfaction	16.1834	0.0000	Reject Ho
Q14 Staff satisfaction	13.0727	0.0000	Reject Ho
Q27 Loyalty	7.3523	0.0000	Reject Ho
Involvement			
Q15 Overall satisfaction	1.5512	0.2026	Accept Ho
Q14 Staff satisfaction	2.4075	0.0685	Accept Ho
Q32 Re-purchase intentions	2.6600	0.0340	Reject Ho
Q27 Loyalty	1.6930	0.1531	Accept Ho
Trust			
Q15 Overall satisfaction	14.0496	0.0000	Reject Ho
Q14 Staff satisfaction	12.5066	0.0000	Reject Ho
Q27 Loyalty	15.9438	0.0000	Reject Ho
Q32 Re-purchase intentions	4.2660	0.0025	Reject Ho

As a result, an additional test was conducted on respondent interest in shopping with involvement levels. Table 5.27 displays the results where it can be seen that all variables, which measured respondent interest in grocery shopping, were strongly correlated with the involvement construct. The results certify the research framework devised in section 4.3.

Table 5.27 : Involvement and interest in grocery shopping

Variable (Q9) (Shopping is...)	ANOVA test statistic	Significance Value (p=)	Conclusion (if $p < 0,05$ → reject null hypothesis)
Important	2.2659	0.0390	Reject Ho
Interesting	4.3376	0.0004	Reject Ho
Exciting	5.4022	0.0000	Reject Ho
Fun	5.0430	0.0001	Reject Ho

The results of the questionnaire survey have highlighted a number of key issues identified as being important in relationship development. For example, consumers who were loyal to their supermarket would be more likely to recommend it to others. Hence, loyalty and relationship development have been identified as having positive effects if fully enhanced. Once retailers have identified the benefits that can be derived from loyal and relationship prone customers, they can ensure that they are creating some of the elements that essential in this development such as satisfaction, trust, concern, consistency and reliability .

5.9. Summary

This chapter attempted, to present the findings of the research process in order to identify what consumers thought about retailers and their loyalty schemes and to see whether relationships could be developed within the grocery sector .

The first section, which was devoted to the focus group findings, began with a description of the sample. The topics that were covered in the two groups were then highlighted, relating particularly to consumer thoughts on loyalty cards, retailers and the overall shopping experience .

The results sections were presented with the relevant research questions. These included an identification of what respondents thought about customer loyalty schemes and how they rated them in terms of their overall impact on store choice. Respondents were segmented using the Diamond of Loyalty developed by Denison and Knox (1995).

Following on from this, correlations were sought between a number of variables, in order to identify connections between relationship indices and consumer loyalty.

A factor analysis was also conducted in order to condense the data that aimed to identify relationships in the grocery sector. Five significant factors were extracted, however, the resulting factors were not used in hypothesis testing as it was identified they would not fully be able to meet the objective set in section 4.2 (Objective d).

Hence, individual respondent scores were calculated on the four relationship indices of C.C.I.T. These were then grouped together to identify the overall relationship level that respondents exhibited. The results were used to test a number of hypotheses as well as to identify any connections between these and other data. Consumer relationship levels in the UK grocery sector were subsequently identified, where it was found that high relationship levels did exist .

Both the results of the questionnaire survey and the focus group discussions are discussed in greater detail in the next chapter, where the final conclusions are then drawn.

Chapter Six

CONCLUSIONS

CONCLUSIONS

6.1. Introduction

In recent years, retail marketers have focused attention on customer loyalty schemes as a tool for generating loyalty amongst their mass customer base. The success of these schemes is questionable, depending upon the benefits sought by the particular retailer. It is arguable whether retailers are using these schemes as short or long term marketing tools. Although, from the literature search, it seems that they are tactical rather than strategic (e.g. Reynolds 1995). These issues are well documented in the literature (see chapter two)

This research adopts a different perspective to that outlined above, questioning the true worth of such schemes, from the consumers' perspective. An attempt is made to identify whether the relationship marketing concept is pertinent in a retailing context. The objectives underlined in section 4.2 will be discussed firstly, and conclusions subsequently made. Following this, identification will be made of the contribution that this particular research can make to current marketing theory as well the implications for retail marketers and management.

Principal findings

6.2. Consumer perceptions of customer loyalty schemes

This objective identified how important consumers feel loyalty schemes are in satisfying their needs in relation to the overall retail offering. Identification of what factors they place as most important, specifically their attitudes towards loyalty schemes, were also researched.

The key findings relating to the above objective are highlighted, from both the preliminary research and the main study.

- Respondents primarily viewed their participation in loyalty schemes as getting something for nothing. The majority were not highly enthusiastic about loyalty schemes, but felt they were just an added incentive.

- It was found that consumers did not rate loyalty schemes as being as important as other factors, such as product or service quality and customer service facilities, in store choice.
- The results indicated that the majority of respondents would continue to shop with their main supermarket, regardless of whether there was a loyalty scheme in operation. However, it was found that such schemes did encourage re-purchasing. Hence, from the consumers' perspective, loyalty schemes did not generate emotional commitment but behavioural commitment was evident.
- The majority of consumers also had a number of loyalty cards from competing retailers, again indicating that loyalty schemes do not encourage loyalty to one particular retailer.
- It was found that customer loyalty schemes are changing patterns of consumer behaviour, but perhaps not attitudes. In order to develop long term relationships it is attitudes, beliefs or 'emotional commitment', which need changing.

Clearly, the results do not oppose the literature, which suggests that emotional loyalty is not being developed by points and prizes (e.g., Reynolds 1995). This is a key issue for supermarket retailers, as the real purpose of loyalty schemes is not being achieved. In addition, it was found that no direct dialogue was being created between retailers and customers. Retailers can acquire vast amounts of information, generated from loyalty card application forms. However, the researcher feels that they are not being used effectively.

Loyal consumers were identified as having more favourable opinions towards loyalty schemes (see section 5.4.3). Retailers should hence identify those consumers who do value them and concentrate on enhancing the benefits of such schemes to this segment (see section 6.3). Of those that don't regard loyalty schemes as giving them anything worthwhile, the emphasis needs to be primarily on customer service benefits, in order to develop loyalty with these consumers.

Therefore, loyalty cannot be generated solely by such schemes, but needs to be incorporated into the overall retail strategy, alongside customer service facilities and product quality. All of these elements work together, to create true customer loyalty. These findings affirm previous research (e.g. Sopianen 1996) in identifying the importance of customer service as one of the key techniques for generating loyalty.

6.3. Segmentation of sample population into loyalty types

Data generated from the research were used to segment consumers into loyalty types using the Diamond of Loyalty (Denison and Knox 1995). The application of this theoretical framework to a grocery retail context was deemed useful for marketers and practitioners who need to segment their customer base. Satisfaction was used as a measure for commitment and the total number of stores visited identified the behavioural dimensions of the matrix.

In identifying behavioural dimensions, (see section 5.4), consumers who visited 1-3 stores were categorised as loyal shoppers and consumers who visited 4-6 stores were categorised as promiscuous shoppers. However, it was identified that if different categories had been used (i.e., 1-2 and 4-6) the results would have differed.

It was recognised that, for this particular sample, the majority of respondents were 'loyal'. The least represented group were "switchers" who have low commitment and visit a lot of stores. By identifying the composition of their customer base, retailers can begin to develop strategies and tactics for the groups they wish to focus on. Some groups, such as 'switchers' will never be profitable for retailers and hence should not be concentrated upon.

In attempting to build loyalty, retailers should focus on loyal segments (Reichheld 1993), who will be more receptive to loyalty generating schemes. In addition, database marketing techniques need to be fully utilised in order to identify loyal consumers. These techniques will enable more precise targeting to loyal consumers, ensuring delivery of personalised service (see information exchange of interaction process, section 6.4). However, the researcher feels that the Diamond of Loyalty is only an initial tool in identifying loyal segments. This should be used to facilitate the development of additional segmentation techniques.

Segmenting customers into relatively homogeneous groups allows selecting the most attractive prospects. The research identifies that loyal and promiscuous shoppers differed in their attitudes towards loyalty schemes (see section 5.4.3). Segmentation must recognise and clearly identify 'attractive' customer groups so that grocery retailers can effectively target the resources needed to develop customer loyalty. With regard to relationship marketing, variables such as customer needs and preferences, loyalty and satisfaction are particularly important in identifying attractive and profitable customer groups.

In developing a relationship marketing strategy, retailers need to be concerned about identifying customers who will remain loyal in the long term. The segmentation process employed should reflect this goal. The variables associated with behaviouristic segmentation are particularly relevant to relationship marketing (benefits sought, needs, preferences, usage rate, loyalty). The utilisation of this form of segmentation is more appropriate than demographic or socio-economic methods, although they are still useful. The researcher suggests that satisfaction could be used as an additional method in which to segment consumers. It seems that satisfied consumers are more receptive to both loyalty and relationship marketing (e.g. section 5.4.6. and 5.8.2).

6.4. Relationship development in the grocery retail sector: the consumers perspective.

Many critics have argued that it is almost impossible to develop relationships with individual consumers in this sector (see section 3.9). Some retailers however, are realising that in the competitive environment of the late 1990's, this is a way forward. The introduction of customer loyalty schemes has been seen by many as a significant step forward for retailers wanting to 'get closer to the consumer'. A primary aim of this research was to identify whether customers want to develop relationships with their prime supermarket and whether they have developed such relationships. In order to test the extent to which relationships are being developed, a theoretical framework was devised (Figure 4.2), which was used to identify the nature of such relationships.

Much of the data generated from the questionnaire addressed the issue of relationship development in grocery retailing. Relationship indices were constructed to identify each respondent's relationship level with their main supermarket. The key findings are listed below.

- Satisfaction with the retailer, and a belief that the retailer is trustworthy, concerned, consistent and reliable were key criteria in developing relationships with consumers. In turn, once these basic tenets of relationship building were in place, consumers would be more likely to recommend the store to others and continue repurchasing.
- These factors were also found to be strongly associated with loyalty generation. It identified that consumers who felt they were loyal to the supermarket in question, also felt they trusted the supermarket, were highly satisfied with the supermarket and intended to recommend the supermarket to others.
- Consumers were also asked outright whether they felt they had a relationship with the supermarket. The majority did not see themselves in a relationship. However, consumers who were loyal were more likely to acknowledge that they were in a relationship.
- The majority of consumers would prefer to shop in one store alone. Hence, relationship development would appear to be a feasible objective, in this respect at least.
- Combining all the relationship indices measuring commitment, concern, involvement and trust (C.C.I.T), identified relationship levels. The majority of respondents displayed a fairly high relationship level. In particular, trust in the supermarket was the strongest construct. The results indicate that what consumers view as a 'relationship' with the grocery retailer, is not in line with what retailers perceive a relationship to be. This is because respondents did not acknowledge they had a relationship with their supermarket, yet the relationship measurements (indices) indicated they did have some form of a relationship with the supermarket. Hence, consumers may have a different term in which to describe their 'relationship' with their supermarket, yet, this does not mean that a relationship does not exist, even though they call it something else.

It can be seen that developing relationships with customers has clear benefits for retailers. In addition to added commitment from consumers, relationship development strategies would have an effect on increasing sales and hence, profitability. Therefore, retailers cannot ignore these issues. These findings support previous research (Bendapudi and Berry 1997, Peck 1993) in that when there is greater trust existent, the greater the likelihood of a relationship developing.

The views of Christopher et al (1991), Berry and Parasuraman (1991), and Buchanan and Gillies (1990) are supported by this research which emphasises the importance of customer satisfaction and customer service to loyalty and relationship generation. In particular, the findings correspond to those of Rust and Zahorik (1993), who find that customer satisfaction might be linked to loyalty and profits.

6.5. Application of the Interaction Approach to the grocery retail sector

The Interaction Approach could be a useful tool of analysis for the consumer buying process in the grocery retail sector which covers relationships and interactions. McKechnie (1992) considers this with respect to financial services and states that it addresses the interactive process which takes place between the buyer and the seller in an exchange situation, and bases this not just on a single transaction but as a series of transactions over time which results in a relationship being formed between the two parties (McKechnie 1992).

The Interaction Approach is built on a number of fundamental principles, which include:

- 1 Both parties involved are active participants in the market.
- 2 The relationship between the buyer and the seller is frequently long-term, close and involving a complex pattern of interaction between and within each party.
- 3 Close relationships are often considered in the context of continuous purchases.

Between the parties (buyer-seller) in a network various interactions take place, where exchanges and adaptations to each other occur. Flows of information as well as financial and social exchanges take place in a network. All exchanges, and all forms of interaction have an impact on the position of the parties in the network.

The Interaction Approach focuses in this case on the interaction process where episodes are identified which contribute to the nature of the relationship. The interaction process breaks down the formation of relationships between buyers and sellers into a set of episodes. Each individual episode contributes to the character of the overall relationship which develops over a period of time. These episodes include:

- 6.5.1 Product/ Services exchange
- 6.5.2 Financial exchange
- 6.5.3 Information exchange
- 6.5.4 Social exchange

6.5.1. Product/ service exchange

In a mass-market environment, it is almost impossible to satisfy every consumer's individual need. Through developing relationships with customers, retailers can understand in greater detail their individual preferences. Hence, enabling them to meet consumer needs more efficiently and effectively.

The research indicates that product and service quality are key factors in store choice. Hence, retailers need to ensure consumers are receiving these as the outcome may be higher loyalty and relationship level

6.5.2. Financial exchange

This form of exchange is a natural consequence of any commercial relationship. It was found, through the research, that most respondents spent the majority of their budget with their main supermarket. Retailers can easily identify these consumers through market research and even customer loyalty cards. In addition, the amount of financial exchange, which occurs, can be an indication of the behavioural commitment existent between the consumer and the retailer, i.e., if more money is spent with one retailer, there will be greater evidence of behavioural commitment.

Payment methods are also a component of this episode. Retailers are increasingly introducing additional methods of payment for their customers. Consumers now have a choice of debit cards, credit cards, cheques or cash. Tesco Clubcard Plus is an example of a new payment mechanism, which enables consumers to pay for purchases through the savings they have accumulated on their Clubcard Plus accounts. Many retailers are now entering into financial services, although it is too early to identify whether they are successful or not.

Coupons sent through the post can also facilitate relationship development. They can work in close alignment with elements of the information exchange and build a direct dialogue with the customer. Retailers need to ensure that the coupons mailed out to a customer need to be relevant to his/her specific needs. These will convey to the customer that the retailer knows their purchasing habits and requirements.

Point redemption which are characteristic of some customer loyalty cards currently in operation (e.g. Somerfield Premier Points), are an essential element of this exchange. They are often the outcome of consumers frantically collecting 'points' and shopping regularly in one supermarket, resulting in tangible rewards. However, as Reynolds (1995) believes, these are tactical marketing tools rather than strategic.

6.5.3. Information exchange

This is a very important element if the relationship marketing concept is to succeed in the retailing context. The exchange of information has developed radically over the past decade, and it can have a substantial effect upon the nature of relationships. Due to the large customer base in grocery retailing, information will be a key element in building relationships, although it may be difficult to obtain, process, store or act upon. It enables retailers to get to know individual customer needs and preferences and should attempt to develop a personal nature to the relationship with the customer. The data generated from customer loyalty schemes and the development of customer databases enable retailers to send out personalised mailings to customers. Databases can store information on what each customer is buying, hence, if a customer is a vegetarian, mailings could send them information on their vegetarian range, as well as sending out coupons.

These acknowledge that the retailer knows the customers' preferences and wants to meet their individual needs. It is this, which will enhance relationship development. It is essential that this communication is a two-way process, which is currently not so. The results indicated that respondents who received mailings from the supermarket felt this was a standard procedure. There was no personal nature to the mailings, although personal names were often used on letters. The average occurrence of these mailings was 1-3 months, which was the standard quarterly clubcard mailing requirements.

If customers feel that the retailer is making the effort to get to know what they like, they are more likely to be loyal. The research identifies that the majority of respondents felt they would like the supermarket to make more effort in getting to know what they like and dislike.

Finally, complaint handling needs to be effectively dealt with, creating positive feelings for the retailer. The focus group discussions revealed that consumers who had their complaints handled well felt more positively towards the retailer. The ones that did not had negative feelings, which resulted in not just negative word-of-mouth, but also feelings of not wanting to go back to the particular retailer.

6.5.4. Social exchange

Store staff are key factors in these episodes. The research found that respondents who were highly satisfied with staff had higher relationship levels. Trust and concern were also significantly associated with satisfaction with staff. Hence, the outcome of interactions between the performance of staff and customers affects customer perceptions of the retailer. Customers need to receive exceptional service from staff, each and every time an interaction occurs between the two. These findings support previous research (e.g. Berry 1993, Rust and Zahorik 1993), that emphasises the importance of staff and service quality. Customer-staff service encounters identified from this research, also support the findings of Berry and Gresham (1986) and Beatty et al. (1996) who assert that customer perceptions of staff can influence their satisfaction and the extent of their relationship with the firm. In addition, the interactions between consumers and retailers have a significant impact on the future buying behaviour of consumers. e.g., positive referrals. It is therefore essential that the retailer fully understands the expectations of consumers. Once these basic tenets are achieved, then long term relationships can be fully developed.

Staff are often the only 'human' contact with consumers, thus the message retailers want to convey can be delivered through store staff. In order to encourage staff to be involved in relationship marketing strategies, retailers may need to enhance the benefits they receive (not just through wages). The concept of internal marketing has been widely cited and is supported by this research (e.g. Buttle 1996, Christopher et al. 1991, Beatty et al. 1996, Gronroos 1991 and 1995).

All these episodes can be adapted to some extent to a retailing context. The IMP model states that once these all work together and are 'routinised' they will lead to the building up of long term relationships.

This research identifies that the majority of consumers have high relationship levels, however, it needs to be acknowledged that consumer perceptions of what constitutes a relationship differ significantly from retailers' perceptions. For example, the research revealed that consumers did not expect retailers to get to know them on a personal basis as they felt this was not possible. Most consumers confuse the term loyalty and relationships. They can understand loyalty but not relationships. Qualitative findings indicated that the majority felt loyalty was possible, whereas relationships were not.

It is also interesting to note that when respondents were asked straight out whether they had a relationship with their supermarket, the majority disagreed. Many respondents were put off by the word 'relationship'. Consumers see relationships in terms of the personal interactions they have with people, i.e. friends and family.

6.6 Theoretical implications

This research attempts to adapt the Interaction Approach to the grocery retail sector. McKechnie (1992) has already adapted it to financial services. It is also a kind of research that looks at relationship development specifically in the grocery sector, whereby a number of issues in relation to loyalty and relationship marketing were identified.

Much of the work on relationship marketing has been completed in industrial and, more recently, service settings. Here, the client base can be more easily segmented, making relationship development more plausible. The Interaction Approach is highly useful for organisational marketing, and the research indicates its applicability to retailing, specifically the information exchange episode. Different environmental factors and the recency and frequency of purchases, mean that issues such as the possibility of a relationship developing, need to be comprehended.

Relationship development in retailing exists in a different context and environment, where consumer needs and expectations differ largely from micro-marketing situations. Yet, this does not mean that retailers cannot achieve micro-marketing techniques. It is customer loyalty schemes and the development of relationships, which may enable the potential of micro marketing to be achieved. Every consumer needs to visit a grocery outlet in order to satisfy his/her basic physiological needs and survive. Hence, there will always be demand, so retailers need to develop an added enticement to enable consumers to remain loyal to their store. It has already been stated that consumer and retailer perceptions differ; it seems that consumers do not accept that they can develop relationships with supermarkets. Once they realise that it is plausible, supermarkets can then begin to develop effective strategies.

This research identified the importance of relationship marketing strategies in retailing. It is envisaged that relationship development is clearly a method by which retailers can encourage consumers to patronise one store alone. However, there is clearly something missing, loyalty schemes have been found not to be a very successful method of encouraging emotional commitment. If consumers engage in a relationship with their supermarket, they are likely to be emotionally tied to the store. As soon as this occurs, it will be hard for competitors to entice them away.

Loyalty schemes, although useful, are currently not a method of generating emotional commitment to the retailer. Hence, there is a clear need for marketing theories and concepts to be developed specifically for retailing, for example, identifying methods by which consumers emotional commitment can be attained.

Even though the key relationship indices were identified, the reason that true relationships are not being developed in the grocery sector is because of differing consumer and retailer expectations and perceptions. For example, consumers trust the supermarket, but perhaps only to the extent that they won't be charged extra prices for no apparent reason, not trust in the sense that signifies a relationship (section 3.6.1).

These findings support marketing academics (e.g. Buttle 1996, Evans and Laskin 1994, and Parasuraman et al. 1994) in that there is a need for retailers to identify and understand the expectations of their customers. At the moment, there is no two-way dialogue that exists, and retailers do not understand the expectations of consumers.

6.7. Implications for retailers

- Retailers need to concentrate on enhancing customer service benefits and generating greater satisfaction, which in turn will affect loyalty and hence relationship development. Consumers clearly want better products and greater service quality. These are elements that enhance relationship development, not the current loyalty schemes in operation. Hence, retailers need to continue devising new customer service initiatives, which convey to customers a feeling of concern for them (section 3.6.4).
- Retailers who concentrate on using loyalty schemes as their only mechanism for generating loyalty need to be cautioned. Firstly, not all consumers have positive attitudes towards such schemes and loyalty schemes cannot reach those who either do not choose to join or are not eligible to do so, for this reason loyalty schemes can only form part of a loyalty strategy. Secondly, retailers should not tie themselves so tightly to their loyalty schemes, so that they may be prevented from operating without them. It is evident that since all the major supermarkets now offer some form of loyalty scheme, consumers expect the supermarket to have one. Hence, current loyalty schemes are not creating any differentiation. This is because they are not using the customer data derived from loyalty cards effectively, to target specific customer segments and build a personal dialogue with each customer. This research supports work by Reynolds (1995), stating that present loyalty schemes are tactical rather than strategic mechanisms for creating loyalty.

- The overall grocery shopping experience needs to be made more enjoyable, which identified as being significantly associated with involvement levels. These findings are in line with a 1996 study on grocery shopping behaviour (Smith and Carsky,1996) which identifies that enjoyment and involvement were positively associated. However, it is not known whether enjoyment is a prerequisite for involvement, or vice-versa. The findings also support Carman's (1970) assertions that consumers who display loyalty are more committed.
- Database marketing techniques are a way in which retailers can get to know consumers as individuals. Relationships, by their very nature, are on a one-to one basis. As yet, no personal nature to the relationship is existent between the two parties- communication is still predominantly one-way. Retailers need to convey to the customer that they want to actively seek to learn more about them through their loyalty schemes, in order to serve their needs more comprehensively. For this precise reason, loyalty schemes currently lie somewhere between mass marketing and target marketing, although nearer to mass marketing in the researchers opinion.
- This importance of internal marketing is also expressed. Commitment from staff and management, at all levels, is a prerequisite for relationship development. They need to understand the value of retaining each customer. Staff also need to be fully trained so that they can deal with any customer situation that arises, the outcome of which should be positive customer feelings with every interaction. There is a clear need for marketing departments who develop these strategies, to work closely with Personnel and I.T. departments. The whole organisation needs to identify with the objectives of the organisation, to ensure successful implementation.

Finally, customer loyalty schemes seem to be a way in which retailers are trying to go 'back to basics' and adopt a 'corner shop approach' of personalised service. This however, needs to comprise good quality products, reliable and friendly staff with the generation of trust with the retailer.

PART II
MODELLING
CUSTOMER
LOYALTY

Chapter Seven

INTRODUCTION

Introduction

Research conducted into the retail grocery sector in the first part of this study showed that a clear effect of customer loyalty was not found.

The findings show that the majority of respondents was not highly enthusiastic about loyalty schemes, but felt they were just an added incentive. It was found that consumers did not rate loyalty schemes as being as important as other factors, such as product or service quality and customer service facilities, in store choice. The results indicated that the majority of respondents would continue to shop with their main supermarket, regardless of whether there was a loyalty scheme in operation. However, it was found that such schemes did encourage re-purchasing. Hence, from the consumers' perspective, loyalty schemes did not generate emotional commitment but behavioural commitment was evident. The majority of consumers also had a number of loyalty cards from competing retailers, again indicating that loyalty schemes do not encourage loyalty to one particular retailer.

It was found that customer loyalty schemes are changing patterns of consumer behaviour, but perhaps not attitudes. In order to develop long term relationships it is attitudes, beliefs or 'emotional commitment', which need changing.

Clearly, the results do not oppose the literature, which suggests that emotional loyalty is not being developed by points and prizes (e.g., Reynolds 1995). This is a key issue for supermarket retailers, as the real purpose of loyalty schemes is not being achieved. In addition, it was found that no direct dialogue was being created between retailers and customers.

This lack of customer loyalty led the researcher to conclude that it would not be possible to build an effective model of customer loyalty in the grocery retailing sector and that any model would therefore have to be developed and tested in another sector within the wider services sector of the economy. However, although it would have been preferable to model within the grocery sector, had earlier research indicated this was feasible, there were advantages to be gained from testing in a second sector with respect to recognising the boundaries and limitations of attempting any generalisations across the entire services sector.

Several alternative service sectors were considered as the “second sector” for the study of customer loyalty modelling. Many were rejected because they failed to meet minimum criteria with respect to the role of customer loyalty schemes and of relationship marketing.

Eventually, the telecommunications sector was selected as the most appropriate sector to attempt to model customer loyalty. The sector is very dynamic at the micro level, and turnover of customers and customer switching is very high. Within the sector itself, research then focused on international phone call services, a fast growing market in the UK and that is itself focused strongly on customer satisfaction. A further justification of the selection was that the telecommunications sector offered the opportunity of a much bigger sample size, a nationwide spread, and allowed for several aggressively competing companies to be included in the research.

The second part of this thesis comprises four chapters (chapters seven to ten inclusive). Chapter seven develops and tests a model of customer loyalty, and to test this model, two rival models were taken from the literature. Chapter eight discusses the antecedents of customer loyalty and identifies the hypotheses to be tested in the research. Chapter nine describes the research methodology designed to test the stated hypotheses. Finally, chapter ten gives the results and the findings of the tested hypotheses.

7.1. Research Problem

Traditional marketing practices have focused on attracting new customers rather than retaining existing ones as practitioners aimed at selling rather than cultivating relationships.

More recently, however, a growing number of companies are emphasizing retention of current customers for the following reasons. First, the cost of attracting new customers may take six times the cost of keeping current customers satisfied (Bender 1976). Second, companies can improve profits more than 25% by reducing customer defection by 5% (Reichheld and Sasser 1990). Finally, loyal customers outspend others by ratios that can go from 5:1 in the hotel and motel industry to 16:1 in retailing (Bagozzi et al. 1998).

Despite this new emphasis on customer retention and the acceptance that managers need to understand and know how customer retention can be achieved, marketing researchers have not advanced studies on the antecedents of customer retention. Some authors of marketing textbooks have linked customer retention to customer satisfaction (Kotler 1997, Kurtz and Clow 1998, Rust, Zahorik, and Keiningham 1996, Zeithaml and Bitner 1996) under the assumption that a satisfied customer may be prone to repeat purchases, whereas an unsatisfied customer may tend to defect. Similarly, some marketing researchers have underscored the direct relationship between customer loyalty and customer satisfaction (Hallowel 1996, Heskett et al. 1994, Heskett, Sasser, and Schlesinger 1997).

Yet, the backward linkage of customer retention to customer satisfaction does not seem to be direct mainly because of the emerging requirement of an established relationship between the customer and the seller for retention to actually occur (Berry 1983, Berry and Parasuraman 1991, Grant and Schlesinger 1995, Jones and Sasser 1995, Reichheld 1996, Webster 1992). Even though the literature on customer satisfaction is normally related to customer loyalty, a formal model explaining the steps between customer satisfaction and customer loyalty is missing. It has been mentioned that customer satisfaction is necessary, but not a sufficient condition (Liu 1998, Schulz 1998), that there is evidence that despite favourable customer satisfaction, companies are losing important buyers of their products and services everyday (Thomas 1998), and the attempts to use satisfaction, an attitude, in order to predict customer loyalty, a behaviour, has not worked well in the past (Neal 1999).

If there is not a straightforward relationship between customer satisfaction and customer loyalty, then the questions are, what is there in the middle? How can we explain that customer satisfaction does not always lead to customer loyalty? The present research will seek to address these primary problems.

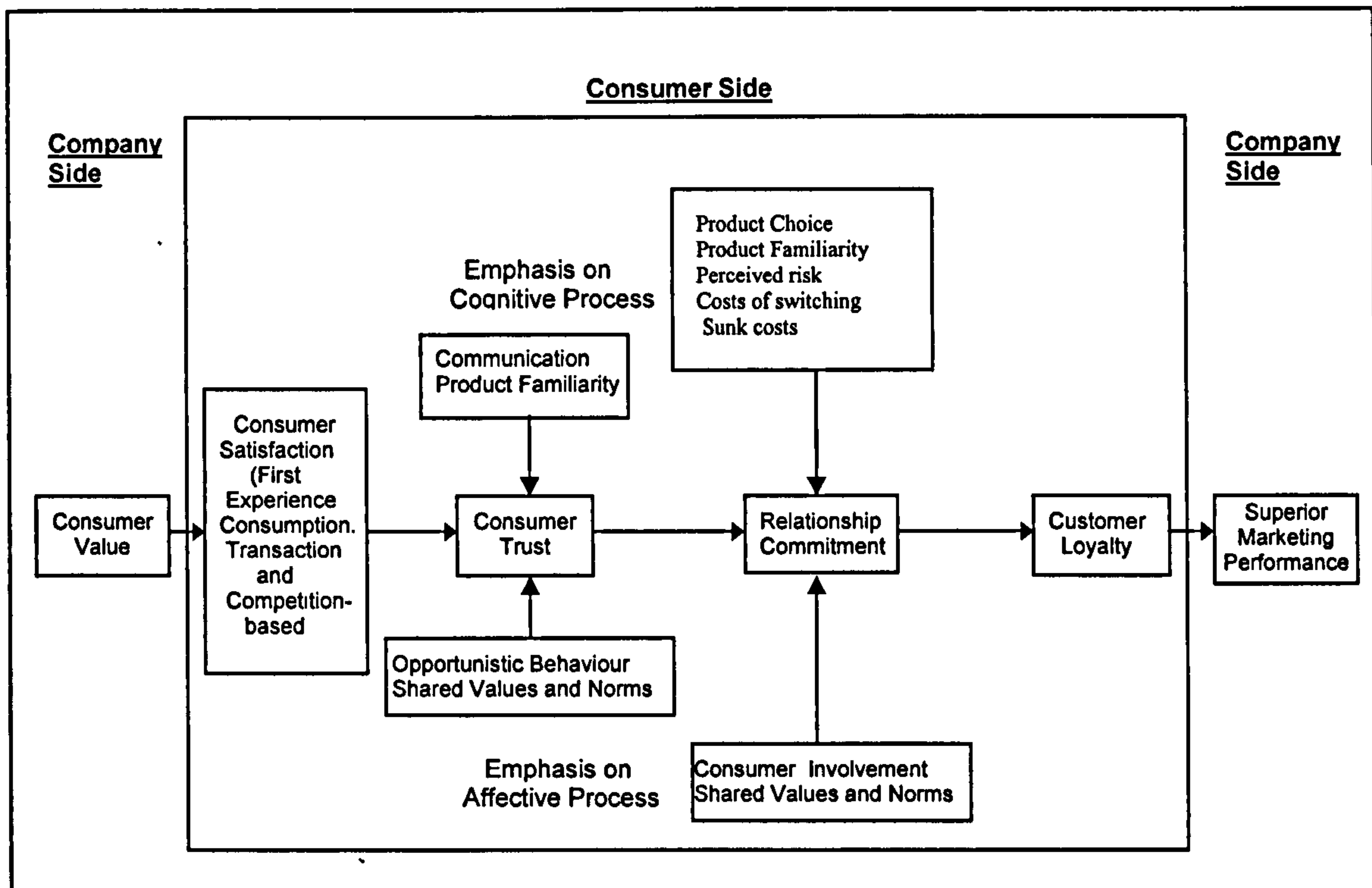
7.2. Purpose of the Study

The objective of this research is to develop and test a model of customer loyalty. This model can help explain the process that enables a company to have superior marketing performance based on the development of customer loyalty. The whole model (see figure 1) is composed of two sides: the company and the consumer side.

The model starts with the company producing a consumer value package that includes a product or service, and a strategy to deliver it into the consumer's hands. On the consumer side, the customer may or may not be satisfied with his or her first consumption experience. Satisfaction might be grounded on three aspects: one aspect derived from the experience with the product or service (consumption-based satisfaction), a second aspect derived from the experience with marketers (transaction-based satisfaction), and a third aspect derived from the experience with other alternatives or absence of potential regret for not using other alternatives (competition-based satisfaction). The three aspects of satisfaction have different effects on the consumer mind. Consumption-based satisfaction has its main effect on the cognitive responses. Transaction-based satisfaction has its main effect on the affective response. Competition-based satisfaction directly reinforces or deteriorates loyalty.

This research addresses the consumers that are satisfied (regarding the three aspects) in a first experience. After the first satisfying experience, a customer requires some kind of reinforcement to become loyal. Such reinforcement comes either by a cognitive process or by an affective process. The result of those processes is the formation of consumer trust and relationship commitment, which in turn leads to customer loyalty.

Figure 7.1: Antecedents of Customer Loyalty



Consumer trust is viewed as confidence in the performance, integrity, and reliability of the provider (Dwyer, Schurr, and Oh 1987, Morgan and Hunt 1994, Moorman, Deshpande, and Zaltman 1993). Commitment is recognized as a customer's desire to maintain a valued relationship with the provider (Moorman, Zaltman, and Deshpande 1992, Gundlach, Achrol, and Mentzer 1995). Customer loyalty is viewed as cognitive (i.e., recognition of benefits), affective (i.e., favorable attitude), and behavioural (i.e., purchase) responses expressed over time by some customer, with respect to one provider out of a set of alternative providers (Oliver 1999, Jacoby and Chestnut 1978, Day 1969). The next chapter will provide a detailed description of trust, commitment, and loyalty.

The outcomes of the cognitive process that are relevant to relationship commitment include: product choice, product familiarity, perceived risk, cost of switching, and sunk costs. Those that are relevant to consumer trust are: communication and product familiarity. The outcomes of the affective process that are relevant to relationship commitment are: consumer involvement and shared values and norms. Those that are relevant to consumer trust are: opportunistic behaviour (understood here as the self-interest sought by the service provider) and shared values and norms. It must be noted that opportunistic behaviour has a negative

relationship to trust. For instance, if a customer believes that the service provider engages in opportunistic behaviour, such perceptions will lead to decreased trust.

This research suggests that consumer trust and commitment have a key-mediating role in the process of building loyalty. Consumer trust and commitment have been regarded as important conditions necessary to increase cooperation and loyalty among partners (Morgan and Hunt 1994, Moorman, Deshpande, and Zaltman 1993). The contention of this research is that a buying process with trust and commitment will be able to generate customer loyalty involving repeated purchases in a long-term relationship between a company and its customer. In the end, again on the supply side, the consequence of customer loyalty is a company's superior marketing performance. This superior marketing performance includes higher market share, profitability, and competitive advantage (Moon and Kang 1999).

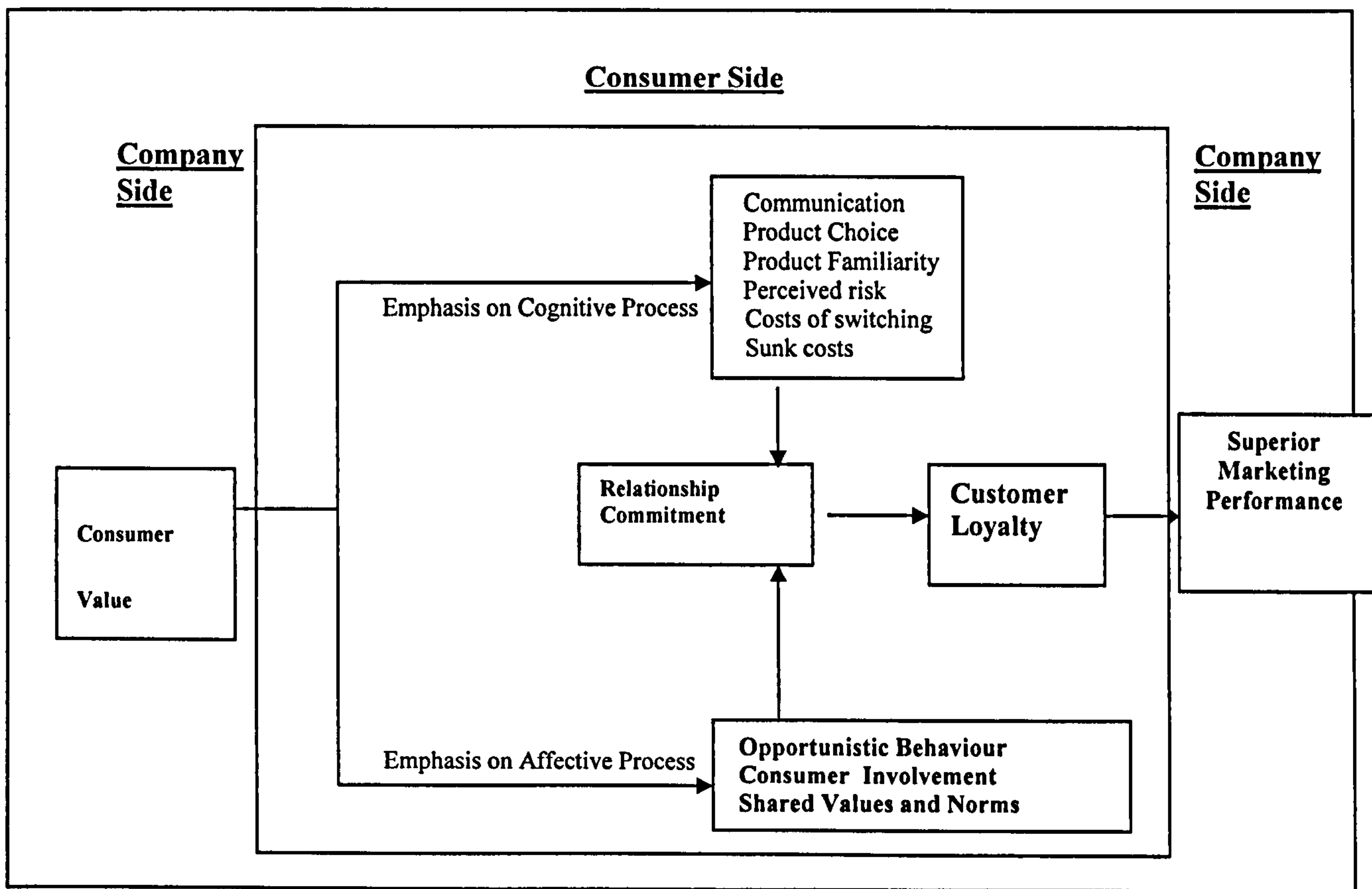
Even though the proposed whole model covers both sides, this research will test only the consumer side due to the following reasons: First, at the end of the model, there are few doubts in the literature regarding the direct linkage between customer Loyalty and superior marketing performance (Jacoby and Chestnut 1978, Rust et al. 1996, Oliver 1997). Second, at the beginning of the model, the linkage between the consumer value package and customer satisfaction is an area that requires a different methodology, and consequently falls outside the scope of the present research.

To test the model of customer loyalty suggested in this research, two rival models are taken from the literature and suggested as the best competing models (see figures 2 and 3). In the first model (figure 2), based on Pritchard, Havitz, and Howard (1999), the concept of consumer trust is absent. Pritchard's Model (as it will be identified from now on) does not start with customer satisfaction and suggests that the outcomes of the cognitive and affective processes impact relationship commitment, which in turn impact customer loyalty (see figure 2). The potential advantage of this model over the model of customer loyalty suggested by the present research is its parsimony. Is it important to include trust in the model? Some authors believe that in a business-to-business situation it is (Morgan and Hunt 1994). The second rival model (see figure 3) is based on the model suggested by Garbarino and Johnson (1999), using trust and commitment as outcomes in parallel to customer loyalty.

This model (from now on Garbarino's Model) does not include the cognitive and affective variables that lead to trust and commitment. The appeal of this model is the idea that trust and

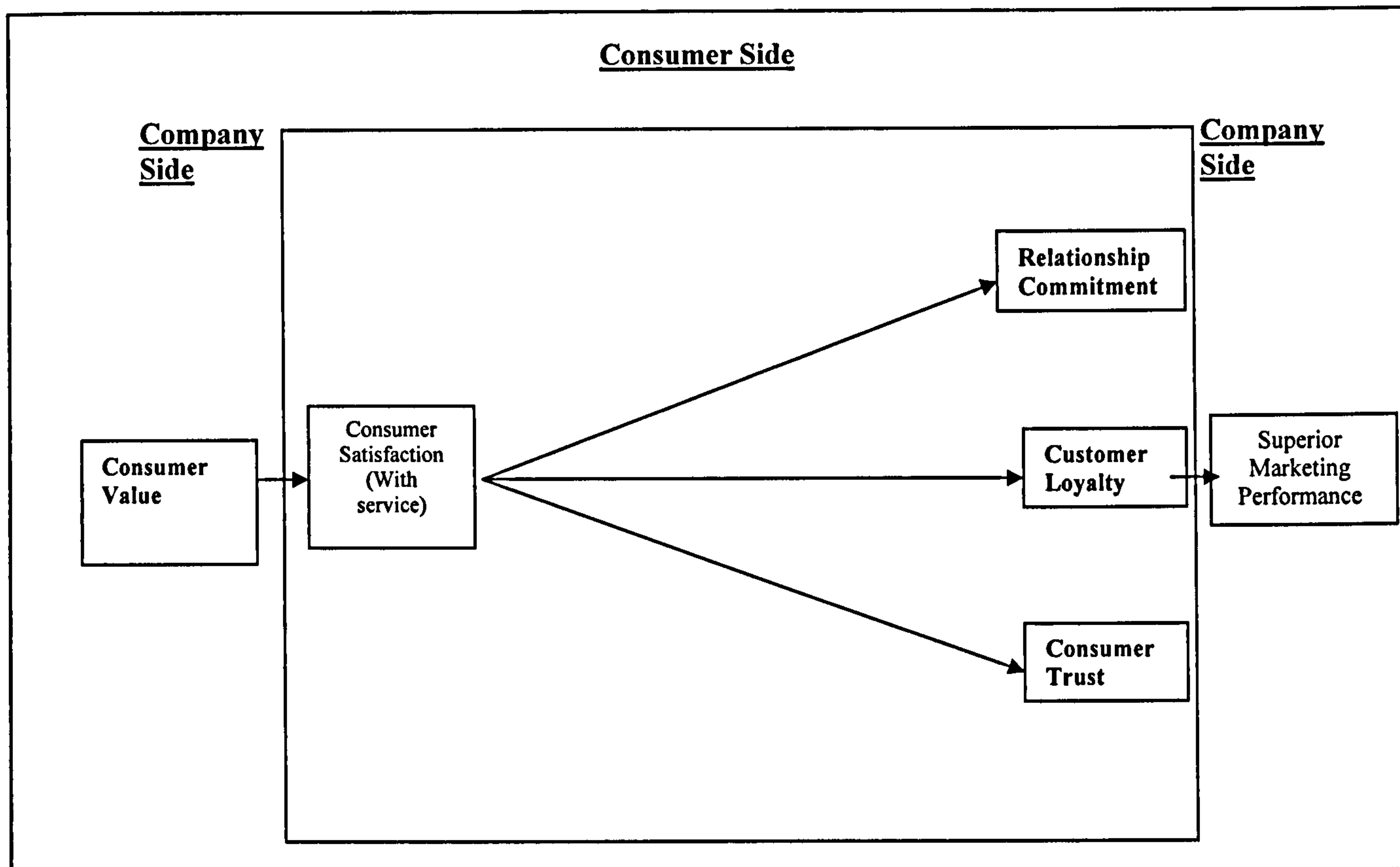
commitment are consequences of customer satisfaction, but they do not precede the formation of loyalty. In other words, according to Garbarino's Model, loyalty only requires customer satisfaction. The formation of trust and commitment might be accidental or side effects at best. In such a case there would be no reason to devote effort to study them. This research stands along with some authors who believe that it is worth the effort (Pritchard, Havitz, and Howard 1999, Amine 1998). The use of Garbarino's Model as a rival model will test the relevance of including trust and commitment as mediating variables

Figure 7.2: Pritchard's Model



Adapted from Pritchard et al. (1999)

Figure 7.3: Garbarino's Model



Adapted from Garbarino and Johnson. (1999)

In summary, elaborating on recent marketing research outcomes, particularly those that rely on relationship marketing, this research focuses specifically on the following: First, it presents an explanatory model of customer loyalty. Second, it discusses the rationale of each one of the variables included in the model. Third, it formulates some propositions, which are the basis for the formulation of hypotheses for empirical testing. Fourth, it describes the methodology to test the hypotheses derived from the propositions. Such methodology includes the comparison of the proposed model of customer loyalty against two rival models taken from the literature. Finally, it discusses the results obtained after the analysis of data collected through a mail survey.

7.3. Importance of the Study

One of the points of this research is to determine the existence of consumer trust and commitment as mediating variables between customer satisfaction and consumer loyalty. If we accept that increased customer loyalty leads to a superior company marketing performance, then the development of trust and commitment is a desirable goal for any organization. Thus, understanding how trust and commitment are developed will help companies in the implementation of the consumer value package. A consumer value package is the product and service embedded in a marketing mix that an organization provides to customers. This research aims at providing an explanatory model helpful to companies in defining a successful consumer value strategy.

Customer loyalty may constitute a clear objective to the company that really wants to retain customers on a long –term basis. As such, it can become an important element of the company's strategic intent. According to Hamel and Prahalad (1989), strategic intent envisions a desired leadership position and establishes the criteria that the organization will use to chart its progress. If the company knows the route to follow in order to implement customer loyalty and set criteria to accomplish it, it can include customer loyalty as a strategic intent. To that aim, this research would like to contribute by identifying the antecedents of customer loyalty that may serve managers as a path to follow in achieving corporate objectives.

As a contribution to the academic field, this research offers a formal model of customer loyalty, explaining what might be required to build customer loyalty out of a first satisfying experience with a product or service. Additionally, this research suggests how trust and commitment play a key role in the process of consumption.

A final contribution is to suggest the potential implications of the mentioned model of customer loyalty for further research. Specifically, it seeks to suggest the potential integration of the process into the development of a theory of positioning. The original concept of positioning, as developed by Ries and Trout (1972), has an exclusive emphasis on communication, pointing toward the idea that a process without trust and commitment is in place. That means that customers only need to remember a brand or company's name in order to choose one among alternative products or services. In such a case, companies have to promote their products in ways that best appeal to the memory of customers.

Trust and commitment would be out of the picture. However, some companies are implementing a different approach to positioning (Vasquez and Alonso 1998), which leads to the belief that a process with trust and commitment is in place. A sample of companies in the Fortune 500 list stated that they are implementing a two-way communication process with customers before the development of a product or service.

They also emphasized that they care about customer feedback, and that such feedback is part of the positioning strategy (Vasquez and Alonso 1998). If a company understands the roles of trust and commitment as antecedents of loyalty, such a company will be in a better position to implement its marketing strategy.

7.4. Managerial Implications

The present research was produced in the search for a positioning theory. Until now, positioning has been considered an important part of the company's efforts in delivering a consumer value package, but has failed in trying to incorporate the consumer side dimension. If we can understand the steps between the first satisfying experience and the formation of customer loyalty, we will be on the way to producing a sound positioning theory.

Traditionally, positioning has been seen as a supply side tool. The objective has been to find a place in the consumer's mind and to occupy it with a desired brand (Ries and Trout 1986). Recently, the movement toward customer orientation has been driving a new conceptualization of positioning, one with an expanded understanding of communication with the customer. This new conceptualization of positioning is rooted on the demand side and aims to help the company with the whole marketing strategic process (Vasquez and Alonso 1997).

Preliminary research shows that strategic positioning increases the performance of companies that employ it thoroughly (Vasquez and Alonso 1998). An explanation of the way in which such a process influences the consumer is pending. How does the consumer perceive the message sent by the company? More importantly, how can such a message increase trust towards the company? Consideration of the previous questions undoubtedly will help the manager in the implementation of the strategic positioning process.

Ries and Trout (1972) proposed the original definition of positioning:

“Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person...But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.”

For Ries and Trout, the company already has a product and the use of positioning is to convince the prospect to buy it. Product development is absent in such a definition. The objective of introducing positioning during the 1970s was assist to companies in helping consumers select from a growing variety of products. But the original definition implied one-sided communication. The company started with its product and tried to find a niche in the consumers' minds with some kind of creative message. Later on, the idea of two-sided communication, the placement of the consumer in the center of the marketing effort, and the concept of a market-driven organization, produced a shift from the original idea of positioning to a more integrated one. However, academic research is lacking in this area. There is no such thing as a theory of positioning in academic literature. But even in the absence of such a theory, practitioners implemented the shift. They claimed to use positioning as a central issue in their planning efforts (Vasquez and Alonso 1998).

This research tries to explain the process that leads to customer loyalty analyzing the perspective of the consumer. In doing so, companies will have the basis for applying a more successful strategy in which positioning works as the guiding thread from consumer value to favorable outcomes. The proposition of a theory of positioning is beyond the scope of the present research, although the findings will most likely be useful in backing up its future development.

7.5. Model

The literature review is organized around the main antecedents and consequences of consumer loyalty. Figure 1 shows the general model. It has two sides: the company side and the consumer side. The first one refers to what the company provides to the consumer and what it gets from the consumer. The second side refers to the consumer behaviour process given a first satisfying experience with a product and service. Both sides are present in the consumption process, but this research will focus on the consumer side only.

The rest of this chapter first reviews the company side, starting with the consequence of customer loyalty and then reviews consumer value, which is the package provided by the company. The next chapter reviews the consumer side, starting with the dependent variable customer loyalty and then summarizing its antecedents.

7.6. The Company Side

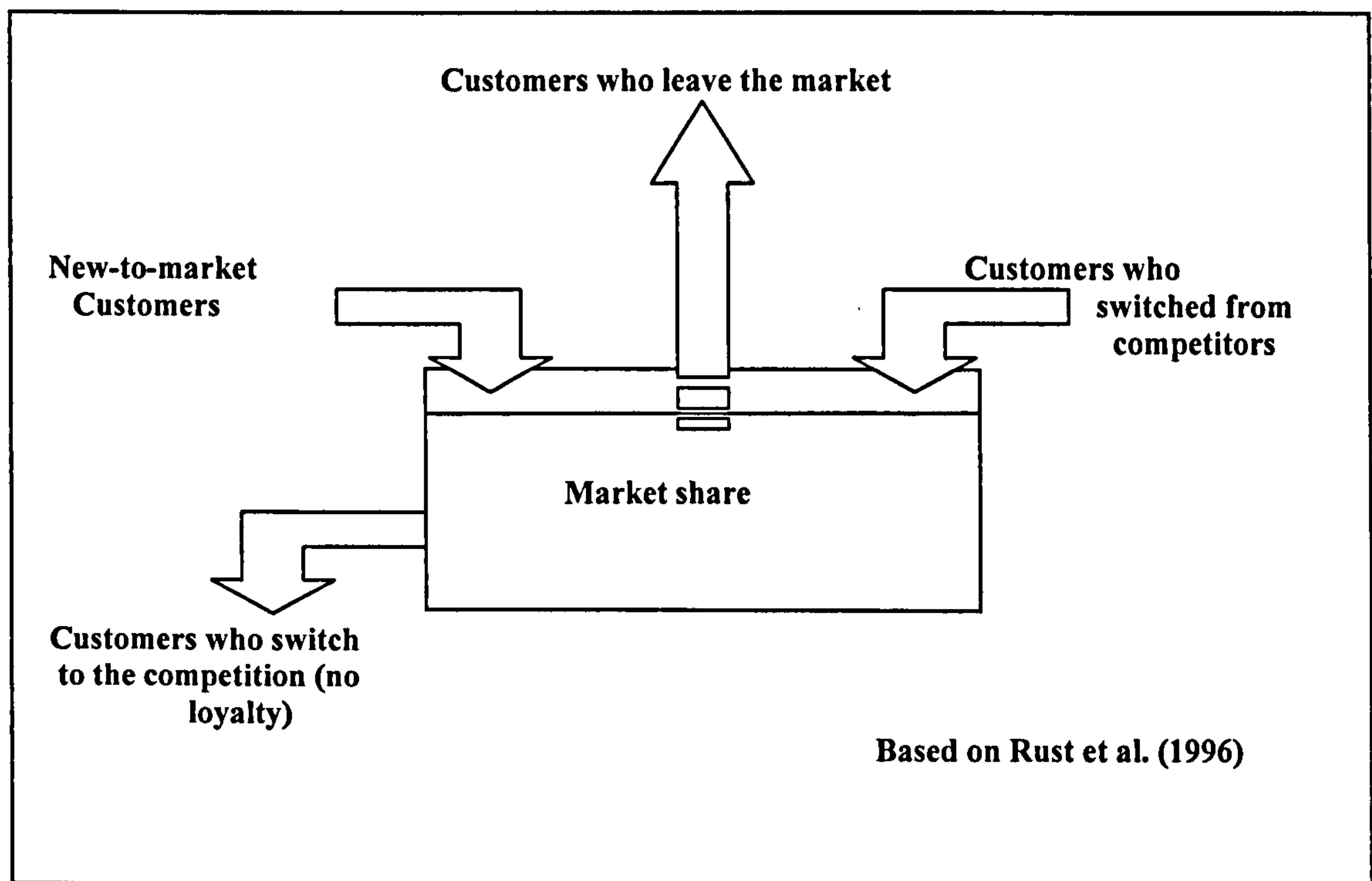
7.6.1. Superior Marketing Performance

A common understanding of the marketing practitioner is that an increase of loyalty among customers increases market share. For example, Jacoby and Chestnut (1978) suggest that, particularly with established companies marketing inexpensive and frequently purchased consumer products (i.e., non-durable ones), it is not the single sale that is of consequence; rather it is repeated sales. In other words, the long-term success of a particular brand is not based on the number of consumers who purchase it only once, but on the number who become repeat purchasers. These authors also contend that management will have at least the following four objectives: 1) to change the occasional purchasers into repeat purchasers; 2) to increase the amount consumed by the repeat purchasers; 3) to attract purchasers from competing brands; and 4) to maintain high levels of repeat purchasers by preventing repeat purchasers from switching brands. These four objectives all reflect different aspects of one basic goal, namely, to increase market share.

Rust et al. (1996) developed a hydraulic model to show a linkage between loyalty and market share (see figure4). Basically, a company improves its market share in four ways: 1) by attracting new customers to the market; 2) by decreasing the rate of those customers who leave the market; 3) by adopting those customers who switched from competitors; and 4) by increasing the retention rate of those customers who switch to the competition as a result of improving customers' loyalty. However, the company's attractiveness to new customers is assumed to be unrelated to the customer satisfaction of existing customers.

For instance, if people do not need the company's product or service or they do not need it anymore, the level of satisfaction of remaining customers is not relevant. Therefore, the only control the company has is through increasing customer loyalty, which in turn increases its retention rate.

Figure 7.4: Linking Loyalty to Market Share



Oliver (1997) suggests a direct link:

Quality → Satisfaction → Loyalty → Profitability.

According to Oliver (1997), loyalty works in four ways to increase profits: 1) loyalty guarantees a customer base, 2) loyalty allows more accurate budgeting inside a company, 3) loyalty allows more strategic planning with the associated advantages that come along, and 4) loyalty decreases marketing costs. These four ways are direct and indirect ways. As such, Oliver (1997) recognizes that it is not an easy task to quantify the profits due to loyalty. He addresses some difficulties in the measurement of increased profits due to an increase in loyalty. In the first place, profit is an economic outcome of the company, while loyalty is a behavioural construct. Second, profit is a function of revenues and costs, while loyalty is a function of several cognitive and attitudinal factors in a complex proportion. Despite difficulties, an empirical study (Sellers 1993) showed the payoffs of a 5 percent increase in loyalty over lifetime profits per customer for eight different industries. The average gain was 73 percent.

7.6.2. Consumer Value

This refers to the object of exchange produced by a company and delivered to a customer. It normally included a marketing mix (4 P's – product, price, promotion, place) with an effort to provide a product or service above expectations. Zeithaml and Bitner (1996) mention that a customer always has an idea (an expectation) of the quality, reliability, or performance of the product or service he or she is acquiring. According to these authors, there is always a gap between what a customer expects of a product or service and what he or she actually receives. If the gap is in favour, or above expectation, the provider is making an effort called consumer orientation.

Consumer orientation is understood as giving the customer's needs priority, as opposed to the buyer's needs (selling orientation) or to the competitor's pressures (Nwankwo 1995). Bejou et al. (1998) suggest that consumer trust is positively influenced by the belief that a salesperson is operating in the customer's best interest (customer orientation) and negatively influenced by the belief that a salesperson is operating in the seller's best interest (selling orientation). The present research argues that consumer value is what the company's side provides in order to be able to obtain consumer trust. As such, consumer value would be considered the precursor of customer loyalty.

Oliver (1997) contends that quality should be part of consumer value. According to him, consumer value without quality cannot yield satisfaction. Quality allows satisfaction in a number of ways: 1) a consumer value with quality fulfils higher expectations, 2) quality lowers failure rates, 3) quality increases reputation, 4) quality leads to more positive word of mouth.

Chapter Eight

Literature Review

8.1. Customer Loyalty

Because there is not a consensus on what customer loyalty is, this research first discusses the concept of customer loyalty and then concentrates on the antecedents of customer loyalty.

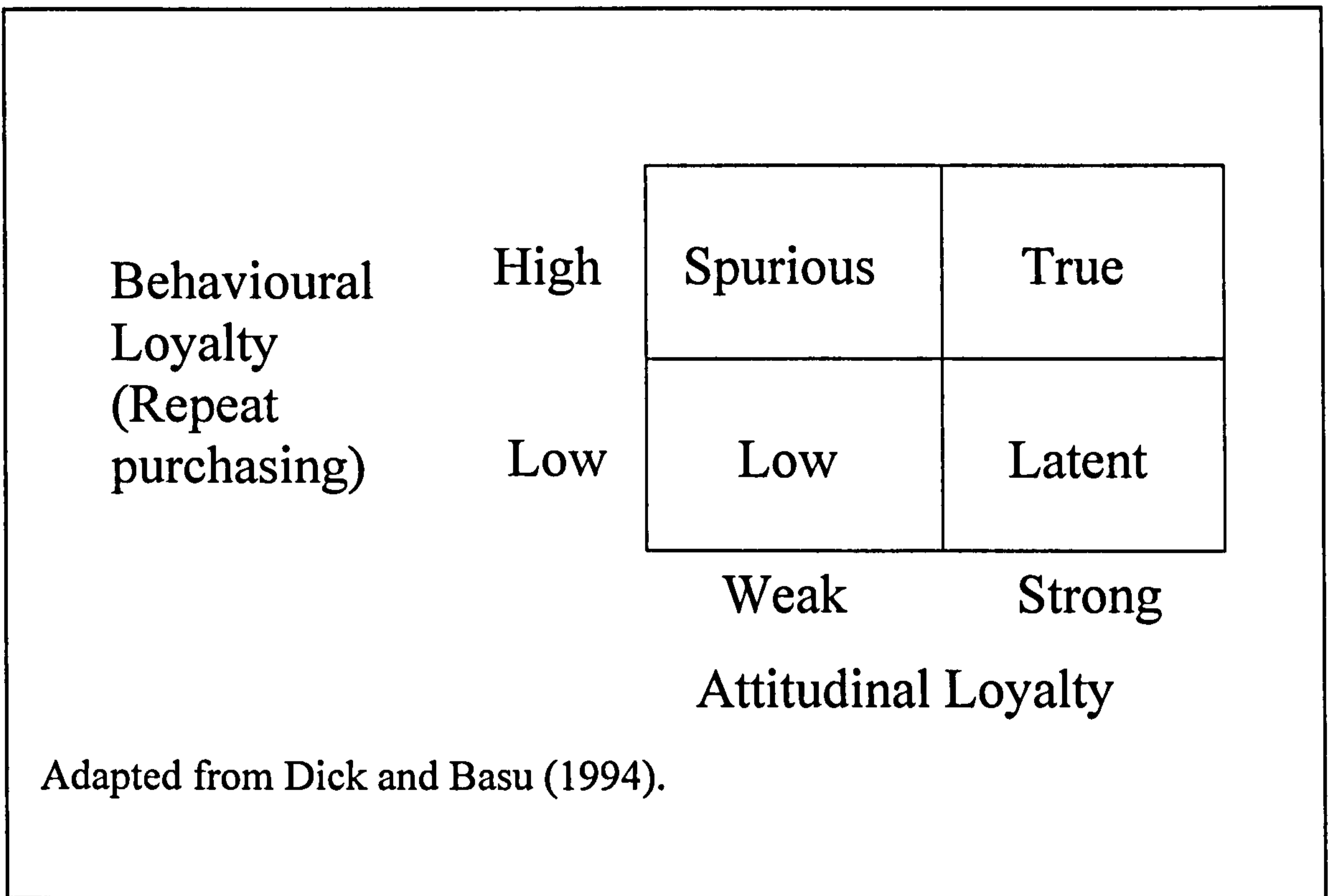
A distinction that has reached consensus after several years of research is that customer loyalty is not repeating purchasing behaviour, even though both components can be highly related (Jacoby and Chesnut 1978, Jacoby and Kyner1973). A consumer may repeatedly purchase a product or prefer a store for many reasons other than loyalty. For instance, lower price alternatives easily produce repeated purchases. Some customers may remain loyal because there is no alternative product. Other consumers may not look for alternatives (assuming there are plenty of them) even if sometimes the provider falls short of expectations.

Only the latter group is said to express loyal behaviour, one that is based on a positive attitude and even on an emotional attachment. Thus, behavioural loyalty that is based on an attitudinal and / or emotional loyalty is what constitutes 'true' customer loyalty. True loyalty requires a mature psychological relationship to the brand, product, or company (Craft 1999, Day 1969) or as Jacoby (1971) stated, "true loyalty implies repeat purchasing based upon cognitive, affective, evaluative, and dispositional factors --the classic primary components of an attitude."

For example, a truly loyal user would repeatedly patronize a particular haircut store or beauty salon and at the time possess a positive sense of attitudinal loyalty or allegiance toward that service provider.

Figure 5 offers further clarification by showing how attitudinal loyalty and behavioural loyalty relate, and by identifying where 'true' loyalty lies in the relationship. This research uses true loyalty as the authentic meaning of customer loyalty.

Figure 8. 5: A Typology of Customer Loyalty



Consumer loyalty is repeat buying because of commitment to a brand or company, whereas, inertia (or habit or laziness) is repeat buying without commitment (Assael 1998).

For instance, for unimportant brands, if a brand is reasonably satisfactory, a consumer may buy again because it is not worth the time and trouble to go through a decision process. Consumer loyalty can be approached by behavioural (repetitive purchase) and cognitive (favourable attitude) measures (Assael 1998). Day (1969) first developed a composite perspective for brand loyalty. His definition argued that in order to be truly loyal, the consumer must hold a favourable attitude toward the brand in addition to repeatedly purchasing it. In his words “loyalty implies repeat purchasing based upon cognitive, affective, evaluative, and dispositional factors – the classic primary components of an attitude” (Day 1969). Jacoby and Chestnut (1978) stress the importance of using both approaches simultaneously. They also provide a conceptual definition for brand loyalty.

Brand loyalty is the biased (i.e., non-random) behavioural response (i.e.;purchase), expressed over time by some decision-making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological (decision-making evaluative) processes (Jacoby and Chestnut 1978).

Oliver (1997) presented a definition involving three components, namely, cognition, affect, and behavioural intention. His definition is as follows.

Customer loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour (Oliver 1997).

This definition views at 'true' loyalty and is the definition adopted by the present research.

8.2. Antecedents of Customer Loyalty

Jones and Sasser (1995) asked the question, 'Why do satisfied customers defect?' because it was clear to them that many factors rather than customer satisfaction can influence customer defection. One factor relates to choice or the availability of an alternative product. Customers may remain loyal because there is no alternative product (zone of defection), or because they do not look for any alternative (zone of affection), whereas, customers may be willing to switch if they find a better product (zone of indifference). Consequently, companies should increase the percentage of the customers who do not look for alternatives (zone of affection) even if one individual experience is less than satisfactory.

But how can companies increase the zone of affection beyond satisfying the customer repeatedly or at least most of the time?

Other common-sense factors said to relate to the availability and easy application of information are a sense of entitlement, greater commoditization, more insecurity, and time scarcity (Schriver1997). Even some managerially developed factors are mentioned as ways to turn buyers into loyal customers by developing complicated relationships such as building programs modelled after the 'frequent flier' miles, locking customers in with value-added

service and increasing the 'hassle factor' for customers to avoid breaking up (Shapiro and Varian1998). Nonetheless, the above factors refer almost exclusively to repeat purchasing, not to customer loyalty. Pritchard, Howard, and Havitz (1992) offer three key antecedents of customer loyalty: a) importance of the purchase decision, b) perceived differences in product performance, and c) satisfaction. Accordingly, loyal customers may be people who are highly involved decision-makers who perceive greater differences in product performance among various offerings and who are highly satisfied with their buyer-seller relationship experience. An empirical test of the relationships between loyalty and each of the three antecedents mentioned (Pritchard and Howard 1997) found that positive relationships occur only among true loyal consumers.

Despite its merits, the Pritchard and Howard (1997) test does not provide explanation chains as needed. To the question, 'Why do satisfied customers defect?'

Pritchard and Howard (1997) answered by concluding that satisfied customers do not defect, whereas other researchers contested that satisfied customers do defect. For instance, Baumol and Taylor (1999) found that, besides service quality, customer satisfaction does not influence customer-switching intentions (an opposite concept of customer loyalty), whereas perceived switching costs, customer value, and variety-seeking tendencies do.

Peppers and Rogers (1993) offer an approach to develop loyalty: build relationships one customer at a time, that is, treat each customer as a unique individual on the basis that every customer has a long-term value, but one that is different by customer.

Yet, a one-on-one approach requires an on-going relationship between the customer and the seller, where the seller really knows what the customer wants, and the customer knows what to expect from the seller.

But can companies develop on-going relationships? What are the requirements that both sellers and customers alike have to fulfil in order to produce long-term positive relationships?

This research suggests that loyalty is produced by customer satisfaction, but not directly. That is, there are some mediating variables at work between them. Customer loyalty depends directly on relationship commitment. Relationship commitment depends directly on consumer

trust. Both, commitment and trust are built through a cognitive or affective process out of a first satisfying experience.

8.2.1. Relationship Commitment

Commitment is recognized as an essential ingredient for successful long-term relationships (Dwyer et al. 1987, Morgan and Hunt 1994). Commitment has been defined as ...*an enduring desire to maintain a valued relationship* (Moorman, Zaltman, and Deshpande 1992). Gundlach et al. (1995) argue that commitment has three components: an instrumental component of some form of investment, an attitudinal component that may be described as affective commitment or psychological attachment, and a temporal dimension indicating that the relationship exists over time.

In business-to-business exchange relationships, commitment is most often measured in terms of instrumental behaviours such as making specialized investments and resource commitments to benefit the other party. In business-to business exchanges, enduring relationships lead and at the same time, depend on relationship commitment and consumer trust. According to Morgan and Hunt (1994, p.20), “successful relationship marketing requires relationship commitment and trust.”

The latter two variables are shown to be key mediating variables in the formation and performance of networks of cooperation in channels of distribution. The existence of commitment and trust also reduce the propensity to leave the network, reduce uncertainty, increase acquiescence (i.e. the degree to which a partner accepts or adheres to another’s specific requests or policies), and increase the belief that conflict will be functional (i. e. when disputes are resolved amicably, such conflicts can be referred to as “functional conflicts” because they provide a medium through which problems can be aired and solutions arrived at” (Morgan and Hunt 1994).

This research suggests that relationship commitment and consumer trust are similar key-mediating variables in business-to-consumer exchanges. Various authors have hypothesized or tested separately the commitment –loyalty link or the trust –loyalty link.

For Berry and Parasuraman (1991), relationships are built on the foundation of mutual commitment, and for Assael (1998), brand loyalty is “commitment to a certain brand” arising from certain positive attitudes.

Jacoby and Kyner (1973) asserted that the notion of commitment provides the essential basis for distinguishing between brand loyalty and other forms of repeat purchasing behaviour, and for assessing the relative degrees of brand loyalty.

Concurrently, “repurchase is not sufficient evidence of brand loyalty” (Newman and Werbel 1973, p.404) and measures of purchase patterns may be a product of spurious loyalty’ (Day 1970). Nonetheless, according to Samuelson and Sandvik (1997), commitment describes bonds (or attitude strength) between the customer and a particular brand, thus extending the meaning of loyalty over the simple repeat purchasing of a brand (behavioural phenomenon).

From a different perspective, Amine (1998) compared the downstream approach to brand loyalty (interest in describing and counting out the consumers’ repeat purchasing of a brand) with the upstream approach (interest in different motives for consumers to remain loyal) and concluded that commitment has a central role in the upstream approach to brand loyalty.

Finally, Pritchard, Havitz, and Howard (1999) tested the commitment-loyalty relationship and found that the mediating effect model (where commitment is a key mediating variable) is superior to rival direct effect models (where commitment is only one of several mediating variables) in explaining loyalty. Consequently, commitment is directly linked to customer loyalty, whereas other formative processes (such as the informational, identification, and volitional) are only indirectly related to loyalty. They described and operationalised customer commitment as a stable preference that was bound by an attitude of resistance to change.

The problem with this type of view is that instead of representing commitment, resistance to change might be representing laziness or habit.

Thus, proposition 1.

P₁: Relationship commitment is a necessary precursor of customer loyalty in business-to-consumer exchanges.

Based on this proposition, the ensuing hypothesis states that the higher the commitment, the higher the loyalty.

H₁: There is an increase in customer loyalty to the service provider following an increase in the commitment to the service provider.

8.2.2. Consumer Trust

A general understanding of trust must first be established. Then, it will be specifically addressed as consumer trust. Moorman, Deshpande, and Zaltman (1993) and Hosmer (1995) suggest definitions of trust:

Trust is a willingness to rely on an exchange partner in whom one has confidence (Moorman, Deshpande, and Zaltman 1993).

Trust is the reliance by one person, group, or company upon a voluntarily accepted duty on the part of another person, group, or company to recognize and protect the rights and interests of all others engaged in a joint endeavour or economic exchange (Hosmer 1995).

Trust is well documented as a mediating variable, one that is affected by some antecedent variables, and as a consequence, one that enhances the benefits of a relationship (Morgan and Hunt 1994, Aulakh et al. 1996, Moorman, Deshpande, and Zaltman 1993, Doney and Cannon 1997). In a partnership, trust is a mediating variable, which enhances benefits such as increasing cooperation, acquiescence, functional conflict, decreasing propensity to leave, and uncertainty (Morgan and Hunt 1994). In the literature, trust is associated with better partnership performance (Aulakh et al. 1996), better utilization of resources (Moorman, Deshpande, and Zaltman 1993), and better predictions of future interactions (Doney and Cannon 1997).

The above-mentioned studies consider trust as a mediating variable in the relationship-marketing domain, generally in a business-to-business situation where the formation of partnerships is highly recommended. So, it has to be clear by now that trust is viewed as an essential ingredient for successful relationships. However, the focus of the present research is on trust as the consumers' confidence in the quality and reliability of the provider company. The concept of trust in the transactional marketing domain is not directly addressed in the literature (Bagozzi 1995, Sheth and Parvatiyar 1995). There is even skepticism as to whether

consumers are capable of forming exchange relationships similar to interorganizational partnerships of profit-seeking companies.

For example, business-to-business relationship focuses on the importance of norms of reciprocity in making exchanges mutually beneficial to both parties. Bagozzi (1995) contends that we don't understand how this aspect of reciprocity applies to relationships between consumers and organizations. There is conceptual literature (e.g., Berry 1995, Czepiel 1990, Gronroos 1990) emphasizing the importance of a relationship marketing perspective between consumers and service companies, yet there are few empirical studies on the topic.

Previous research has emphasized trust as confidence in the honesty and integrity of the other party, such as a salesperson (e.g., Swan et al. 1999, Crosby et al. 1990). But a consumer can trust a company, brand, product, service, etc. Instead of focusing on trust of individuals, this research approaches consumer trust at the most general level.

Based on the previous definitions of trust and on the consideration that a consumer is a decision-making unit who plays the role of buyer in an exchange relationship, this research suggests the following formalization of the consumer trust concept:

Consumer trust is an attitude of confidence developed over time by some decision-making unit with respect to the quality and reliability of the product and service provided by an organization.

From this definition, it can be concluded that consumer trust is not restricted to brands. Also, that consumer trust can arise through identification, where a consumer believes the object of trust reflects and reinforces some aspect of the consumer's self-concept. Additionally, that consumer trust may also arise through performance well above the level that the consumer expects. This may sound similar to the Total Quality Management Philosophy (TQM), but there is a difference. Such a difference is that normally TQM focuses only on the seller perspective (i.e., the efforts of the seller in providing quality), whereas the inclusion of consumer trust in the present model focuses on both sellers' efforts and consumer cognitive/affective aspects.

In summary, because commitment entails risk, parties in an exchange would seek only trustworthy partners (McDonald 1981, Morgan and Hunt 1994). Therefore, trust is a major determinant of relationship commitment (Achrol 1991, Moorman, Zaltman, and Deshpande 1992, Morgan and Hunt 1994). Thus, the second proposition.

P₂: Trust leads to relationship commitment in business-to-consumer exchanges.

The second hypothesis is derived from proposition 2.

H₂: There is an increase in relationship commitment to the service provider following an increase in trust to the service provider.

8.2.3 Antecedents of Relationship Commitment and Consumer Trust

In business-to-consumer exchanges, both cognitive and affective sources seem to inform, identify, and move the levels of commitment and trust that will impact customer loyalty to the brand, product, or company (Dick and Basu 1994, Petty, Cacioppo, and Schumann 1983). Amine (1998) hypothesized that commitment has two main causes: cognitive motives such as perceived risk or perceived variations in performance among the competitive brands and affective reasons such as attachment or emotional feelings towards the brands.

The cognitive process allows consumers to maintain their consistent purchasing behaviour as long as the benefits attached to the brand exceed the cost of switching to another brand. Raj (1985) refers to this factor as the perceived extent of choice: brand loyalty in a product class varies with the number of significant competing brands within the category. This process considers that customers remain loyal for practical reasons. The consequence of the process involves several variables, some of them influencing commitment and some of them influencing trust.

The variables influencing commitment are product choice (the number of alternatives a customer has), product familiarity (the level of knowledge about the product), perceived risk (the probability of getting a low quality product), cost of switching (the cost of modifying an existing infrastructure), and sunk costs (the costs of losing an actual investment) (Amine 1994, Morgan and Hunt 1994). The variables influencing trust are product familiarity and communication (the level of information exchange between parties) (Bejou, Ennew, and Palmer 1998, Milne and Boza 1998).

Conversely, the affective process allows consumers to maintain their relationship with a brand, product, or company on the basis of their affective attachment to and identification with it. There is a holistic evaluation of the brand in terms of liking it or attachment to it.

The affective objective of the relationship is to reduce the customers' propensity to substitute another brand for the habitual one. The consequence of the process also involves several variables, some of them influencing commitment and some of them influencing trust. The ones influencing are consumer involvement (the amount of interest a consumer shows) and shared values and norms (the level of identification with the provider) (Dick and Basu 1994, Mittal and Lee 1989, Morgan and Hunt 1994, Petty, Cacioppo, and Schumann 1983, Richards 1998). The ones influencing trust are opportunistic behaviour (the self-interest seeking of the provider perceived by the customer) and shared values and norms (Morgan and Hunt 1994).

Thus, the following propositions:

P₃: Cognitive and affective processes precede the formation and performance of commitment and trust both geared toward customer loyalty in business-to-consumer exchanges.

P_{3a}: The outcomes of the cognitive process that have an impact on commitment are product choice, product familiarity, perceived risk, cost of switching, and sunk costs [Generates hypotheses H_{3a1}, H_{3a2}, and H_{3a3}].

P_{3b}: The outcomes of the cognitive process that have an impact on trust are Product familiarity and communication [Generates hypotheses H_{3b1} and H_{3b2}].

P_{3c}: The outcomes of the affective process that have an impact on commitment are consumer involvement and shared values and norms [Generates hypotheses H_{3c1} and H_{3c2}].

P_{3d}: The outcomes of the affective process that have an impact on trust are opportunistic behaviour and shared values and norms [Generates hypotheses H_{3d1} and H_{3d2}].

8.2.4 Product Choice

There is a debate about this variable. Some scholars argue (among them Sheth & Parvatiyar 1995) that consumers prefer a reduction of choices and that they are always ready to find a preferred brand and to remain loyal as long as they do not feel cheated. Others argue (e.g., Bagozzi 1995) that reduction of choices could be a consequence (of finding a trustable brand), but not a motive to produce commitment. What is true is that the greater the number of choices, the higher the complexity in brand selection.

For instance, Ursic and Helgeson (1990) consider that the number of choice has the greatest impact on how the consumer makes his or her decision. They contend that brand choice proceeds in two phases: brand comparison and attribute comparison. In the first phase, the consumer screens out a number of options based solely on brand name recognition.

In the second phase, consumers compare the attributes among brands in order to arrive at a final choice. For the authors, brand comparison elicits more complex processes in the minds of the consumer. The contention of the present research is that the higher the number of choices, the less likely consumers will be committed to a single brand. The reason is that a consumer may be tempted to try new options at any moment.

The following hypothesis will test whether commitment decreases as the consumer searches for more choices.

H_{3a1}: There is a decrease in commitment to a single service provider following an increase in the number of choices the consumer seeks.

8.2.5. Product Familiarity

Product familiarity refers to the degree of knowledge regarding a product or service. Even though product familiarity has not been associated directly to consumer trust and commitment in the literature, there is reason to believe that a relationship exists among them. For instance, Blair and Innis (1996) found out that warranty length is not so important when the customers are highly knowledgeable regarding a product. Furthermore, Hellier (1995) found out that service familiarity influences repurchase intentions because it decreases the level of the perceived risk of maintaining the actual service, while it is assumed that commitment is positively related to the perceived risk of switching providers (see below). Andaleeb and Anwar (1996) found out that customers' product knowledge did not influence their trust in salespeople.

Another association that might imply a relationship between product familiarity and consumer trust and commitment is the one indicating that product familiarity makes the customer less price sensitive. Rao and Sieben (1992) suggested that an increase in prior knowledge of a product is associated with an increase in both the upper limit and the lower limit of the acceptable price range. Rao and Monroe (1988) related product familiarity with quality evaluation. For them, if a product does not have significant quality variations, the use of price as an indicator of quality decreases with familiarity.

Another element at work in the linkage between consumer trust and product familiarity is exposure. Berger and Mitchell (1989) noted that consistent information from repeated exposure could provide greater brand-relevant cognitive elaboration and enhance a consumer's trust in a resulting attitude.

Some researchers have suggested a direct relationship between product familiarity and commitment (Pritchard et al. 1999). But for them, the concept of product familiarity includes the element of confidence (i.e., trust). The present research considers that trust is a separate concept, although it is closely related.

The following hypotheses will test whether commitment and trust increases as the knowledge of the service provider also increases.

H_{3a2}: There is an increase in commitment to the service provider following an increase in familiarity with the service provider.

H_{3b1}: There is an increase in trust in the service provider following an increase in familiarity with the service provider.

Regarding the antecedents of product familiarity, Wright and Lynch (1995) indicated that direct product experience is superior to advertising in gathering information about products. Additionally, product familiarity could be achieved by exposure to information and receiving consistent information (Berger and Mitchell 1989).

8.2.6. Perceived Risk, Cost of Switching, and Sunk Cost

Consumers are often imperfectly informed about product or service attributes. This uncertainty may persist even after an experience with a product or service because some attributes might not be revealed fully to a consumer right after the first experience. This uncertainty can create perceived risk for product or services (Erdem 1998). Formally speaking, perceived risk is the probability that a consumer faces getting either a low quality product or a product that does not match his or her tastes.

Consumer researchers have studied perceived risk mainly to uncover the rational aspects of the construct such as consumer's prior knowledge of the quality and price differences between alternative offerings in a product category (Dowling and Staelin 1994). Suggesting that perceived risk also has an emotional component, Chaudhuri (1997) found a linkage between perceived risk and brand loyalty.

Part of the perceived risk is the cost of switching and sunk costs. Consumers are likely to patronize the same brand or service in order to avoid perceived costs, such as those of an already paid membership (sunk costs) or the costs of modifying an existing infrastructure

(cost of switching). Some practitioners understand this and suggest ways to increase these costs to retain consumers (Shapiro and Varian 1998).

According to these authors, the QWERTY keyboard is a clear example of how switching costs work. A better keyboard would save money in training and productivity, but QWERTY will prevail because switching costs would be enormous.

Researchers found that those who had incurred a sunk cost inflated their estimate of how likely a project was to succeed compared to the estimates of the same project by those who had not incurred a sunk cost (Arkes and Blumer 1985). A logical extension of this is that customers incurring a sunk cost tend to perceive better qualities in their actual choice and become more committed to it. Staw and Ross (1987) suggest that commitment to losing projects arises in several areas of life, from maintaining losing stock to pursuing a romantic relationship that is dissatisfying. As such, the consumer has a bias toward the alternative of the sunk cost regardless of the economic logic of the situation. A sunk cost is something that matters to the average customer. The economic concept that sunk costs are irrelevant to the final decision has been rejected by several psychological researchers (Arkes and Blumer 1985, Shanteau 1986, Thaler 1979, Harrison and Shanteau 1987).

Additionally, there is some evidence regarding the temporality of sunk costs. According to Gourville and Soman (1998), sunk costs depreciate with time. In other words, the longer in the past the investment, the lower the impact of the sunk cost perception on the customer. Consequently a sunk costs effect would be most likely in place right after the first experience with a product or service.

The following hypothesis will test whether commitment increases as the risk perception of switching the service provider also increases. The perception of risk includes the perception of higher switching costs and/or the perception of sunk costs.

H_{3a3}: There is an increase in commitment to the service provider following an increase in the perceived risk (including perception of switching costs and sunk costs) of switching the service provider.

8.2.7. Communication

Consumer communication is the mechanism by which a company lets its customers know about the characteristics of a product or service. This function of the company is normally classified under promotion activities and is part of the consumer value package.

In a short-term type of relationship, the communication could be restricted in its scope. Communication only needs to get the attention of potential customers to find a niche in the consumer's mind, in the hope that when faced with two competing choices, the customer will select for example, the one that he or she remembers best. To accomplish that, a simple process is enough thing such as delivering a funny message, a creative phrase, a catchy tune, etc accomplish this. LaBarbera et al. (1998) suggest that by utilizing visuals that are consistent with consumer' personality-type processing styles, advertisers can have greater appeal and generate higher purchase intentions for a variety of products. Grewal et al. (1997) show that comparative ads are more effective than non-comparative ads in generating attention, message and brand awareness, levels of message processing, favorable sponsored brand attitudes, and increased purchase intentions and purchase behaviours. Gotlieb and Sarel (1991) suggest, within a communication framework, that adaptation level theory could help explain the cognitive process that consumers use to develop perceived quality, which will in turn eventually result in purchase intentions. Adaptation level theory provides a framework to examine the effects of established brand prices in a rival advertisement, new brand prices, and source credibility on the perceived quality of the new brand.

In contrast, communication intended to develop a long-term relationship has to first build consumer trust. This type of communication is a more complex process, a process in which the company listens to the consumer, interprets such information, *does something* about it, and then delivers a message according to what was done. It is important to emphasize that customer satisfaction starts by providing a product or service tailored to fulfil specific needs.

A communication process derived in such circumstances has to make a special impression on the customer. Morgan and Hunt (1994) insist that relevant, timely, and reliable communication will result in greater trust.

The following hypothesis will test the relationship between trust and the level of communication.

H_{3b2}: There is an increase in trust in the service provider following an increase in the level of communication with the service provider.

8.2.8. Consumer Involvement

This refers to the amount of interest and effort that a consumer is willing to devote to the consumption process. Consumer involvement with a product or a purchasing decision is usually considered to be a function of the personal relevance or importance of that product or decision (Petty and Cacciopo 1983).

A relationship between customer involvement and consumer commitment can be deduced from the literature. Thomas (1998) explains why customer involvement is essential to enhance and leverage long-term customer-supplier relationships. Richards (1998) sustains that customer involvement plays a role in the process of building commitment, which in turn is a precursor of loyalty. Another study also suggests brand commitment as a consequence of involvement (Mittal and Lee 1989). Some researchers have found that higher consumer involvement in the decision increases relative attitudes of attachment and the likelihood of loyalty toward a specific service provider (Assael 1998, Pritchard and Howard 1997). The literature also shows that uninvolved message recipients, compared to those who are highly involved, are characterized by less attention to information on attributes and more reliance on superficial cues (such as an attractive endorser) available in the message (Celsi and Olson 1988, Petty and Cacciopo 1983). Bolting (1988) indicated that involvement does affect consumer selective perception processes.

The next hypothesis suggests that commitment will increase as customer involvement with the service provider also increases.

H_{3c1}: There is an increase in commitment to the service provider following an increase in customer involvement.

Some authors mention customer satisfaction and the fulfilment of consumer goals as the variables that lead to consumer involvement (Shaffer and Sherrell 1997, Mittal and Lee 1989). Shaffer and Sherrell (1997) examined the association between involvement and satisfaction. They found that higher levels of customer involvement were associated with greater expectations and performance ratings for a service. They conducted research on the health care industry analyzing separately the tangible (installations) and intangible aspects (physicians' attention) of the service. Their results are valid for the intangible or ambiguous dimension (physicians' attention). Mittal and Lee (1989) proposed a model to conceptualize involvement. In such a model, three sets of consumer goals are construed as sources of involvement, namely utilitarian, sign, and hedonic values. The implication is that the fulfilment of certain consumer goals is required to generate involvement.

8.2.9. Shared Values and Norms

Some companies seek a feeling of identity either through advertisement or through special attention delivered by employees (Cebrynski 1998). The idea is to create an emotional bond between customers and the company based on shared values. Harley Davidson is an example of a company that relies on a sense of community (Kiely 1997). According to the director of a marketing company (Michael Kiely, director of boomerang Integrated Marketing & Advertising in Sydney, Australia), the best way in which to acquire customer loyalty is by building a community around the product or service (Kiely 1997).

Morgan and Hunt (1994) define shared values as *the extent to which partners have beliefs in common about what behaviours, goals, and policies are important or unimportant, appropriate or inappropriate, and right or wrong* (Morgan and Hunt 1994). They use shared values as the only concept that is a precursor of both trust and commitment. Dwyer et al. (1987) also suggest that shared values contribute to the development of commitment and trust.

The following hypotheses will test both whether commitment and trust increases as the values and norms of the consumer are more similar to those of the service provider.

H_{3c2}: There is an increase in commitment to the service provider following an increase in shared values and norms of the consumer with the service provider.

H_{3d1}: There is an increase in trust in the service provider following an increase in shared values and norms of the consumer with the service provider.

8.2.10. Opportunistic Behaviour

According to Morgan and Hunt (1994), opportunistic behaviour is a factor able to decrease trust. Opportunistic behaviour is understood as the self-interest sought by one of the parties in a relationship. When each party is looking for self-interest, trust is damaged. For instance, a consumer may feel that the vendor is engaged in opportunistic behaviour when he or she has to sign a long-term contract (one that seems overwhelming) to get a rebate on the price of a product or service. On the other hand, a company may feel that the customer is engaged in opportunistic behaviour when, for example, such a customer takes advantage of a “no-question asked” return policy more often than the average customer.

The following hypotheses will test the relationship between trust and opportunistic behaviour.

H_{3d2}: There is a decrease in trust in the service provider following an increase in opportunistic behaviour.

8.2.11. Customer Satisfaction (First Experience)

Customer satisfaction is an overall evaluation based on the total purchase and consumption experience with a good or service over time (Anderson et al. 1994). This type of satisfaction can be distinguished from *first experience satisfaction*, which is an immediate post-purchase evaluative judgment or an affective reaction to most recent (first) experience with the company (Oliver 1993). *First experience satisfaction* is the variable where the model suggested by the present research starts. Without a first satisfying experience it is unlikely that a customer can build trust. A first satisfying experience might be the cornerstone for trust.

Oliver (1997) contends that satisfaction encompasses more than one dimension. He specifically mentions that what is understood as satisfaction involves satisfaction with events that happen during consumption, satisfaction with final outcomes, and satisfaction with the level of satisfaction received. Based on Oliver's ideas, the present research separates the concept of satisfaction into three dimensions. First, satisfaction obtained with the product or service (consumption-based satisfaction). Second, satisfaction obtained during the interaction with the service provider (transaction-based satisfaction). And third, satisfaction obtained by using the services of the actual provider in comparison to using the services of other providers (competition-based satisfaction). The three concepts could be grouped together without altering the conceptualization of the model. It is believed that by separating them, the understanding of the process will improve.

The entire process starts when a first satisfied experience in the relationship between a consumer and a seller takes place. Thus, a satisfactory first experience must precede the process toward customer loyalty (Anderson et al. 1994). According to Oliver (1983, p. 418), "a satisfactory purchase experience would appear to be requirement for the type of continued interest in a product that may lead to repeat purchase." Thus,

P₄: The first positive experience in customer satisfaction precedes the entire process leading to customer loyalty.

This research suggests that a first positive experience in customer satisfaction is a requirement for the formation of customer loyalty. The way to verify this proposition is by testing the relationship between commitment to a service provider and customer loyalty given a positive first experience of the customer.

H₄: There is a positive relationship between commitment to a service provider and customer loyalty following a positive first experience of customer satisfaction.

Figure 7.1 shows all the variables and proposed relationships. Overall, customer loyalty requires relationship commitment. Trust leads to commitment. After a first satisfactory experience in the relationship between a consumer and a seller, cognitive and affective processes take place. The outcomes of such processes (several variables) have an impact on either commitment or trust.

Chapter Nine

Research

Methodology

RESEARCH METHODOLOGY

According to Brinberg and Hirshman (1986) there are three different domains in research: conceptual, methodological, and substantive. The path, i.e., moving from one to another, depends on the type of research. In the present case, the conceptual domain has priority because the aim of this research is to suggest a theoretical model. Consequently, the propositions were developed first in a deductive way. The next step is the selection of the substantive domain (i.e., the industry sector where the hypotheses are to be tested). For the purposes of the present research, the service sector is attractive as the substantive domain for two reasons. First, this sector is growing in importance in the United Kingdom. The second reason is the service sector strongly emphasizes consumer satisfaction, which is one of the variables of the model. Specifically, the international phone call service was selected. Thus, the hypotheses were suggested to cover this domain. Finally, the methodological domain is selected at the end to test the hypotheses. The present chapter is going to describe a research design able to test the hypotheses.

9.1. Research Design

To test the model of customer loyalty, a survey design was chosen. A survey is to question people and record their responses for analysis. This type of design is adequate when the purpose of the study is to generalize from a sample to a population so that inferences can be made about some behaviour of this population (Creswell 1994). The use of latent variables will be implemented to find out how the proposed model of customer loyalty fits reality. A survey design helps in developing constructs for such latent variables through the use of factor analysis. Additional reasons for the adoption of a survey design are its economy and its advantage to collect data more easily (Creswell 1994. Cook and Campbell 1976). Even though the survey is cross-sectional (the survey information is collected at one point in time), the nature of the questions will allow the collection of consumer's past experiences.

Additionally, the survey design allows the use of structural equation modelling, which is a technique that tests the hypothesized model of customer loyalty against one or more rival models derived from the literature. For the purposes of testing the model of customer loyalty hypothesized by this research, two rival models are suggested as the best competing models

(see figure 2 and 3). In one of them (figure 2), Pritchard's model, the concept of consumer trust is absent. Pritchard's model will be challenging the parsimony of the model suggested by the present research. The second rival model (see figure 3), Garbarino's model, suggests trust and commitment as outcomes in parallel to customer loyalty. Garbarino's model will be challenging the relevance of including trust and commitment as mediating variables.

9.2. Measurement

This section addresses the measurement of several constructs: customer loyalty, commitment, trust, satisfaction, choice, risk, familiarity, communication, involvement, shared values, and opportunistic behaviour. The approach was to profit from valid research by using previously developed scales. However, adaptation had to be used either because of the specificity of the empirical domain and/or because no appropriate scales were available. To validate the instrument as a whole, considering the adaptations performed and the grouping of the particular set of scales adopted, a pre-test was implemented using residents of Manchester as a sample population. The procedure in the development of the instrument was as follows.

9.2.1. Customer Loyalty

Raju (1980) developed a seven-item, seven point Likert-type summated ratings scale to measure the degree to which a person reports being loyal to what he or she has been using rather than trying something new and/or different. The reliability reported was 70% with a sample of 105 students. Later, Lichtenstein et al. (1990) suggested a modification of Raju's scale with only five items. They tried to assess a consumer's general tendency to buy the same brands over time rather than switching around to try other brands. The reliability reported was %88. the following three questions were adapted (to reflect the international phone call phone service) from Lichtenstein et al. (1990):

- 1 Even though international phone call services are available in a number of options, I always use the same one.
- 2 If I like a service, I rarely switch from it just to try something different.
- 3 Once I get used to a service, I hate to switch.

Two questions were omitted because they do not fit the international phone call service domain (i.e., “I generally buy the same brands...” “I am likely to continue to buy...”).

Lichtenstein et al. scale was aiming at measuring the behavioural component of loyalty. In order to incorporate the attitudinal component, two items were adapted from Sirgy et al. (1991)

Sirgy et al. (1991) developed a three-item, summated rating scale purported to measure the constancy and devotion that a consumer expresses in describing his/her shopping at a specified store. Their study was composed of 110 adults who had just shopped in one of two upscale clothing stores. The reliability of the scale was %85 The questions adapted from Sirgy et al. (1991) were:

- 4 I am very loyal to my international phone call service.
- 5 I consider my international phone call service to be the ideal service.

The third question from the Sirgy et al. scale was not considered appropriate because it looks for frequency of purchase in terms of time (i.e., weeks).

9.2.2. Consumer Trust and Commitment

Most of the existing measures of trust and commitment focus on specific business- to-business situation, and hence, are not directly generalizable to the consumer context (Moorman, Deshpande, and Zaltman 1993, Gundlach et al. 1995). Exceptions are the work of Kelley and Davis (1994), who examine consumer commitment to health clubs, and the work of Garbarino and Johnson (1999), who examine trust and commitment to a theatre.

In the case of commitment, the following questions were adapted from Garbarino and Johnson (1999).

- 1 I am proud to a customer of this international phone call service.
- 2 I feel a sense of belonging to this international phone call service.
- 4 I care about the long-term success of this international phone call service.

The adaptation of this scale consisted of three aspects. First, the type of service was changed: from a theatre to international phone call phone service. Second, one question that included the concept of loyalty (“I am a loyal patron of this theatre”) was eliminated. Third, two new questions were included to reinforce the concept of pride and to add the concept of Identification. The two new questions were:

- 4 I feel proud to know that my international phone call service is doing better than the competition.
- 5 I feel identified with my international phone call service company.

In the case of trust, the following questions were adapted from Garbarino and Johnson (1999):

- 1 This international phone call service can be counted on to produce a good service.
- 2 I can always trust this service to be good.
- 3 This international phone call service is a reliable one.
- 4 The quality of the service of this international phone call service is consistently high.
- 5 I am always sure that the outcome of the service represents a valuable one.

The original scale consisted of seven items. This scale was adapted with the reduction of two questions and the change of the service domain from a theatre to international phone call phone service. Regarding the reduction of questions, one question was eliminated because it was considered to measure customer satisfaction instead of trust (“The performances at this theatre always meet my expectations”). The second question was eliminated because the authors (Garbarino and Johnson 1999) recognized that it was not loading strongly on any construct.

9.2.3. Product Choice

A scale developed for consideration of alternatives in industrial buying behaviour could be adapted to determine whether the consumer looks for additional choices. It is not important to determine whether there are actually more choices, but whether the consumer is aware of the number of choices available to him or her. Anderson, Chu, and Weitz (1987) generated a five-item, seven-point Likert-like scale measuring the percentage of situations a sales manager estimates his or her salespeople face in which customers are considering new product alternatives. The alpha reported was 57%.

The only adaptation suggested to this scale was the change from industrial buying to consumer selection of international phone call services. The questions were:

- 1 I know that there are several possible alternatives to my present provider.
- 2 Before I selected my actual provider, I knew of several alternatives.
- 3 I often know about new possible alternatives to my present provider.
- 4 The international phone call service is a very competitive one.
- 5 More and more companies are starting business in international phone call service.

9.2.4. Product Familiarity

Bloch et al. (1989) developed a two-item, five-point Likert-type summated scale ranging from little or no knowledge to a great deal of knowledge. The scale measures a consumer's knowledge of a product in comparison with that of others. The reliability reported was %86 for a test on PCs. Both questions were taken as part of final instrument. However, these questions only addressed relative knowledge. To complement that scale, other questions regarding familiarity and a more specific knowledge were included from other sources. The questions taken from Bloch et al. (1989) were:

- 1 Relative to other people, I have a great deal of knowledge of international phone call services.
- 2 Relative to most of my friends, I have a great deal of knowledge of international phone call services.

A five-item, seven-point, Likert-type scale was developed by Murray and Schlacter (1990) to measure the degree of familiarity a consumer has with shopping for some specified product. A mean alpha of %82 was reported for the scale, averaging over 15 different products. From this scale, only one item was taken:

- 3 I am familiar with many options of this service.

The rest of the questions were excluded because of their reference to repeated buyer behaviour (i.e., “I have a great deal of experience in buying a product like...” “I frequently shop...” etc.) a concept inappropriate in selecting an international phone call service provider.

Lichtenstein et al. (1990) developed a scale (four-item, seven-point Likert-type) to assess a consumer’s perceived knowledge of brands in a specified product category as well as the evaluative criteria. They reported a reliability coefficient of 0.77. The questions adapted to the international phone call service were:

- 4 I have a lot of knowledge about how to select the best option within international phone call service services.
- 5 I have a clear idea about which service characteristics are really important in providing me with maximum satisfaction.

Two questions were omitted from the original scale. One of the questions was omitted because it was the reversed score of item number five (“I do not have a clear idea about which service characteristics are really important ones in providing me with maximum satisfaction”). The second one was omitted because of its reference to repeated buying behaviour (“Please rate your level of knowledge of the products you buy”).

9.2.5. Perceived Risk

Eroglu and Machleit (1990) developed a four-item, Likert-type scale purported to measure a consumer’s level of perceived risk associated with the purchase of some specified product. They reported an alpha of 0.86 for the scale. Only one question was taken from this scale:

- 1 The decision to contract this service involves high risk.

Two original questions were not included because of their reference to the complexity of a product (“This is a technologically complex product” and “The product I was shopping for is an expensive product”). Another question was not included because of its reference to experience purchasing a product, a concept already considered in product familiarity (“I don’t have much experience in purchasing this product”).

No other scales that are able to capture the nature of the construct were found. Four questions were developed to complement the scale. Those questions were:

- 2 I am concerned about making a mistake in contracting a international phone call service.
- 3 If I have to switch my international phone call service, I might lose some already earned benefits.
- 4 I think that there is a hidden cost if I switch my international phone call service.
- 5 Switching among international phone call services involves an additional cost in terms of time and effort.

9.2.6. Communication

Anderson, Lodish, and Weitz (1987) generated a ten-item, semantic differential scale to measure communication in a channel relationship. Morgan and Hunt (1994) used a modification of such a scale with 4 items. None of them reported reliability of the scales. The five questions just adapted to fit the international phone call service were:

- 1 My international phone call provider keeps me informed of new services.
- 2 My international phone call provider explains to me the characteristics of the service.
- 3 The personnel that work at my international phone call provider company always listen to my suggestions.
- 4 If I want to, I can have detailed conversations with personnel from my international phone call provider regarding my account.
- 5 As far as I know, my international phone call provider cares about receiving feedback from its customers.

The other five questions of the Anderson, Lodish, and Weitz scale were omitted because they were somewhat specific to a business-to business relationship (i.e., “Special incentives offered to salespeople”, “Quality of principal’s recognition programs”, “Evaluation of training programs...”, “Expectations communicated formally versus informally”, and “Involvement in principal’s planning”).

9.2.7. Customer Involvement

Srinivasan and Ratchford (1991) developed a scale (six-item, seven-point, Likert-type) to measure the interest a person shows regarding a specific product. The scale was applied using cars as the product. The reliability coefficient obtained was .86. The five questions adapted to reflect the international phone call service were:

- 1 I have great interest in international phone call services.
- 2 International phone call service is fascinating.
- 3 I have a compulsive need to know more about international phone call services.
- 4 I like to make comparisons about international phone call services.
- 5 I like to engage in conversation with friends about international phone call services.

One question was omitted because it was assumed inappropriate for the international phone call phone service (“I’m crazy about...”).

9.2.8. Shared Values and Norms

Hunt, Wood, and Chonko (1989) used questions regarding corporate ethics. They asked respondents to assume two perspectives. In the first one, respondents should indicate, based on their beliefs, the level of agreement of the other partner with the statements. Second, respondents should indicate their own level of agreement with the statements. The difference between both answers subtracted from 7 measures the similarity in shared values. They suggested five questions regarding the ethical behaviour of managers inside an organization. The five questions were adapted to reflect the ethical behaviour of a company inside the international phone call service industry.

- 1 In order to succeed in this business, it is not necessary to compromise one’s ethics.
- 2 In this business, unethical behaviour shouldn’t be tolerated.
- 3 In this business, it is not justifiable to engage in unethical advertisement.
- 4 It is unethical the way international phone call services try to get new customers.
- 5 It is unethical to call customers from competitors and try to convince them to switch international phone call providers.

9.2.9. Opportunistic Behaviour

John (1984) developed a five-item, Likert-type scale to measure, among other things, the degree to which a partner engages in opportunistic behaviour in its relationship. Morgan and Hunt (1994) used a three-item version of the scale. The three questions adapted to reflect the international phone call service were:

- 1 To accomplish its own objectives, my international phone call provider sometimes alters the consumed minutes in its favour.
- 2 To accomplish its own objectives, my international phone call provider sometimes promises to do things without actually doing them later.
- 3 My international phone call provider sometimes makes an appearance of service as if it were profitable for me, but actually the provider is looking for its own advantage.

Two additional questions developed exclusively for this study were included. These questions aimed to incorporate the perception that a customer has regarding how much the provider cares for him or her. The questions are:

- 4 I think that my international phone call provider does not care about me.
- 5 My international phone call provider only cares about my money.

9.2.10. Customer Satisfaction (consumption based)

Westbrook and Oliver (1981) developed a general (6-item, Likert-type, summated ratings) scale to measure a consumer's degree of satisfaction with a class he/she recently took. The authors reported an alpha of 92%. The questions adapted to reflect the international phone call service were:

- 1 This is one of the best services I have ever received.
- 2 This service is exactly what I need.
- 3 This service has developed out as well as I thought it would.
- 4 This service has fulfilled adequately my expectations.

One question was omitted because it did not seem to apply in the context of international phone call phone service (“I have truly enjoyed this course”). A second question was moved to the scale of competing satisfaction below (“I am satisfied with my decision to choose this option”).

9.2.11. Customer Satisfaction (Transaction-Based)

Carman (1990) developed a (5-item, Likert-type) scale to measure the degree to which a person thinks a service company’s employees give attention to customers. The author reported an alpha of 82% when applied in a placement center. One item was omitted because international phone call services are covering basically a single need (“Employees of ___ do not know what your needs are”). The questions adapted to reflect the international phone call service were:

- 1 Employees from my international phone call company give me personal attention.
- 2 Employees from my international phone call company know what they are doing.
- 3 Employees from my international phone call company never are too busy to respond to customer requests promptly.
- 4 Employees from my international phone call company are polite.

9.2.12. Customer Satisfaction (Competing)

A scale measuring satisfaction in reference to competing alternatives was not found in the literature. The following questions were developed for this study:

- 1 Compared to the other providers, my international phone call company provides the best service.
- 2 Compared to the other providers, my international phone call company has the best reputation.
- 3 Compared to the other providers, my international phone call company provides customers with the best satisfaction overall.

The following question was adapted from Westbrook and Oliver (1981).

- 4 I am satisfied with my decision to choose this option over all other providers.

9.3. Instrument

The instrument is a questionnaire developed from the scales mentioned in the previous section. Here, all statements are phrased in a positive way. To collect the data, two versions of the survey were developed. One version phrased all the statements positively. The second version phrased about half of the statements positively, while the other half were reverse-coded. Each of the versions was applied randomly to the sample.

9.4. Sample

9.4.1. Population

Households of the United Kingdom are the subjects of this study. Every household is a user or a potential user, of international phone call services. The person inside the household who makes the selection of the international service provider represents a consumer with buying decision power. It is assumed that only one person inside each household selects the service provider, even though all the members of the household are potential users of the service. Because the interest of the present research deals with a service provided toward a single household, only one opinion per household was taken into consideration.

9.4.2 Sample Size

To ensure test power, a sample size of 260 was the set goal. That number represents an adequate ratio of 20 to 1, with respect to the variables in the survey (Hair et al. 1995). Considering a response rate of 10%, a total of 2,600 questionnaires needed to be sent. To be cautious, 1,400 extra questionnaires were sent. With a total of 4,000, a response rate of only 6.5% was required to reach the goal of 260.

9.4.3. Response Rate

Table 3.1 shows the number of surveys sent city by city and the response rate also by city. Overall, a response rate of 10.6%, or a total of 418 questionnaires was obtained. Eleven questionnaires were eliminated due to either incomplete answers or because the respondent confessed not having experience with international service providers. The usable sample was

396. This usable sample of 396 was above target, the ratio of 15.2 to 1 with respect to the variables in the survey is still inside the acceptable range for statistical analysis (Hair et al. 1995).

A reminder postcard was sent to the whole sample of 4,000 after three weeks of the original mailing. Approximately 67% of the responses were obtained from the original mailing and 33% with the help of the reminder postcard. A test on the dependent variable customer loyalty found no significant differences between the mean of the early and late respondents.

Regarding the versions, 77.5% of the returned surveys were version a (all statements phrased in a positive way), while 22.5% were version B (about half of the statements reversed). A test on the dependent variable, customer loyalty found no statistical difference between the means of both groups.

The four locations with highest response rates were Feltham (26.2%), Woking (22.6%), Northwich (22.2%), and Dover (19%). Wilmslow was in this group (22.2%). The five cities with the highest number of responses were Birmingham (30), London (26), Manchester (24), Liverpool (24), and Edinburgh (22). The cities that did not send back any surveys at all were Gillingham, Halifax, High Wycombe, Ipswich, Watford, Kent, Newcastle, Preston, and Stoke on Trent, Middlesex, and Brighton

Table 9.1**Response Rate**

Cities	Sent	Sent (%)	Responses	Responses (%)	Response Rate
London	264	6.7%	26	6.2%	9.8%
Manchester	263	6.6%	24	5.7%	9.2%
Birmingham	261	6.6%	30	7.2%	11.4%
Liverpool	232	5.9%	24	5.7%	10.4%
Glasgow	206	5.2%	12	2.9%	5.8%
Edinburgh	202	5.1%	22	5.3%	10.8%
Leeds	164	4.1%	18	4.3%	11%
Bath	163	4.1%	18	4.3%	11%
Belfast	158	4.0%	8	1.9%	5%
Cardiff	131	3.3%	6	1.4%	4.6%
Bournemouth	129	3.3%	20	4.8%	15.6%
Portsmouth	116	2.9%	14	3.3%	12%
Plymouth	107	2.7%	12	2.9%	11.2%
Aberdeen	100	2.5%	4	1.0%	4%
Bradford	99	2.5%	14	3.3%	14.2%
Bristol	95	2.4%	12	2.9%	12.6%
Sheffield	88	2.2%	14	3.3%	16%
Oxford	83	2.1%	16	3.8%	19.2%
Reading	77	1.9%	6	1.4%	7.8%
York	74	1.9%	4	1.9%	10.8%
Leicester	73	1.8%	6	1.4%	8.2%
Woking	71	1.8%	16	3.8%	22.6%
Dover	63	1.6%	12	2.9%	19%
Dartford	60	1.5%	8	1.9%	13.4%
Blackpool	60	1.5%	8	1.9%	13.4%
Chester	59	1.5%	8	1.9%	13.6%
Cheltenham	58	1.5%	4	1.0%	6.8%
Cornwall	57	1.4%	6	1.4%	10.6%
Epsom	56	1.4%	10	2.4%	17.8%
Feltham	45	1.1%	12	2.9%	26.6%
Buxton	40	1.0%	2	0.5%	5%
Gillingham	37	0.9%	0	0.0%	0.0%
Gloucester	31	0.8%	4	1.0%	13%
Lancaster	29	0.7%	2	0.5%	6.8%
Guildford	22	0.6%	4	1.0%	18.2%
Halifax	22	0.6%	0	0.0%	0.0%
High wycombe	21	0.5%	0	0.0%	0.0%
Ipswich	19	0.5%	0	0.0%	0.0%
Watford	18	0.5%	0	0.0%	0.0%
Kent	15	0.4%	0	0.0%	0.0%
Macclesfield	14	0.4%	2	0.5%	14.2%
Newcastle	14	0.4%	0	0.0%	0.0%
Preston	14	0.4%	0	0.0%	0.0%
Stoke on trent	12	0.3%	0	0.0%	0.0%
Swansea	11	0.3%	2	0.5%	18.2%
Wilmslow	9	0.2%	2	0.5%	22.2%
Northwich	9	0.2%	2	0.5%	22.2%
Middlesex	7	0.2%	0	0.0%	0.0%
Brighton	3	0.1%	0	0.0%	0.0%
TOTAL	3961		418		10.6%

9.4.4. Sample Characteristics

Table 9.2 shows the demographic aspects of the respondents. The sample was representative of the United Kingdom population, except for a certain bias toward the existence of retired people (probably the ones with more spare time to answer the survey). The demographics of the sample were as follows. The gender was 52.3% male and 47.7% female. Regarding marital states, 60.7% were married, 23.0% single, 8.2% widowed, and 8.1% divorced or separated. The median number of members in the household was 2. The median number of relatives outside the city was 6. Regarding age, 38.1% of the sample were over 50 years of age, 23.9% in the age range of 21-30, 22.8% in the age range of 31-40, 14.2% in the age range of 41-50, and the remaining 1.0% were less than 20 years old.

The ethnic background was predominantly white (75.5% of the sample). The highest minority was Caribbean (13.3%), Asian origin was represented with 7.1% of the sample, Black African was 2.6%, and other ethnic origin was 1.5%. Most of the sample was born in the U.K (89.7%). Other nationalities were represented only by 10.3% of the sample, with no other country having more than 2%. Regarding occupation, the predominant percentage of the sample was that of retired people (25.0%). Probably the length of the survey discouraged some employed people to answer it. Among the employed respondents, managers/owners were represented with 7.8% of the sample, education related 7.2%, financial/accounting/banking 7.2%, engineering/technician 6.1, health related 5.6%, students 5.6%, and several others (under 5% each) 35.5%. Because of the high participation of retired people, a mean analysis on the dependent variable, customer loyalty was conducted. The test found no significant differences between the mean of retired people and all other occupations.

The annual household income with highest representativity in the sample was the range £30,000 to £40,000 (17.9%). Other ranges were as follows. The low-income range (under £10,000) represented 13.6% of the sample, The income range of £10,000 to £20,000 was 10.3%. The income range of £20,000-£30,000 came in at 12.5%. The income range of £40,000-£50,000 represented 11.4% of the sample. The income range of £50,000-£60,000 was 7.1%. The income range of £60,000-£70,000 represented 4.9% of the sample. The income range of £70,000-£80,000 came in at 9.8%. Finally, 12.5% of the sample reported an income above £80,000.

Table 9.2

Sample Characteristics (N=418)

Variable and Category		Percent
Gender	Male	52.3%
	Female	47.7%
Marital status	Married	60.7%
	Single	23.0%
	Widow	8.2%
	Divorced	7.7%
	Separated	0.5%
Members in house	1	20.3%
	2	31.3%
	3	20.8%
	4	16.7%
	5	6.3%
	6	3.6%
	7	1.0%
Members outside city	None	15.1%
	1-5	34.3%
	6-10	22.9%
	11-15	7.2%
	16-20	6.0%
	Over 20	14.5%
Age Range	Under 20	1.0%
	21-30	23.9%
	31-40	22.8%
	41-50	14.2%
	Over 50	38.1%
Ethnic background	white	75.5%
	Black African	2.6%
	Asian	7.1%
	Caribbean	13.3%
	Other	1.5%
Country of birth	U.k.	89.7%
	Others (under 2% each)	10.3%
Occupation	Retired	25.0%
	Owner/managerial	7.8%
	Education related	7.2%
	Financial/Accounting/Banking	7.2%
	Engineering/Technician	6.1%
	Health related	5.6%
	Student	5.6%
	Others (under 5% each)	35.5%
Income	Under £10,000	13.6%
	£10,000-£20,000	10.3%
	£20,001-£30,000	12.5%
	£30,001-£40,000	17.9%
	£40,001-£50,000	11.4%
	£50,001-£60,000	7.1%
	£60,001-£70,000	4.9%
	£70,001-£80,000	9.8%
	£80,001-£90,000	2.2%
	over £90,000	10.3%

9.4.5 .Service

The most popular international service provider in the sample was BT. It was reported as the current provider by 50.8% of the sample. Second place corresponded to NTL(19.0% of the sample). One Tel had 9.2%, Cable and Wireless 3.1%, and other providers shared the remaining 17.9%. regarding the amount of time with the current provider, 21.5% of the sample has stayed one year or less, 12.4% of the sample has stayed between one and two years, 7.7% has stayed between two and three years, 3.8% has stayed between three and four years, 6.2% has stayed between 4 and 5 years, 8.6% has stayed between 5 and 10 years, and 39.7% has stayed more than 10 years with the current provider.

The average number of international minutes in the previous month was 213, with 90 minutes being the median value, and 200 the mode. Regarding the usage of additional services, 3.1% of the sample reported the usage of favorite numbers, 7.3% reported the usage of internet discounts, 3.6% reported the usage of Vouchers, 2.1% reported the usage of special rates at special times, and 3.0% reported the usage of several other services (under 1% each) such as 800 service, free credit card membership, and a points reward system.

About half of the sample (50.7%) had never switched providers. Some, 39.0% had switched only once, and 10.3% had switched more than once. Among the reasons to switch, price/cost was the most common (49.1% of the time), but other important reasons were: looking for better service/bad previous service (12.1%), change of address (8.3%), bonus to sign in/promotion (6.5%), salesperson's skills (5.6%), disagreement with a certain policy (4.6%), and other reasons (13.8%).

The use of pre-paid international call cards was reported by 15.3% of the sample. Among the card users, 44.4% of the sample did not care which card was used. They normally used the least expensive card, 33.3% used BT cards, 11.1% used NTLI cards, and 11.2% used other cards.

9.5. Methods of Analysis

Two methods of analysis are considered: regression analysis and structural equation modelling. Both are required to test the validity of the model suggested. Regression analysis is a statistical technique that can be used to analyse the relationship between a single dependent variable and one or more predictor variables. In this particular case, regression analysis helps determine whether the variance of the dependent variable (customer loyalty) is being explained by the predictors suggested in the model. A high coefficient of determination implies a good explanation. There are some limitations in regression analysis that avoid its employment as the only tool of analysis. One is the problem of multicollinearity. Whenever some of the independent variables are correlated, the separated impact of each one over the dependent variable is affected. A second problem is that regression analysis considers all predictor variables as independent. But in the case of the model proposed, some predictor variables depend on others. For instance, Commitment is hypothesised to be dependent on Trust, and Trust to be dependent on Consumption Satisfaction. Although some indirect effects can be analyzed, regression analysis cannot handle a complex model. For that reason it is important to complement the analysis with a second method: structural equation modelling.

Structural equation modelling using EQS provides help in determining path relationships. EQS also helps in deciding whether the model of customer loyalty suggested by this research fits the reality better than rival models derived from literature. The different measures of goodness of fit provided by EQS indicate the likelihood that the variables relate in the suggested manner. In other words, it will provide evidence that the structure approximates to the correct structure. In summary, regression analysis will provide indication about the strength that the model possesses in predicting loyalty, while structural equation modelling will provide indication whether the variables are placed in the correct sequence.

Chapter Ten

Results and

Discussion

RESULTS AND DISCUSSION

Four analyses were conducted with the data. First, factor analysis served to verify that every question represented part of its hypothesized scale. After conducting a confirmatory factor analysis, the scales were validated. Then, following the factor loadings, thirteen constructs were formed adding the corresponding items. Second, a correlation analysis served to observe the existence of relations between pairs of constructs hypothesized to be related. Results showed strong correlation coefficients (significant at the .01 level) in all predicted pairs with the exception of two: risk-commitment (significant only at the .05 level) and choice-commitment (not significant at all).

This regression analysis served to show the ability of the predictor variables to explain the variance of the dependent variable (customer loyalty). The R^2 of .300 calculated using only commitment, reinforces the idea that commitment is a good predictor of loyalty. However, it would not be valid to reach conclusions based on a single statistic, which is why a fourth analysis was conducted. Structural equation modeling, using EQS for windows served to test the hypotheses. Seven of the hypotheses were supported. A tested model was then developed through the elimination of the non-supported paths. Structural equation modeling also served to compare the tested model against two rival models. The combined results of goodness of fit and tests of statistical significance showed a superiority of the tested model over the rival models.

10.1. Factor Analysis

A confirmatory factor analysis was conducted using the data. The analysis was performed in two groups. The first group consisted of the proposed items of the core variables: loyalty, commitment, trust, consumption-based satisfaction, transaction-based satisfaction, and competition-based satisfaction. The second grouped the proposed items of the secondary variables: familiarity, choice, risk, involvement, shared values, communication, and opportunistic behaviour. The maximum likelihood method for both construct groups was applied to conduct the confirmatory factor analysis. This type of method is appropriate when

the objective is to identify the constructs hidden in the original variables (Hair et al., 1995). It was hypothesized that the 62 items should load in 13 different factors.

Previous to the factor analysis, some tests were conducted to verify the adequacy of the sample (Hair et al., 1995). All of them suggested a sample that was ready to use factor analysis. The Kaiser-Meyer-Olkin measure of sampling adequacy for groups one and two was, respectively, .937 and .776, above the minimum target of 0.5 suggested by Hair et al., (1995). Bartlett's Test of Sphericity provided a Chi-Square of 4515.67 and 3054.006 for groups one and two, respectively, which is statistically significant at the .001 level. The Goodness-of-Fit Test provided a Chi-Square of 612.78 and 512.69 for groups one and two respectively, which were also statistically significant at the .001 level.

Factor analysis with SPSS for Windows (version 10) using the maximum likelihood method for the first group produced four factors with Eigenvalues above the threshold value of one (see table 10.1). The twelve satisfaction items composed one of the factors. This result was somewhat expected, because those twelve items are supposed to reflect different dimensions of satisfaction. To be more specific, (the model assumes that the three satisfaction constructs are an antecedent of trust and their treatment together or separated has no effect on further analysis) factor analysis was instructed to separate six factors. The justification to split in six factors when the Eigenvalues suggest only four is based on the confirmatory nature of the test. Satisfaction was conceived as formed by three separated entities, although the existence of a high correlation among them is not surprising (see chapter eight). Only results with the six factors will be shown (see table 10.3).

Table 10.1

Factor Analysis – Six Highest Eigenvalues of the Core Variables

Factor	Eigenvalues	% of Variance	Cumulative %
1	13.560	50.224	50.224
2	2.502	9.268	59.492
3	1.592	5.895	65.386
4	1.304	4.830	70.216
5	.986	3.654	73.870
6	.859	3.181	77.051

Table 10.2 shows the eight highest Eigenvalues for the second group of variables. In this case the maximum likelihood method produced seven factors with Eigenvalues over one, exactly the seven that were hypothesized. The seven factors are shown in table 10.4.

Table 10.2

Factor Analysis – Eight Highest Eigenvalues of the Moderating Variables

Factor	Eigenvalues	% of Variance	Cumulative %
1	6.883	19.665	19.665
2	3.730	10.658	30.324
3	3.618	10.338	40.662
4	2.218	6.338	47.000
5	1.871	5.346	52.345
6	1.501	4.290	56.635
7	1.358	3.880	60.515
8	.997	2.792	63.307

Table 10.3 and 10.4 show the factor loadings and reliabilities for both groups after a Varimax rotation. Varimax rotation was selected because it is referred to as a very successful tool in facilitating the interpretation of the factor matrix (Hair et al. 1995). In table 10.3 all items corresponded to their hypothesized constructs with one exception: loyalty5. This item loaded strongly within the commitment construct. After reviewing the text (*I consider my international Phone call to be the ideal carrier*), it was decided to move the item from loyalty to commitment, basically to avoid bias during the regression analysis. For organizational purposes, the item loyalty5 was renamed as commitment6. In table 10.3, all Cronbach alphas are over .8 above the threshold score of .7 recommended by Nunnally (1978) as a minimum score for testing purposes. Furthermore, all loadings are over .48. Results in table 10.3 clearly validate the scales and allow the formation of constructs by adding the corresponding items.

Table 10.3

Factor Analysis – Core Variables

Construct	Item	Factor Loading	Alpha
Loyalty	Loyalty1	.694	.8135
	Loyalty2	.728	
	Loyalty3	.772	
	Loyalty4	.481	
Commitment	Commitment1	.772	.9387
	Commitment2	.760	
	Commitment3	.662	
	Commitment4	.838	
	Commitment5	.819	
	Commitment6	.558	
Trust	Trust1	.732	.9296
	Trust2	.778	
	Trust3	.689	
	Trust4	.708	
	Trust5	.491	
Consumption Satisfaction	Cons. Satis1	.498	.9188
	Cons. Satis2	.675	
	Cons. Satis3	.506	
	Cons. Satis4	.643	
Transaction Satisfaction	Tran. Satis1	.578	.8299
	Tran. Satis2	.612	
	Tran. Satis3	.666	
	Tran. Satis4	.533	
Competition Satisfaction	Comp. Satis1	.713	.9179
	Comp. Satis2	.679	
	Comp. Satis3	.692	
	Comp. Satis4	.706	

The only problem observed in table 10.4 is with the construct choice. The rest of the reliabilities are approximately .7 or higher. The reliability of choice is .6227 and one of the items, choice5, has a loading of .148. It was decided to retain this item for three reasons. First, the concept of the item clearly belongs to the construct (*More and more companies are starting business in international service*). Second, during a pre-test of the survey, this particular item loaded correctly in the construct. Third, it is preferable to maintain the validity of the construct even though the reliability is somewhat deteriorated. Results in table 10.4 validate the seven scales hypothesized in chapter III.

Table 10.4**Factor Analysis – Moderating Variables**

Construct	Item	Factor Loading	Alpha
Familiarity	Familiarity1	.893	.8860
	Familiarity2	.877	
	Familiarity3	.712	
	Familiarity4	.691	
	Familiarity5	.636	
Choice	Choice1	.606	.6277
	Choice2	.508	
	Choice3	.434	
	Choice4	.314	
	Choice5	.148	
Risk	Risk1	.469	.6998
	Risk2	.431	
	Risk3	.532	
	Risk4	.661	
	Risk5	.559	
Involvement	Involvement1	.595	.8441
	Involvement2	.747	
	Involvement3	.847	
	Involvement4	.630	
	Involvement5	.724	
Shared values	Shared1	.692	.8601
	Shared2	.830	
	Shared3	.820	
	Shared4	.635	
	Shared5	.467	
Communication	Communication1	.407	.8168
	Communication2	.476	
	Communication3	.659	
	Communication4	.767	
	Communication5	.591	
Opportunistic Behaviour	Opportunistic1	.651	.8059
	Opportunistic2	.476	
	Opportunistic3	.777	
	Opportunistic4	.528	
	Opportunistic5	.613	

Although tables 10.3 and 10.4 show a clear separation of the factors according to the scales previously hypothesized, an additional test was performed to verify that all of them belong to separate constructs. The test consisted of two regression analyses having the construct Loyalty as the dependent variable and all the rest of the constructs as independent variables (the constructs were formed by adding the items of each factor according to tables 10.3 and 10.4). one of the regression analyses was executed using the stepwise method as a basis of comparison and the second using the enter method. The basic idea of the test is to observe the existence of a significant increase in R^2 from one method to the other. If such an increase exists, it will show the presence of multicollinearity and it will create the suspicion that perhaps the variables are not separate constructs. Table 10.5 shows the results of this test.

Table 10.5

Regression Analysis – Multicollinearity Test

Dependent Variable	Predictor Variable	B	Std. B	t	Sig.	R^2 (Model)
Loyalty ^a	(Constant)	12.099		7.865	.000***	.399 ^a
	Commitment	.291	.462	5.680	.000***	
	Involvement	-.245	.280	-4.688	.000***	
	Trust	.192	.212	2.644	.009***	
Loyalty ^b	(Constant)	14.615		3.934	.000***	.431 ^b
	Commitment	.282	.447	4.687	.000***	
	Trust	.214	.238	2.552	.012*	
	Opportunistic Choice	-.069	-.081	-.972	.333	
	Familiarity	.027	.021	.313	.755	
	Risk	-.094	-.105	-1.528	.129	
	Communication	.103	.104	1.635	.104	
	Involvement	-.044	-.046	-.490	.605	
	Shared Values	-.220	-.251	-3.676	.000***	
	Consumption Sat.	-.047	-.058	-.764	.446	
	Transaction Sat.	.127	.121	1.078	.283	
	Competition Sat.	-.068	-.054	-.546	.586	
		-.087	-.076	-.733	.464	

^a Method: Forward Stepwise

^b Method: Enter

*** significant at the .001 level

** significant at the .01 level

* significant at the .05 level

Observing table 10.5 it can be noticed that the increase in R^2 from one method (stepwise) to the other (enter) is .031. The small amount guarantees that the constructs are not representing the same phenomena. In other words, table 10.5 reinforces the validity of the selected scales.

10.2. Correlation Analysis

Summated scales were created with the results provided by the factor analysis (following tables 10.3 and 10.4). The scales were then used to run a correlation analysis. Table 10.6 shows the correlation coefficients. A high number of statistically significant correlations were found. The objective of the correlation analysis was to observe the existence of relations between pairs of constructs hypothesized to be related. According to the model proposed, a significant correlation coefficient was expected between the pairs of constructs marked with bolded fonts in table 10.6. results show strong correlation coefficients (significant at the .01 level) in all predicted pairs with the exception of two: risk-commitment (significant only at the .05 level) and choice-commitment (non significant at all). The results indicate the general feasibility of the model proposed and generate the suspicion that perhaps risk and choice are not working in the development of customer loyalty.

Additionally, it was expected that some of the highest values were those correlation coefficients that are core to the model. Results supported this expectation. The correlation coefficients that are core to the model are loyalty-commitment .548, commitment-trust .493, trust-consumption-based satisfaction .674, trust-transaction-based satisfaction .614, and trust-competition-based satisfaction .653.

Table 10.6

Correlation Coefficients

	Loyalty	Commit.	Trust	Opport.	Choice	Famil.	Risk
Loyalty	1.000						
Commit.	.548***	1.000					
Trust	.493***	.683***	1.000				
Opportun.	-.371***	-.555***	-.525***	1.000			
Choice	.103	.133	.262***	-.068	1.000		
Familiar.	-.016	.247***	.218**	-.105	.299***	1.000	
Risk	.154*	.143*	.018	.156*	-.156*	-.174*	1.000
Commun.	.273***	.577***	.541***	-.513***	.153*	.247***	-.009
Involv.	-.150*	.237**	.163*	-.017	-.130	.209**	.083
Shared v.	.128	.425***	.387***	-.480***	.034	.136	.001
Cons. sat.	.394***	.668***	.674***	-.541***	.227**	.315***	-.033
Trans. sat.	.285***	.547***	.614***	-.450***	.185**	.179*	-.037
Comp. sat.	.360***	.593***	.653***	-.509***	.280***	.277***	-.026

Hypothesized relationships are bolded

*** Correlation is significant at the .001 level.

** Correlation is significant at the .001 level.

* Correlation is significant at the .005 level.

Table 10.6 continued

Correlation Coefficients

	Commun.	Involv.	Shared v.	Cons. sat.	Trans. sat.	Comp. sat.
Loyalty						
Commit.						
Trust						
Opportun.						
Choice						
Familiar.						
Risk						
Commun.	1.000					
Involv.	.182*	1.000				
Shared v.	.545***	.307***	1.000			
Cons. sat.	.656***	.211**	.444***	1.000		
Trans. sat.	.688***	.227***	.366***	.702***	1.000	
Comp. sat.	.568***	.077	.361***	.775***	.679***	1.000

Hypothesized relationships are bolded

*** Correlation is significant at the .001 level.

** Correlation is significant at the .001 level.

* Correlation is significant at the .005 level.

10.3. Regression Analysis

Three separate analyses were performed using customer loyalty, relationship commitment, and consumer trust as dependent variables. Table 10.7 shows the analyses that include the predictors hypothesized by the model. The method used was Enter. The justification for the use of this method is that all constructs are supposed to impact their corresponding dependent variable and the use of the Enter method (inclusion of all the variables as predictors) allows the observation of what is happening with each one of them.

The first analysis, having loyalty as the dependent variable has an adjusted R^2 of .297 with the predictor commitment. The high statistical significance of this relationship (at the .001 level) justifies the idea that commitment is directly related to loyalty as was expressed previously by several authors (Morgan and Hunt 1994, Jacoby and Kyner 1973, Pritchard, Havitz, and Howard 1999). Morgan and Hunt (1994) suggested the linkage commitment-loyalty in business-to-business exchanges. It seems, after observing table 10.7 that it also holds in consumer-provider exchanges. Jacoby and Kyner (1973) suggested that the existence of commitment differentiates repurchase behaviour from loyalty. The significance of the regression commitment-loyalty (it is important to remember that in the formation of the

constructs loyalty, in attempting to represent "true loyalty," some attitudinal elements were included) seems to confirm the research of Jacoby and Kyner (1973). Pritchard, Havitz, and Howard (1999) have been the main defenders of the commitment-loyalty linkage, and the results presented in table 10.7 seem to justify their efforts, even though they used a different conceptualization of commitment. Table 10.7 shows that the link commitment-loyalty is also valid with the enhanced conceptualization of both constructs: commitment and loyalty.

The second analysis, having commitment as the dependent variable, finds four significant predictors: trust, familiarity, risk, and shared values. The adjusted R^2 of this model is .523. Even though it was expected that all predictors were significant, two of them fail to contribute in a significant way to explain the dependent variable commitment. They are: choice and involvement. Their small contribution might suggest that the formation of commitment is independent of the number of alternatives the consumers have or the level of involvement the consumers engage. Regarding choice, the results in table 10.7 seem to confirm the ideas of Bagozzi (1995). This author, in a debate with Sheth and Parvatiyar (1995) claimed that reduction of choices could be a consequence of finding a trustable brand, but not a motive to produce commitment. Another expected result in this test was the existence of a high level of significance of trust as a predictor of commitment. Table 10.7 corroborates this expectation. Trust is the predictor with the highest level of significance, standardized coefficient, and partial R^2 . This result points toward the idea, shared by several authors (Achrol 1991, Moorman, Zaltman, and Deshpande 1992, Morgan and Hunt 1994), that trust is a major determinant of relationship commitment.

The third analysis, having trust as the dependent variable, finds four significant predictors: the three satisfaction constructs, plus opportunistic behaviour. The adjusted R^2 of this model is .516. The hypothesized predictors that fail to be significant are shared values, familiarity, and communication. This implies that the formation of trust depends only on the level of satisfaction and the feeling that the provider is not taking advantage of the consumers.

Consumers might not need to have common values with the providers, or know a lot about them, or even interact very often with the providers to trust them. The fact that the three types of satisfaction are significant predictors of trust builds on the idea of some scholars (Anderson et al. 1994, Oliver 1983) that satisfaction precedes the entire process leading to customer loyalty. Morgan and Hunt (1994) proposed opportunistic behaviour as a factor that works against trust in a business-to-business exchange. The significance and the negative sign in table 10.7 of opportunistic behaviour confirm that this also holds true in consumer-provider exchanges.

The high amount of the R^2 in all three of the models, and the fact that the core predictors hypothesized, namely commitment to loyalty, trust to commitment, and satisfaction (the three of them) to trust, are significant, gives reason to believe that the proposed theoretical model is resembling reality. Still, regression analysis is not conclusive to test the hypotheses because the method is unable to test the whole model. The observation of R^2 levels helps to understand which are the significant predictors of selected dependent variables, but regression analysis does this in isolation, meaning that the method is not considering the impact of all the variables simultaneously. For instance, regression can tell that there are four significant predictors to commitment (trust, familiarity, risk and shared values), but it does not consider the predictors of trust that could potentially modify the relationships. That is the reason why structural equation modeling is required as a complement to test the hypotheses. Structural equation modeling tests the feasibility of all the relationships to exist simultaneously.

Table 10.7**Regression Analysis – Proposed Model**

Dependent Variable	Predictor Variable	B	Std. B	t	Sig.	R ² (Partial)	R ² (Model)
Loyalty	(Constant)	12.185		11.575	.000***		.300 ^a
	Commitment	.345	.548	9.122	.000***	.300	
Commitment	(Constant)	-8.619		-2.056	.041*		.539 ^b
	Trust	.872	.610	10.649	.000***	.471	
	Choice	-.106	-.052	-.881	.380	.002	
	Familiarity	.184	.131	2.223	.027*	.021	
	Risk	.217	.139	2.624	.009**	.015	
	Involvement	.034	.025	.440	.661	.003	
	Shared Values	.227	.178	3.163	.002**	.027	
Trust	(Constant)	13.445		4.453	.000***		.535 ^c
	Cons Satisfac.	.309	.266	2.772	.006**	.451	
	Tran. Satisfac.	.259	.185	2.177	.031*	.039	
	Comp. satisfac.	.272	.212	2.428	.016*	.022	
	Opportunistic	-.179	-.186	-2.783	.006**	.021	
	Shared Values	-.032	-.036	-.588	.578	.001	
	Familiarity	.024	.025	.446	.656	.001	
Communication	.031	.029	.353	.724	.000		

Method: Enter

*** significant at the .001 level

** significant at the .01 level

* significant at the .05 level

^a Adjusted R² = .297, F = 83.206, p = .000

^b Adjusted R² = .523, F = 33.646, p = .000

^c Adjusted R² = .516, F = 28.305, p = .000

A final regression test was conducted to compare the strength of the relationship between the three satisfaction constructs and loyalty. One of the claims of the present research is the concept that satisfaction is not enough to form loyalty. Thus, it is expected to find a lower R² when regressing satisfaction to loyalty than the R² found when regression commitment to loyalty (according to table 10.7, the R² between commitment and loyalty is .300). Table 10.8 shows the results of a regression analysis having loyalty as dependent variable and the three satisfaction constructs as independent variables. The R² in this case is .162 and only one of three constructs is significant at the .05 level. The R² produced by commitment is almost twice the R² produced by satisfaction. This result corroborates the expectation of the importance of having mediating variables.

Table 10.8**Regression Analysis – Basic Model Satisfaction to Loyalty**

Dependent Variable	Predictor Variable	B	Std. B	t	Sig.	R ² (Partial)	R ² (Model)
Loyalty	(Constant)	12.358		7.147	.000***		.162 ^a
	Cons Satisfac.	.306	.292	2.581	.011*	.154	
	Tran. Satisfac.	-.019	-.015	-.155	.877	.000	
	Comp. satisfac.	.166	.144	1.300	.195	.008	

Method: Enter

*** significant at the .001 level

** significant at the .01 level

* significant at the .05 level

^a Adjusted R² = .149, F = 12.168, p = .000

10.4. Structural Equation Modeling

Structural equation modeling is conducted to test the several paths hypothesized in the model. It also compares the model against two rival models. Structural equation modeling was selected to test the hypotheses because it is recognized as a more comprehensive and flexible approach to research design and data analysis than any other single statistical model in standard use by social and behavioural researchers (Hoyle 1995). The superiority of structural equation modelling over other statistical techniques is based on its ability to include several observed and latent variables simultaneously in predicted paths. Although the method cannot test causality, structural equation modelling can provide necessary (not sufficient) evidence in that direction.

Table 10.9 shows the significance of the paths and the goodness of fit of the proposed model. EQS for Windows Version 5.7 was employed in the construction of all tables in this section. Figure 6 shows the proposed model (derived from figure 1).

Table 10.9**Proposed Model**

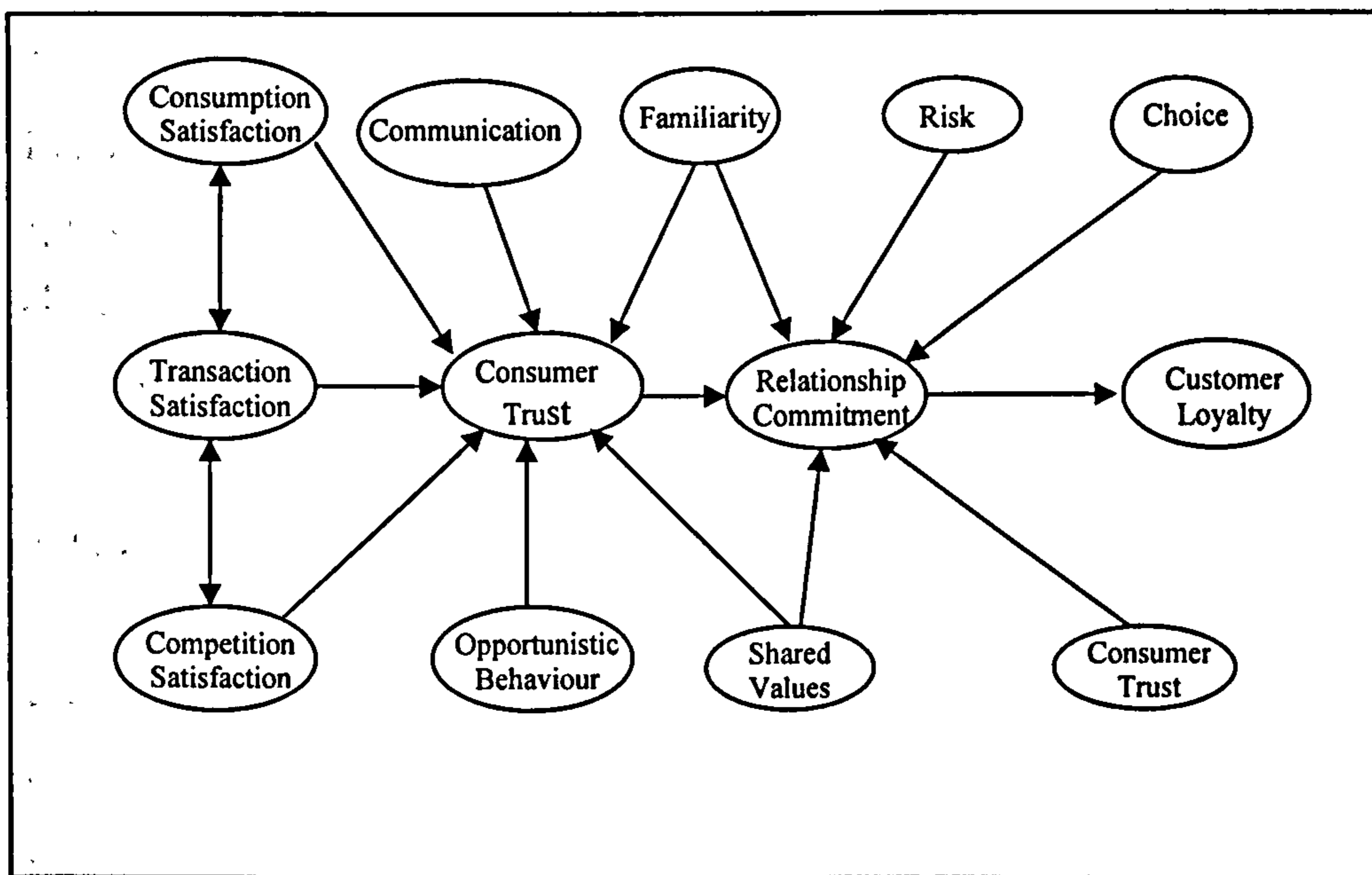
Parameter	H	Proposed Model	
		Standard estimates	t-value
Commitment to Loyalty	H ₁	.632	7.38***
Trust to Commitment	H ₂	.673	9.09***
Choice to Commitment	H _{3a1}	-.058	-1.10
Familiarity to Commitment	H _{3a2}	.126	2.34*
Risk to Commitment	H _{3a3}	.162	3.00***
Familiarity to Trust	H _{3b1}	.015	.283
Communication to Trust	H _{3b2}	-.029	-.560
Involvement to Commitment	H _{3c1}	.042	.783
Shared Values to Commitment	H _{3c2}	.150	2.77**
Shared Values to Trust	H _{3d1}	.046	.880
Opportunistic B. to Trust	H _{3d2}	-.191	-3.6***
	H ₄		
Consumption Sat. to Trust	H ₄	.304	3.36***
Transaction Sat. to Trust	H ₄	.240	3.09***
Competition Sat. to Trust		.232	2.63**
Goodness of fit			p-value
Chi-Square		967.59	<.001
Degrees of Freedom		300	
H. Chi-Square/df		3.225	
Independence Chi-Square		3674.872	
Bentler-Bonett Index (NFI)		0.737	
Non-Normal Index		0.768	
Comparative Fit Index (CFI)		0.793	
LISREL GFI		0.685	
LISREL AGFI		0.619	
RMSEA		0.115	
Tests of statistical significance			
R ² for Loyalty			
R ² for Commitment		.399	
R ² for Trust		.535	
		.533	

* significant at the .05 level

** significant at the .01 level

*** significant at the .001 level

Figure 6: Proposed Path Model



10.5. Overall Fit Measures

In general, the goodness of fit of the proposed model falls short of the standards indicating a good model fit. The Chi-Square is 967.59, NFI=.737, CFI=.793, GFI=.685, and RSMEA=.115. It is normally agreed that a good model should have a Chi-Square close to zero, NFI, CFI, and GFI above .9, and RMSEA below .10 (Hoyle 1995). Additionally, some of the paths are found to be non-significant: choice to commitment, familiarity to trust, communication to trust, involvement to commitment, and shared values to trust. These non-significant paths work against the goodness of fit indexes.

With the purpose of identifying an improved model a-posteriori, the non-significant paths were taken away. Figure 7 shows this "Tested Model". The goodness of fit improves considerably in the tested model. Table 10.10 shows a comparison between the proposed model and the tested model. The tested model has all paths significant at the .05 level and Chi-Square is 635.17, NFI=.810, CFI=.861, GFI=.759, and RMSEA=.104. All of them are very close to the standards suggested by Hoyle (1995). The tested model is the one that is going to be compared against the rival models.

Figure 7: Tested Path Model

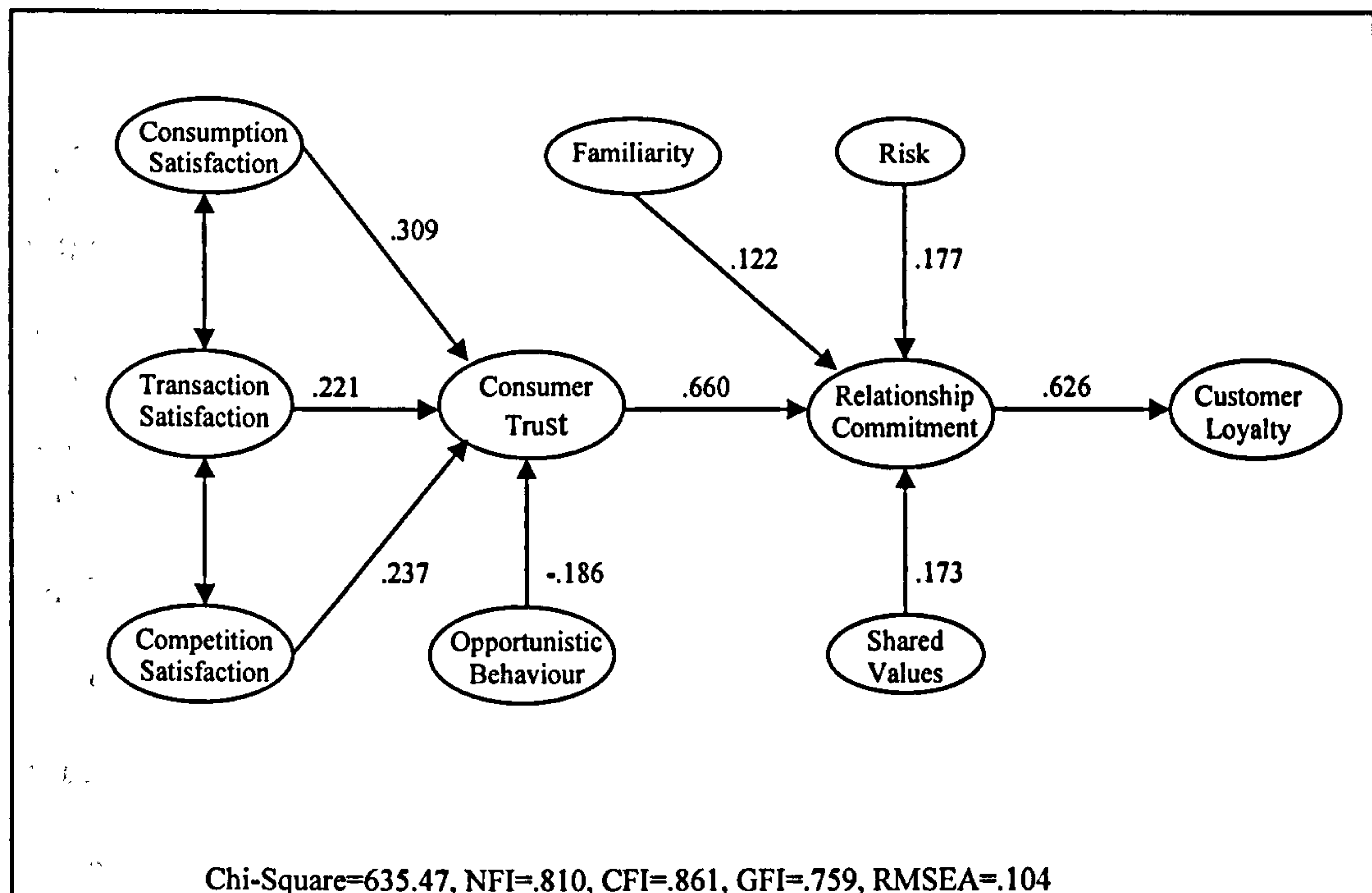


Table 10.10

Proposed Versus Tested Model

Parameter	H	Proposed Model		Tested Model	
		Standard estimates	t-value	Standard estimates	t-value
Commitment to Loyalty	H ₁	.632	7.38***	.626	7.27***
Trust to Commitment	H ₂	.673	9.09***	.660	8.82***
Choice to Commitment	H _{3a1}	-.058	-1.10		
Familiarity to Commitment	H _{3a2}	.126	2.34*	.122	2.22*
Risk to Commitment	H _{3a3}	.162	3.00***	.177	3.18***
Familiarity to Trust	H _{3b1}	.015	.283		
Communication to Trust	H _{3b2}	-.029	-.560		
Involvement to Commitment	H _{3c1}	.042	.783		
Shared Values to Commitment	H _{3c2}	.150	2.77**	.173	3.11***
Shared Values to Trust	H _{3d1}	.046	.880		
Opportunistic B. to Trust	H _{3d2}	-.191	-3.6***	-.186	-3.5***
Consumption Sat. to Trust	H ₄	.304	3.36***	.309	3.36***
Transaction Sat. to Trust	H ₄	.240	3.09***	.221	2.80**
Competition Sat. to Trust	H ₄	.232	2.63**	.237	2.66**
Other					
Communic. to Commitment					
Opportunistic to Commit.					
Consumption Sat. to Loy.					
Consumption Sat. to Comm.					
Consumption Sat. to Trust					
Goodness of fit			p-value		p-value
Chi-Square		967.59	<.001	635.17	<.001
Degrees of Freedom		300		231	
H. Chi-Square/df		3.225		2.74	
Independence Chi-Square				3341.04	
Bentler-Bonett Index (NFI)		3674.872		0.810	
Non-Normal Index		0.737		0.843	
Comparative Fit Index (CFI)		0.768		0.861	
LISREL GFI		0.793		0.759	
LISREL AGFI		0.685		0.701	
RMSEA		0.619		0.104	
		0.115			
Tests of statistical significance					
R ² for Loyalty					
R ² for Commitment				.392	
R ² for Trust		.399		.512	
		.535		.517	
		.533			

* significant at .05

** significant at .01

*** significant at .001

10.6. Test of the Hypotheses

The first hypothesis indicates a path that goes from commitment to loyalty. The standardized coefficient for this path is .632, significant at the .001 level (see table 10.10 for the proposed model). The R^2 for loyalty is .399 with commitment as a direct predictor. These strong results suggest that hypothesis one is supported. It can be claimed that commitment is a key predictor of customer loyalty.

The second hypothesis indicates a path that goes from trust to commitment. The standardized coefficient for this path is .673, significant at the .001 level. The R^2 for commitment is .535 with trust as one of the predictors. Even though other predictors for commitment exist, trust is the main predictor according to table 10.7 where trust was the most significant of the predictors (highest standard beta, t-value, and partial R^2). The combined results suggest that hypothesis two is supported. It can be concluded that consumer trust is a key antecedent in the formation of commitment.

Hypothesis three refers to the secondary variables linked to either commitment and/or trust and is separated into nine parts. There are two significant paths at the .001 level: risk to commitment and opportunistic behaviour to trust, and one path significant at the .01 level: shared values to commitment. The implication is that hypotheses 3a3, 3c2, and 3d2 are supported. There is one path significant at the .05 level, namely, familiarity to commitment. This hypothesis (3a2) is only partially supported. There are five non-significant paths: choice to commitment, familiarity to trust, communication to trust, involvement to commitment, and shared values to trust. The conclusion is that hypotheses 3a1, 3b1, 3b2, 3c1, and 3d1 are not supported.

Hypothesis four refers to satisfaction as a precursor of trust. All three paths of satisfaction (consumption-based, transaction-based, and competition-based) to trust are significant either at the .001 or at the .01 level. Furthermore, the R^2 for trust, having the three aspects of satisfaction as the main predictor variables (table 10.7) is high: .535. these results suggest that hypothesis 4 is supported. Table 10.11 shows a summary of the hypotheses and the results derived from regression and structural equation modeling analyses.

An attempt to understand those hypotheses not supported follows. First, choice is not a significant predictor of commitment. This means that for the satisfied customer who already trusts a provider, the existence of several other providers has no effect on the formation of commitment. Considered from the perspective of the provider, if this provider works in the development of trust and commitment, the presence of more or less providers in the industry has small impact. Second, familiarity and communication are not significant precursors of trust. Knowing more or less the service or having more or less contact with the provider makes no difference in the formation of trust. Actually, the two cognitive elements have no influence in the formation of trust. This means that trust is basically an affective outcome.

Third, involvement is not a significant precursor of commitment. Customers may feel committed to a provider even though they are not really interested in the industry. Fourth, shared values are not a significant precursor of trust. Customers may trust a provider even though they do not share the way the provider conducts its business.

Table 10.11**Summary of Results**

Hypotheses	Results	
H ₁ : There is an increase in customer loyalty to the service provider following an increase in the commitment to the service provider.	Supported	P<.001
H ₂ : There is an increase in relationship commitment to the service provider following an increase in trust to the service provider.	Supported	P<.001
H _{3a1} : There is a decrease in commitment to a single service provider following an increase in the number of choices the consumer seeks.	Not Supported	
H _{3a2} : There is an increase in commitment to the service provider following an increase in familiarity with the service provider.	Partially Supported	P=.03
H _{3b1} : There is an increase in trust in the service provider following an increase in familiarity with the service provider.	Not Supported	
H _{3a3} : There is an increase in commitment to the service provider following an increase in the perceived risk (including perception of switching costs and sunk costs) of switching the service provider.	Supported	P<.001
H _{3b2} : There is an increase in trust in the service provider following an increase in the level of communication with the service provider.	Not Supported	
H _{3c1} : There is an increase in commitment to the service provider following an increase in customer involvement.	Not Supported	
H _{3c2} : There is an increase in commitment to the service provider following an increase in shared values and norms of the consumer with the service provider.	Supported	P<.001
H _{3d1} : There is an increase in trust in the service provider following an increase in shared values and norms of the consumer with the service provider.	Not Supported	
H _{3d2} : There is a decrease in trust in the service provider following an increase in opportunistic behaviour.	Supported	P<.001
H ₄ : There is a positive relationship between commitment to a service provider and customer loyalty following a positive first experience of customer satisfaction.	Supported	P<.001

10.7. The Tested Model Compared to Rival Models

In general, the tested model works better than the rival models. In chapter seven it was mentioned that two rival models were selected from the literature to challenge the model proposed in this research. Those rival models were named Pritchard's Model and Garbarino's Model. In the first model (see figure 2), the authors Pritchard, Havitz, and Howard (1999) do not include the concept of consumer trust. Pritchard's Model does not start with customer satisfaction and suggests that the outcomes of the cognitive and affective processes impact relationship commitment, which in turn impact customer loyalty. The importance of including trust is at stake in the comparison against this rival model. The second rival model (see figure 3) is based on the model suggested by Garbarino and Johnson (1999), using trust and commitment as outcomes in parallel to customer loyalty. Furthermore, this model does not include the cognitive and affective variables that lead to trust and commitment. The challenge imposed by this model is the idea that trust and commitment are consequences of customer satisfaction, but they do not precede the formation of loyalty. In a way, Garbarino's Model is suggesting the basic model where the formation of loyalty only requires customer satisfaction. The use of Garbarino's Model as a rival model will test the relevance of including trust and commitment as mediating variables.

It is important to mention that the original authors (Garbarino and Johnson 1999, Pritchard, Havitz, and Howard 1999) developed their research in different industries. For instance, Garbarino and Johnson (1999) were looking at two types of customers in the theater industry and Pritchard, Havitz, and Howard (1999) tested their model in the tourism sector. As long as they used customer loyalty as a dependent variable, their models can be adapted (using the operationalization developed for the present research) as rival models. The present research is not criticizing the research of these scholars, but building upon their work.

Pritchard's model has low goodness of fit indexes (see table 10.12). The Chi-Square is 363.32, NFI=.568, CFI=.601, GFI=.727, and RMSEA=.171. Furthermore, the R^2 for loyalty is .343, lower than the R^2 of the tested model. In Pritchard's model, the absence of satisfaction and trust is working against the model fit. The lack of inclusion of these two elements limits the backward linkage with the provider.

According to figure 7.1, satisfaction is where the process to form loyalty starts, when a provider fulfills (or fails to fulfill) the needs of a customer above expectations, as Zeithaml and Bitner (1996) suggested. And trust is required to create stronger bonds as the one implied by the formation of relationship commitment (Morgan and Hunt 1994). It can be then concluded that the presence of both constructs is relevant to the formation of customer loyalty.

Garbarino's model has better goodness of fit indexes (see table 10.12). The Chi-Square is 405.41, NFI=.848, CFI=.881, GFI=.812, and RMSEA=.123. However the R^2 for loyalty is .179, which is very low when compared to the $R^2=.399$ of the proposed model. The role of trust and commitment as mediating variables is then very important in the explanation of customer loyalty, even though it works against the goodness of fit. In general, the higher the order of a model (when a model includes a link series like satisfaction → trust → commitment → loyalty) the harder it is to reach high goodness of fit indexes. Failure to include trust and commitment as mediating variables is basically a failure to recognize the process that customers follow to develop loyalty.

Table 10.12 shows a comparison among models. Even though, Garbarino's model possesses better goodness of fit indexes, they are not big enough to validate its small values in R^2 . Thus, it can be concluded that the tested model explains the reality better than any of the two rival models.

Table 10.12

Model Comparison

Parameter	H	Tested Model		Pritchard's Model		Garbarino's Model	
		Standard estimates	t-value	Standard estimates	t-value	Standard Estimates	t-value
Commitment to Loyalty	H ₁	.626	7.27***	.586	7.94***		
Trust to Commitment	H ₂	.660	8.82***				
Choice to Commitment	H _{3a1}			.085	1.568		
Familiarity to Commitment	H _{3a2}	.122	2.22*	.126	2.32*		
Risk to Commitment	H _{3a3}	.177	3.18***	.251	4.63***		
Familiarity to Trust	H _{3b}						
Communication to Trust	H _{3b}						
Involvement to Commitment	1			.156	2.88**		
Shared Values to Commitment	H _{3b}	.173	3.11***	-.003	-.058		
Shared Values to Trust	2						
Opportunistic B. to Trust	H _{3c1}	-.186	-3.5***				
Consumption Sat. to Trust	H _{3c2}	.309	3.36***				
Transaction Sat. to Trust	H _{3d}	.221	2.80**				
Competition Sat. to Trust	1						
Other	H _{3d}						
Communic. to Commitment	2			.325	5.99***		
Opportunistic to Commit.				-.455	-8.4***		
Consumption Sat. to Loy.	H ₄					.423	5.62***
Consumption Sat. to Comm.	H ₄					.686	9.99***
Consumption Sat. to Trust	H ₄					.675	11.2***
Goodness of fit			p-value		p-value		p-value
Chi-Square		635.17	<.001	363.32	<.001	405.41	<.001
Degrees of Freedom		231		66		120	
H. Chi-Square/df		2.74		5.50		3.37	
Independence Chi-Square		3341.04		841.652		2674.18	
Bentler-Bonett Index (NFI)		0.810		0.568		0.848	
Non-Normal Index		0.843		0.513		0.860	
Comparative Fit Index (CFI)		0.861		0.601		0.881	
LISREL GFI		0.759		0.727		0.812	
LISREL AGFI		0.701		0.606		0.749	
RMSEA		0.104		0.171		0.123	
Tests of statistical significance							
R ² for Loyalty		.392		.343		.179	
R ² for Commitment		.512		.422		.470	
R ² for Trust		.517				.456	

* significant at .05
 ** significant at .01
 *** significant at .001

The present research represents an attempt to understand the process in the formation of loyalty. After conducting an empirical study in the *international* phone service industry, results point toward the idea that trust and commitment mediate between satisfaction and loyalty. Morgan and Hunt (1994) expressed before the existence of these two mediating variables in business-to-business exchanges. Other scholars have favoured one of the variables like Pritchard, Havitz, and Howard (1999) that focused on commitment. Other scholars researched trust and commitment as a consequence of satisfaction, but not in a mediating role (Garbarino and Johnson 1999).

This research demonstrates that the process leading to loyalty requires trust and commitment. Furthermore, results of this research show that in the formation of commitment, familiarity and shared values are important and that the presence of opportunistic behaviour deteriorates the formation of trust. Regarding familiarity, the contention of this research was deduced from research developed by Rao and Sieben (1992). They suggested that price is less important when familiarity increases. Because committed customers do not care about price changes, it was hypothesized that an increase in familiarity leads to an increase in commitment. Results confirmed such a deduction.

Some authors suggested the linkage between shared values and norms and commitment (Cebrzynski 1998, Kiely 1997). Customers sharing something in common with the firm more easily become committed to the products or services of the firm. Morgan and Hunt (1994) were the only authors so far exploring the negative linkage between opportunistic behaviour and trust. The present research demonstrates that their points are valid.

10.8 Summary and Conclusions

The major question in this research is whether customer satisfaction is enough to build customer loyalty or mediating factors are needed to build on satisfaction and finally reach customer loyalty. A major assertion in this study is that satisfaction is a necessary step, but not sufficient in the formation of loyalty. Consequently a theoretical model that shows the path from satisfaction to loyalty has been developed and tested. The results show that consumer trust and relationship commitment play a key-mediating role between satisfaction

and loyalty, and that two processes (cognitive and affective) reinforce the formation of trust and commitment. The cognitive process is composed of the following factors: number of choice, familiarity, perceived risk, and communication. The affective process is composed of the following factors: involvement, shared values and norms, and opportunistic behaviour.

After rigorous sample data collection and several statistical analyses (factor analysis, correlation analysis, regression analysis, and structural equation modeling analysis), it is concluded that the existence of trust and commitment as mediating variables is important to increase the explanation of customer loyalty. Although not all of the moderating variables were found significant, some of them were, namely, familiarity, risk, shared values, and opportunistic behaviour. A post-hoc model is developed including only the significant variables (see figure 7). This tested model explains about 40% of the variance of the dependent variable customer loyalty and has goodness of fit indexes that are very close to the typical standards of a good model fit (Hoyle 1995).

It is believed that the present research generates an improvement over the current knowledge in the field of consumer behaviour by explaining that satisfaction does require some reinforcement to form loyalty.

Part Three:

Conclusions, Contributions, Limitations and Further Research

CHAPTER ELEVEN

Thesis Results, Summary and Conclusions

11.1. Introduction:

In recent years, marketers have focused attention on customer loyalty schemes as a tool for generating loyalty amongst their mass customer base. The success of these schemes is, however questionable and is still being evaluated. It is also unclear whether retailers are, in reality, using these schemes as short or long term marketing tools, although, from the literature search, it seems that they are tactical rather than strategic (e.g. Reynolds 1995). These issues are well documented in the literature.

The objective of the present research was to add to the existing body of knowledge relating to customer loyalty and customer loyalty schemes. First, it set out to investigate the true worth of such schemes when seen from an exclusively consumer perspective. Second, an attempt was subsequently made to identify the effectiveness of such schemes when they form part of a wider programme of relationship marketing. A model of customer loyalty was subsequently developed and tested based on data obtained from an appropriate sector of the service economy.

11.2 Overall Results

The present research comprised two parts. The first sought to identify the impact of the customer relationship factor on customer loyalty within the grocery sector in the UK. This objective identified how important consumers feel loyalty schemes are in satisfying their needs in relation to the overall retail offering. Identification of what factors they place as most important, specifically their attitudes towards loyalty schemes, were also researched. The key findings relating to the above objective can be summarised as follows : respondents primarily viewed their participation in loyalty schemes as getting something for nothing; the majority were not highly enthusiastic about loyalty schemes, but felt they were just an added incentive; finally, it was found that consumers did not rate loyalty schemes as being as important as other factors, such as product or service quality, customer service facilities and in store choice. The results indicated that the majority of respondents would continue to shop with their main supermarket, regardless of whether there was a loyalty scheme in operation. However, it was found that such schemes did encourage re-purchasing. Hence, from the consumers' perspective, loyalty schemes did not generate emotional commitment but

behavioural commitment was evident. The majority of consumers also had a number of loyalty cards from competing retailers, again indicating that loyalty schemes do not encourage loyalty to one particular retailer.

It was found that customer loyalty schemes are changing patterns of consumer behaviour, but perhaps not attitudes. In order to develop long term relationships it is attitudes, beliefs or 'emotional commitment', which need changing. Clearly, the results do not oppose the literature, which suggests that emotional loyalty is not being developed by points and prizes (e.g., Reynolds 1995). This is a key issue for supermarket retailers, as the real purpose of loyalty schemes is not being achieved. In addition, it was found that no direct dialogue was being created between retailers and customers.

The results suggested that consumers who define themselves as loyal had more favourable opinions towards loyalty schemes than the others. This implies that retailers need to identify those consumers who do value them and concentrate on enhancing the benefits of such schemes to this segment. Of those that do not regard loyalty schemes as giving them anything worthwhile, the emphasis needs to be primarily on customer service benefits, in order to develop loyalty with these consumers through different means

The overall conclusion is that customer loyalty schemes do not directly generate loyalty but that, nevertheless, they have role to play in overall retail strategy, alongside an emphasis on customer service facilities and product quality. All of these elements seem to work together to create true customer loyalty: in particular, the importance of customer service as the key element in sustaining customer loyalty (Sopanen 1996) is reaffirmed.

The principal objective of the second part of the research programme was to develop and test a model of customer loyalty. Such a model can help explain the process that enables a company to achieve high levels of marketing performance based on the development of customer loyalty. However, the findings of the first part of the present research showed that a clear effect of loyalty on customer satisfaction was not found in the sector under study (grocery retailing). It was therefore considered neither feasible nor sensible to attempt to build a model of customer loyalty based on data obtained in the grocery retailing sector. As a result, other sectors of the service economy were investigated and evaluated in order to identify those in which customer loyalty and customer loyalty schemes were seen to play a major role.

Subsequently, a sub-sector of the telecommunications market – specifically international phone call services – was selected for further study and as a base for developing and testing a model of customer loyalty in the service sector.

The model which was subsequently developed and tested assumed a company value package that included a product or service, and a strategy to deliver it into the consumer's hands. On the consumer side, based on earlier literature review findings, it was also assumed that consumer satisfaction results from one or more of three aspects of the total consumption experience: one aspect derived from the experience with the product or service (consumption-based satisfaction), a second aspect derived from the experience with marketers (transaction-based satisfaction), and a third aspect derived from the experience with other alternatives or absence of potential regret for not using other alternatives (competition-based satisfaction). These three aspects of satisfaction can have different effects on the consumer mind. Consumption-based satisfaction has its main effect on the cognitive responses. Transaction-based satisfaction has its main effect on the affective response. Competition-based satisfaction directly reinforces or deteriorates loyalty.

This research focused on consumers who were satisfied with their first consumption experience. It was then argued that, subsequent to such an experience, the customer requires some kind of reinforcement to become loyal. Such reinforcement can then be achieved either through a cognitive process or through an affective process: the result of those processes is the formation of consumer trust and a relationship commitment, which in turn leads to customer loyalty.

In deciding on the design and structure of the customer loyalty model, four principal hypotheses were proposed and tested. First, the hypothesis that customer loyalty to a service provider follows an increase in commitment to that provider was supported, and the strongly positive results demonstrated that commitment can be taken as a key predictor of customer loyalty. Second, the hypothesis that there is a demonstrable increase in relationship commitment to a service provider following an increase in trust in that provider was supported. Even though other predictors for commitment were seen to exist, trust was nevertheless shown to be the main predictor. From this it was concluded that consumer trust is a key antecedent in the formation of commitment.

A third set of related hypotheses – collectively hypothesis three – looked for secondary variables linked to either commitment and/or trust. Results showed that risk, shared values and familiarity are linked to commitment, while opportunistic behaviour is linked to trust. However, choice and involvement show no statistically significant relationship to commitment, while familiarity, shared values and communication show no relationship to trust. Finally, hypothesis four tested the claim that satisfaction (whether consumption-based, transaction-based or competition-based) is a precursor of trust; again, the strong results show this to be true in each case.

After rigorous data collection and the subsequent testing of the four principal hypotheses described above, a post-hoc model of customer loyalty was developed which included only those variables found to be significant. The tested model was found to explain approximately 40% of the variance of the dependent variable “customer loyalty”, and produced goodness of fit indexes that are very close to the typical standards of a good model fit. The tested model also performed better than tests on two rival models reported in the literature.

11.3 Contribution to Knowledge

The following sections detail the overall contributions to knowledge of the research with respect to conceptual, methodological and managerial issues.

11.3.1 Conceptual Contribution

The first part of the study adds to understanding of the influence of customer loyalty schemes on customer satisfaction and retention. However, it differs from most earlier studies by focusing on the effectiveness of such schemes seen from a purely consumer perspective.

The key finding of research into a sample of retail grocery (Tesco) shoppers indicated that, contrary to expectation, customer loyalty schemes were not, in fact, generating any measurable degree of customer loyalty. This result, however, raises further questions relating to the adoption and use of customer loyalty schemes.

The relevant data was collected and analysed between 2000 and 2002, and related to a period when Tesco was aggressively promoting its customer loyalty schemes. Assuming that Tesco

management was itself aware of the failure of such schemes to directly generate increased levels of customer loyalty, why do they still today invest heavily in them in promoting their business interests?

The continuing use of customer loyalty schemes by the most successful grocery retailer in the UK raises issues of how the concept of such schemes is seen by Tesco and by other retail suppliers. It is arguable that the relative ineffectiveness of the schemes to increase levels of customer loyalty is more than compensated for by a company's acquisition of detailed information relating to each customer – information generated by the use and processing of loyalty cards and other promotional schemes. With detailed information available on each customer, the supplier is then able to tailor its total product offering to “match” the known preferences and lifestyles of its customer base.

Given these trading advantages, Tesco and other suppliers will continue to use and invest in customer loyalty schemes but, paradoxically, not in any expectation of developing customer loyalty directly. First, and most importantly, such schemes provide management with valuable information on which to base their marketing decisions; secondly, the schemes serve a useful secondary role as a short-term promotional tool. Given these benefits, the concept and underlying rationale of customer loyalty schemes may need to be revisited and redefined in order to more accurately reflect their role and value.

The principal conceptual contribution of the second part of the present research relates not to the relative effectiveness and use of customer loyalty schemes, but to the revealed antecedents of the formation of customer satisfaction, loyalty and retention. The progression from trust to commitment and subsequently to loyalty was clearly established and confirmed earlier research findings. However, the present study demonstrated that customer “satisfaction” is a necessary, but not a sufficient, condition in generating customer loyalty, and that satisfied customers can nevertheless take their business elsewhere.

The model which was developed and tested offered a theoretical explanation of the path from satisfaction to loyalty, showing that trust and commitment play key mediating roles in this process. However, of equal interest, was the identification of relationships which are often assumed to exist in the literature, but for which there appears to be no statistically significant evidence.

First, choice is not a significant predictor of commitment. This means that, for the satisfied customer who already trusts a provider, the existence of several other providers has no effect on the formation of commitment. Considered from the perspective of a provider who continues to work on the development of trust and commitment, the presence of more or fewer providers in the industry has small impact. Second, familiarity and communication are not significant precursors of trust. Being more or less familiar with the service, or having more or less contact with the provider, makes no difference to the formation of trust. Importantly, it was also shown that the two cognitive elements which were tested had no influence in the formation of trust. This means that trust is basically an affective outcome. Thirdly, involvement does not appear to be a significant precursor of commitment – customers may feel committed to a provider even though they are not really interested in the supplier or the wider industry. And finally, shared values are not a significant precursor of trust – customers may trust a provider even though they do not approve of the way in which the provider conducts its business. All of these “negative” findings will need to be tested further but, if confirmed, must impact on the way future models are developed and tested.

11.3.2 Methodological Contribution

The main methodological contributions of the first part, of the research can be drawn as follows: First, the research attempted to adapt the Interaction Approach to the grocery retail sector. (McKechnie (1992) has already adapted it to financial services). The research also examined relationship development specifically in the grocery sector, whereby a number of issues in relation to loyalty and relationship marketing were identified.

Much of the work on relationship marketing has been completed in industrial and, more recently, service settings. Here, the client base can be more easily segmented, making relationship development more plausible. The Interaction Approach is highly useful for organisational marketing, and the research indicates its applicability to retailing, specifically the information exchange episode. Different environmental factors and the recency and frequency of purchases, mean that issues such as the possibility of a relationship developing, need to be comprehended.

Relationship development in retailing exists in a different context and environment, where consumer needs and expectations differ largely from micro-marketing situations. Yet, this does not mean that retailers cannot achieve micro-marketing techniques. It is customer loyalty schemes and the development of relationships, which may enable the potential of micro marketing to be achieved. Every consumer needs to visit a grocery outlet in order to satisfy his/her basic physiological needs and survive. Hence, there will always be demand, so retailers need to develop an added enticement to enable consumers to remain loyal to their store. It has already been stated that consumer and retailer perceptions differ; it seems that consumers do not accept that they can develop relationships with supermarkets. Once they realise that it is plausible, supermarkets can then begin to develop effective strategies.

This research identified the importance of relationship marketing strategies in retailing. It is envisaged that relationship development is clearly a method by which retailers can encourage consumers to patronise one store alone. However, there is clearly something missing, as loyalty schemes have been found not to be a very successful method of encouraging emotional commitment. If consumers engage in a relationship with their supermarket, they are likely to be emotionally tied to the store. As soon as this occurs, it will be hard for competitors to entice them away.

The main methodological contribution for the second part of the study relates to whether customer satisfaction is enough to build customer loyalty or mediating factors are needed to build on satisfaction and finally reach customer loyalty. A major assertion in this study is that satisfaction is a necessary step, but not sufficient in the formation of loyalty. Consequently a theoretical model that shows the path from satisfaction to loyalty has been developed and tested. The results show that consumer trust and relationship commitment play a key-mediating role between satisfaction and loyalty, and that two processes (cognitive and affective) reinforce the formation of trust and commitment. The cognitive process is composed of the following factors: number of choice, familiarity, perceived risk, and communication. The affective process is composed of the following factors: involvement, shared values and norms, and opportunistic behaviour.

After rigorous sample data collection and several statistical analyses (factor analysis, correlation analysis, regression analysis, and structural equation modelling analysis), it was concluded that the existence of trust and commitment as mediating variables is important to

increase the explanation of customer loyalty. Although not all of the moderating variables were found to be significant, some of them were, namely, familiarity, risk, shared values, and opportunistic behaviour.

The model was shown to explain approximately 40% of the variance of the dependent variable “customer loyalty” and produced goodness of fit indexes that were very close to the typical standards of a good model fit (Hoyle 1995). Secondly, the model outperformed two rival models chosen from the literature (Pritchard, Havitz and Howard, 1999; Gabarino and Johnson, 1999). The first rival model (Pritchard et al.) does not include the concept of consumer trust. It does not start with customer satisfaction and suggests that the outcomes of the cognitive and affective processes impact relationship commitment, which in turn impact customer loyalty.. The second rival model, Gabarino’s Model, uses trust and commitment as outcomes in parallel to customer loyalty. However, this model does not include the cognitive and affective variables that lead to trust and commitment. The model argues that trust and commitment are consequences of customer satisfaction, but that they do not precede the formation of loyalty. In essence it suggests that the formation of loyalty only requires customer satisfaction. In contrast to both these models, the model proposed in this thesis places rejects any generic concept of satisfaction and places a far greater emphasis on trust and commitment as key antecedents of customer loyalty and retention.

It is important to mention that the original authors (Garbarino and Johnson 1999, Pritchard, Havitz, and Howard 1999) developed their research in different industries. Garbarino and Johnson (1999) built their model on data obtained in the theatre industry, while Pritchard, Havitz, and Howard (1999) tested their model in the tourism sector. However, both tested in the services sector and used customer loyalty as a dependent variable. On this basis, it was considered legitimate to test their results against those obtained in the present study.

11.3.3 Managerial Contributions:

The main contributions of the first part of this research with respect to retail management can be defined as follows : Retailers need to concentrate on enhancing customer service benefits and generating greater satisfaction, which in return will affect loyalty and hence relationship development. Consumers clearly want better products and greater service quality. These are elements that enhance relationship development, not the current loyalty schemes in operation.

Hence, retailers need to continue devising new customer service initiatives, which convey to customers a feeling of concern for them.

Moreover retailers who concentrate on using loyalty schemes as their only mechanism for generating loyalty need to be cautioned. Firstly, not all consumers have positive attitudes towards such schemes and loyalty schemes cannot reach those who either do not choose to join or are not eligible to do so, for this reason loyalty schemes can only form part of a loyalty strategy. Secondly, retailers should not tie themselves so tightly to their loyalty schemes that they would be prevented from operating without them. It is evident that since most of the major supermarkets now offer some form of loyalty scheme, consumers expect the supermarket to have one. Hence, current loyalty schemes are not creating any differentiation. This is because they are not using the customer data derived from loyalty cards effectively, to target specific customer segments and build a personal dialogue with each customer. This research supports work by Reynolds (1995), stating that present loyalty schemes are tactical rather than strategic mechanisms for creating loyalty.

The overall grocery shopping experience needs to be made more enjoyable, which was identified as being significantly associated with involvement levels.

Database marketing techniques are a way in which retailers can get to know consumers as individuals. Relationships, by their very nature, are on a one-to one basis. As yet, no personal nature to the relationship is existent between the two parties- communication is still predominantly one-way. Retailers need to convey to the customer that they want to actively seek to learn more about them through their loyalty schemes, in order to serve their needs more comprehensively. For this precise reason, loyalty schemes currently lie somewhere between mass marketing and target marketing, although nearer to mass marketing in the researchers opinion.

This importance of internal marketing is also expressed. Commitment from staff and management, at all levels, is a prerequisite for relationship development. They need to understand the value of retaining each customer. Staff also need to be fully trained so that they can deal with any customer situation that arises, the outcome of which should be positive customer feelings with every interaction. There is a clear need for marketing departments who develop these strategies, to work closely with Personnel and I.T. departments. The whole

organisation needs to identify with the objectives of the organisation, to ensure successful implementation.

The major managerial contribution in the second part of this research related to the search for a positioning theory. Until now, positioning has been considered an important part of the company's efforts in delivering a consumer value package, but has failed in trying to incorporate the consumer side dimension. If we can understand the steps between the first satisfying experience and the formation of customer loyalty, we will be on the way to producing a sound positioning theory.

Traditionally, positioning has been seen as a supply side tool. The objective has been to find a place in the consumer's mind and to occupy it with a desired brand (Ries and Trout 1986). Recently, the movement toward customer orientation has been driving a new conceptualization of positioning, one with an expanded understanding of communication with the customer. This new conceptualization of positioning is rooted on the demand side and aims to help the company with the whole marketing strategic process (Vasquez and Alonso 1997).

Preliminary research shows that strategic positioning increases the performance of companies that employ it thoroughly (Vasquez and Alonso 1998). An explanation of the way in which such a process influences the consumer is pending. How does the consumer perceive the message sent by the company? More importantly, how can such a message increase trust towards the company? Consideration of the previous questions undoubtedly will help the manager in the implementation of the strategic positioning process.

Ries and Trout (1972) proposed the original definition of positioning:

“Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person...But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.”

For Ries and Trout, the company already has a product and the use of positioning is to convince the prospect to buy it. Product development is absent in such a definition. The

objective of introducing positioning during the 1970s was to assist companies in helping consumers select from a growing variety of products. But the original definition implied one-sided communication. The company started with its product and tried to find a niche in the consumers' minds with some kind of creative message. Later on, the idea of two-sided communication, the placement of the consumer in the centre of the marketing effort, and the concept of a market-driven organization, produced a shift from the original idea of positioning to a more integrated one. However, academic research is lacking in this area. There is no such thing as a theory of positioning in academic literature. But even in the absence of such a theory, practitioners implemented the shift. They claimed to use positioning as a central issue in their planning efforts (Vasquez and Alonso 1998).

This research tries to explain the process that leads to customer loyalty analyzing the perspective of the consumer. In doing so, companies will have the basis for applying a more successful strategy in which positioning works as the guiding thread from consumer value to favourable outcomes. The proposition of a theory of positioning is beyond the scope of the present research, although the findings will most likely be useful in backing up its future development.

11.4 Limitations of the Study

Although a conscious effort was made to identify and eliminate sources of bias in both the qualitative and quantitative research techniques, certain methodological limitations must be recognised.

The main limitation of the study generated from the first part of the research is that the survey was conducted in July 2001 and since then market data has changed significantly. Also the survey was conducted during a weekday when, with hindsight, it would have been more appropriate to sample weekend customers.

The sample was not designed as a probability sample. The population from which the sample was drawn comprised only Tesco shoppers in the Greater Manchester area. However, as a sampling frame of Tesco shoppers was not available, probability-sampling methods were not feasible. Quota sampling was the method of non-probability sampling which was selected and perceived to be the most appropriate for this study. However, the researcher was left to use his

own discretion in the choice of respondents, making selection error of respondents a major limitation (Churchill 1990). Furthermore, the respondents interviewed reflected the characteristics of those people who were shopping at the specific times selected, hence respondent selection error resulted.

Consumers who refused to participate increased sampling bias, as only those who, reluctantly or not, accepted could be included. There was no indication that those who refused belong to the same consumer segments as those who did not. Therefore they could have different attitudes, beliefs and shopping behaviour.

The main limitation of the second part of this research, is that it is shaped by the nature of a specific service, i.e, international phone call services. It is assumed that loyal customers remain loyal to a provider even though there are less expensive alternatives available. But for some customers, international phone call services are perceived almost as a commodity, where prices reign. Thus, it is possible that the results of this research are influenced by this perception. If another were conducted it would be important to sample a different service sector where prices are a little less important, for example fashion services.

11.5 Directions for Future Research

With regard to possible directions for future research, the narrow base of the sample of retail customers in the first part of the research has been acknowledged. It would therefore be informative to sample retail grocery customers who do not shop at Tesco-e.g Sainsbury's, ASDA or Morrison customers. It would also be instructive to conduct further research in or after 2005, as the economic and environmental data have changed and could lead to significantly different outcomes, reflecting changes in market conditions.

With respect to the second part of the research, this tested a model with the characteristics necessary to theory development. It is able to explain and to predict real phenomena under limits of accuracy. Furthermore, it was derived in a deductive way from recent marketing and psychological literature and tested with empirical data obtained randomly from a national frame. As such, it fulfils the requirements to potentially be called a theory (Hunt 1991). Future research could be oriented to this purpose. First, a new research study should collect additional data in order to increase the sample size and repeat the statistical analyses. Second,

it could be conducted in a different service sector and be compared with the results obtained in the international phone call services sector. If the results obtained from these two actions confirm findings obtained in the present thesis, then the potential for theory development is increased.

A further future contribution lies with broadening the present study to take account of the beliefs and attitudes of people from different ethnic backgrounds. The sample analyzed in the present research was predominantly of Anglo-Saxon origin. It might be possible that different ethnic backgrounds approach the concept of customer loyalty differently from those of Anglo-Saxon origin. The replication of the present research in other countries/cultures might beneficially increase the knowledge of firms looking to develop loyalty among their customers, in international markets.

Finally, there is clear potential for further exploring the concept of mutual trust, commitment, and loyalty between the provider and the buyer. The present research worked only in the direction customer to provider. The exploration of a bi-directional concept will add to the better understanding of the process that leads to loyalty and the achievement of firm performance.

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Appendix 1

Questionnaire to identify supermarket shopping behaviour and attitudes

1. which of the following chains do you use for grocery shopping? (please tick all that apply)

Aldi	[01]	Morrisons	[11]
Asda/Dales	[02]	Netto	[12]
Budgen	[03]	Presto	[13]
Co-op	[04]	Safeway	[14]
Food Giant	[05]	Saacenter/Saiinsbury	[15]
Gateway	[06]	Somerfield	[16]
Iceland	[07]	Tesco	[17]
Kwik Save	[08]	Waitrose	[18]
Mace/ Spar	[09]	Corner shop/other	[19]
M & S	[10]		

2. In which one of the above chain stores do you spend the most?

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

3. How long has this been you main grocery shopping chain?

Up to one year	[]	5-9	[]
1.-2 years	[]	10+ years	[]
3-4 years	[]		

4. what proportion of your total grocery shopping budget is spent at this store?

0-25%	[]	51-75%	[]
26-50%	[]	76-100%	[]

5. Do you use any of the following supermarket store cards on a regular basis?

Safeway ABC	[]	Tesco Clubcard	[]
Sainsbury Reward	[]	Tesco Clubcard Plus	[]
Somerfield Premier Points	[]	Other(s) (please specify)	[]
None	[]		

6. How many grocery/ supermarket store card schemes do actively participate in ?

0	[]	3-4	[]
1	[]	5+	[]
2	[]		

7. About how much do you spend on groceries each week (UK Pound)?

Under 15	[]	45-59	[]
15-29	[]	60-74	[]
30-44	[]	75+	[]

8. Please indicate the importance of each of the following factors when deciding upon which chain to shop? (please tick)

1=very important

Not at all important=7

	1	2	3	4	5	6	7
Child -care facilities							
Convenience to home /work							
Customer services							
Friendliness/ Responsiveness of store staff							
Nearness							
Opening Hours							
Parking Facilities							
Prices							
Product Range							
Quality of Products							
Store Loyalty Cards							
Special Offers							
Store Layout (knowing where everything is)							

9. For me , grocery shopping is :

	1	2	3	4	5	6	7	
a. Important	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unimportant
b. Interesting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Boring
c. Exciting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unexciting
d. Fun	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Not fun

Please answer all the following questions in relation to the supermarket where you spend the most

10. Do you receive any form of direct communication from the supermarket ? Yes
 NO

IF YES. how often :

At least once a month 7-12 months
 1-3 months don't know
 4-6 months

11. Have you complained about a product /service to your supermarket within the past two years?

Yes No

If yes, how satisfied were you with the outcome?

Very satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Very satisfied

Please answer all the following questions in relation to the supermarket where you spend the most

	Very satisfied	Satisfied	Neither satisfied nor dissatisfied	Dissatisfied	Very satisfied
12. How? satisfied are you with the way the supermarket keeps you informed about their products / services					
13. How satisfied are you with customer service facilities at this supermarket ?					
14. How satisfied are you with the responsiveness of store staff ?					
15. Overall, how satisfied are you with supermarket					

Please indicate your agreement or disagreement with each of the following statements?

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
16. I have little or no interest in grocery shopping					
17. I am not interested in Bargain seeking					
18. It is important to me to keep up with special deals being offered by the grocery stores in my area					
19. most of the supermarkets are all alike					
20. When purchasing a product , I always try to maximise the quality I get for the money I spend					
21. when Other people see me purchasing from this store, they form an opinion of me					
22. The supermarket is consistent and reliable in the delivery of products and services					
23. the supermarket in which I shop will not trick me					
24. I feel the supermarket is concerned now its customers well being					
25. I trust the supermarket					
26. I am prepared to recommend the supermarket to others					
27 I am loyal to the supermarket					
28. I have a relationship with the supermarket					
29. I would prefer to go to one supermarket for my shopping					

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree
30. Store loyalty cards are not worth having, they are just a con from the supermarket who want us to more positive about them					
31. Being satisfied with supermarket in which I shop results in me being loyal to that supermarket					
32. the loyalty card of the supermarket encourages me to repurchase in the same supermarket					
33. the loyalty card of the supermarket in which I shop encourages me to try a new product and services					
34. if I forget my loyalty card I keep my receipt to claim points upon my next visit					
35. I would like the supermarket to make more efforts in getting to know what I like and dislike					
36. I intend to continue to shop at this supermarket in the foreseeable future					
37. I think more highly of the supermarket since they introduced the store card					

38 How if at all, has your shopping behaviour changed since the introduction of the store and card scheme ? (please tick all that apply)

- I spend more money
- I am encouraged to buy things which i usually would not
- I visit the supermarket with the store card more frequently
- No change
- Other ? (please specify)

39. Please could you indicate your age ?

- 16 - 24 25 - 34
- 35 - 44 45 -54
- 55 - 64 65+

40. Sex ?

Male Female

41. Occupation ? _____

41. Annual household income (before Tax In UK Pound)?

- 0 - 4,999 5,000-9,999
- 10,000-14,999 15,000-19,999
- 20,000- 24,999 25,000- 29,999
- 30,000- 39,999 40,000 +

Thank You for your assistance in completing this questionnaire and you are again assured that the information will remain entirely confidential

Appendix 2

KEY ATTITUDE MEASUREMENTS

VARIABLES	MODE	MEAN
SATISFACTION WITH THE WAY THE SUPERMARKET KEEPS ME INFORMED ABOUT THEIR PRODUCTS AND SERVICES	2.000	2.307
SATISFACTION WITH CUSTOMER SERVICE FACILITIES AT THE SUPERMARKET	2.000	2.044
SATISFACTION WITH THE RESPONSIVENESS OF STORE STAFF.	2.000	2.073
OVERALL SATISFACTION WITH THE SUPERMARKET.	2.000	1.917
LITTLE OR NO INTEREST IN GROCERY SHOPPING.*	2.000	2.907
NOT INTERESTED IN BARGAIN SEEKING.*	2.000	2.717
IMPORTANT TO KEEP UP WITH SPECIAL DEALS BEING OFFERED BY THE GROCERY STORES IN MY AREA.	2.000	2.970
MOST OF THE SUPERMARKETS ARE ALL ALIKE.	2.000	2.931
VALUE – CONSCIOUSNESS.	2.000	2.079
WHEN OTHER PEOPLE SEE ME PURCHASING FROM THIS STORE, THEY FORM AN OPINION OF ME.	3.000	3.305
THE SUPERMARKET IS CONSISTENT AND RELIABLE IN THE DELIVERY OF PRODUCTS AND SERVICES.	2.000	2.234
THE SUPERMARKET IN WHICH I SHOP WILL NOT TRICK ME.	2.000	2.601
THE SUPERMARKET IS CONCERNED ABOUT ITS CUSTOMER'S WELL BEING.	2.000	2.534
I TRUST THE SUPERMARKET.	2.000	2.450
PREPARED TO RECOMMEND THE SUPERMARKET.	2.000	2.103
AM LOYAL TO THE SUPERMARKET.	2.000	2.546
HAVE A RELATIONSHIP WITH THE SUPERMARKET.	4.000	3.343
WOULD PREFER TO GO TO ONE SUPERMARKET FOR ALL MY SHOPPING.	2.000	2.239
STORE LOYALTY CARDS ARE NOT WORTH HAVING, THEY ARE JUST A CON FROM THE SUPERMARKETS WHO WANT US TO FEEL MORE POSITIVE ABOUT THEM.*	2.000	2.848
BEING SATISFIED WITH THE SUPERMARKET RESULTS IN ME BEING LOYAL TO THAT SUPERMARKET.	2.000	2.265
IF I FORGET MY LOYALTY CARD I KEEP MY RECEIPT TO CLAIM POINTS UPON MY NEXT VISIT.	2.000	2.906
I WOULD LIKE THE SUPERMARKET TO MAKE MORE EFFORT IN GETTING TO KNOW WHAT I LIKE AND DISLIKE.	2.000	2.706
I INTEND TO CONTINUE TO RE-PURCHASE AT THIS SUPERMARKET IN THE FORESEEABLE FUTURE.	2.000	1.907
I THINK MORE HIGHLY OF THE SUPERMARKET SINCE THEY INTRODUCED THE STORE CARD.	3.000	3.094

NOTES: FIVE POINT SCALE WHERE 1=STRONGLY AGREE, 2=AGREE, 3=NEITHER AGREE NOR DISAGREE, 4=DISAGREE, 5=STRONGLY DISAGREE.

REVERSE SCORING

Appendix three : C.C.I.T

Individual relationship variable scores

Commitment			Involvement		
RESPONDENT STORE	NUMBER OF RESPONDENTS	PERCENTAGE OF TOTAL RESPONDENTS	RESPONDENT SCORE	NUMBER OF RESPONDENTS	PERCENTAGE OF TOTAL RESPONDENTS
3	10	4.9%	3	4	2.0%
4	16	7.8%	4	1	0.5%
5	28	13.7%	5	8	4.0%
6	58	28.4%	6	25	12.5%
7	19	9.3%	7	31	15.5%
8	39	19.1%	8	47	23.5%
9	13	6.4%	9	49	24.5%
10	16	7.8%	10	19	9.5%
11	3	1.5%	11	9	4.5%
12	1	0.5%	12	5	2.5%
13	1	0.5%	14	2	1.0%
MEAN: 6.676 S.D.: 1.981 (SCORE RANGE 3-15)			MEAN: 8.085 S.D.: 1.842 (SCORE RANGE 3 – 15)		
Trust			CONCERN		
3	10	5.0%	2	12	5.9%
4	9	4.5%	3	15	7.4%
5	13	6.4%	4	77	37.7%
6	48	23.8%	5	38	18.6%
7	40	19.8%	6	37	18.1%
8	36	17.8%	7	18	8.8%
9	20	9.9%	8	7	3.4%
10	16	7.9%			
11	4	2.0%			
12	4	2.0%			
13	1	0.5%			
14	1	0.5%			
MEAN: 7.158 S.D.: 2.050 (SCORE RANGE: 3-15)			MEAN: 4.760 S.D.: 1.413 (SCORE RANGE: 2-10)		

N.B. FOR COMMITMENT, TRUST AND INVOLVEMENT: 1-5 = HIGH LEVEL. 6-10 = AVERAGE LEVEL. 11-15 = LOW LEVEL

FOR CONCERN: 1-3 = HIGH LEVEL, 4-7 = AVERAGE LEVEL, 8-10 = LOW LEVEL

E.g. Commitment has the highest proportion of respondents who display high levels of this construct. In contrast, the lowest levels are displayed by the involvement construct.

Appendix 4

Survey on Consumer's Perspectives on International Phone Calls Services

This questionnaire consists of several sections. Please answer them all. Results of this survey will only be shown in *table formats*. All the information you provide will be *strictly confidential*.

Section I. Opinions about your International Phone Calls service

Please circle the scale number (from 1 to 7) that best fits your answer for each statement below. Consider the scale:

Strongly Disagree	Mostly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Mostly Agree	Strongly Agree
1	2	3	4	5	6	7

- Even though International Phone Calls services are available in a number of options, I always use the some one..... 1 2 3 4 5 6 7
- If I like a service, I rarely switch from it just to try something different..... 1 2 3 4 5 6 7
- Once I get used to a service, I hate to switch..... 1 2 3 4 5 6 7
- I am very loyal to my International Phone Calls service..... 1 2 3 4 5 6 7
- I consider my International Phone Calls service to be the ideal service..... 1 2 3 4 5 6 7
- I am proud to be a customer of this International Phone Calls service..... 1 2 3 4 5 6 7
- I feel a sense of belonging to this International Phone Calls service..... 1 2 3 4 5 6 7
- I care about the long-term success of this International Phone Calls service..... 1 2 3 4 5 6 7
- I feel proud to know that my International Phone Calls service is doing better than the competition..... 1 2 3 4 5 6 7
- I feel identified with my International Phone Calls service company..... 1 2 3 4 5 6 7
- This International Phone Calls service can be counted on to produce a good service..... 1 2 3 4 5 6 7
- I can always trust this service to be good..... 1 2 3 4 5 6 7
- This International Phone Calls service is a reliable one..... 1 2 3 4 5 6 7
- The quality of the service of this International Phone Calls service is consistently high..... 1 2 3 4 5 6 7
- I am always sure that the outcome of the service represents a valuable one..... 1 2 3 4 5 6 7
- To accomplish its own objectives, my International Phone Calls provider sometimes alters the consumed minutes in its favour..... 1 2 3 4 5 6 7
- To accomplish its own objectives, my International Phone Calls provide sometimes promises to do things without actually doing them later..... 1 2 3 4 5 6 7
- My International Phone Calls provider sometimes makes an appearance of service if it was profitable for me, but actually the provider is looking for its own advantage..... 1 2 3 4 5 6 7
- I think that my International Phone Calls provider does not care about me..... 1 2 3 4 5 6 7
- My International Phone Calls provider only cares about my 1 2 3 4 5 6 7

money.....

Section II. History of your International Phone Calls services

Dates are approximate. Please write your answer to the question: *Who is your...*

Current provider? From (year)_____ to (year)_____ Company: _____

Reason for the switch from previous provider:

Previous provider? From (year)_____ to (year)_____ Company: _____

Reason for the switch from previous provider:

Previous provider? From (year)_____ to (year)_____ Company: _____

Section III. Opinions about your current International Phone Calls service

Please circle the scale number (from 1 to 7) that best fits your answer for each statement below.

Strongly Disagree	Mostly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Mostly Agree	Strongly Agree
1	2	3	4	5	6	7

- I know that there are several possible alternatives to my present provider..... 1 2 3 4 5 6 7
- Before I selected my actual provider, I knew of several alternatives..... 1 2 3 4 5 6 7
- I often know about new possible alternatives to my present provider..... 1 2 3 4 5 6 7
- The International Phone Calls service is a very competitive one..... 1 2 3 4 5 6 7
- More and more companies are starting business in International Phone Calls service..... 1 2 3 4 5 6 7
- Relative to other people, I have a great deal of knowledge of International Phone services..... 1 2 3 4 5 6 7
- Relative to most of my friends, I have a great deal of knowledge of International Phone services..... 1 2 3 4 5 6 7
- I am familiar with many options of this service..... 1 2 3 4 5 6 7
- I have a lot of knowledge about how to select the best option within International Phone Calls service 1 2 3 4 5 6 7
- I have a clear idea about what service characteristics are really important in providing me with maximum satisfaction..... 1 2 3 4 5 6 7

Section IV. Characteristics about your current International Phone Call service provider

Answer the following questions regarding your current International Phone Calls service provider:

1) Adding the minutes of your last monthly bill, approximately how many minutes did you have *last month* in International Phone Calls?
Approximately_____minutes.

2) What type of services are you receiving from your current International Phone Calls service provider? (Circle all that apply).

- 1 Basic package 2 Favourite numbers 3 Internet discount 4 Vouchers
 5 Others (specify) _____

3) Do you use pre-paid International Phone cards (please circle):

No Yes If yes, which one(s): _____

Section V. Your opinions about your current International Phone Calls service

Please circle the scale number (from 1 to 7) that best fits your answer for each statement below.

Strongly Disagree	Mostly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Mostly Agree	Strongly Agree
1	2	3	4	5	6	7

- I am concerned about making a mistake in contracting a International Phone Calls service..... 1 2 3 4 5 6 7
- The decision to contract this service involves high risk..... 1 2 3 4 5 6 7
- If I have to switch my International Phone Calls service, I might lose some already earned benefits..... 1 2 3 4 5 6 7
- I think that there is a hidden cost if I switch my International Phone Calls service..... 1 2 3 4 5 6 7
- Switching among International Phone Calls services involves a cost in terms of time and effort..... 1 2 3 4 5 6 7
- My International Phone Calls provider keeps me informed of new services..... 1 2 3 4 5 6 7
- My International Phone Calls provider explains to me the characteristics of the service..... 1 2 3 4 5 6 7
- The personnel that works at my International Phone Calls provider always listens to my suggestions..... 1 2 3 4 5 6 7
- If I want to, I can have detailed conversations with personnel from my International Phone Calls provider regarding my account..... 1 2 3 4 5 6 7
- As far as I know, my International Phone Calls provider cares about receiving feedback from its customers..... 1 2 3 4 5 6 7
- I have great interest in International Phone Calls services..... 1 2 3 4 5 6 7
- International Phone Calls service is fascinating..... 1 2 3 4 5 6 7
- I have a compulsive need to know more about International Phone Calls services..... 1 2 3 4 5 6 7
- I like to make comparisons about International Phone Calls services..... 1 2 3 4 5 6 7

I like to engage in conversation with friends about International Phone Calls services..... 1 2 3 4 5 6 7

Section VI. Your beliefs about the behaviour of your current service provider

For the following statements, please answer twice. In the first column, please indicate your own level of agreement (using the scale from 1 to 7) with the following statements. In the second column, please indicate, based on your best guess, the level of agreement that your service provider may have with the same statements.

	Your personal opinion							Your best guess about the opinion that your service provider may have						
In order to succeed in this business, it is not necessary compromise one's ethics.....	1	2	3	4	5	6	7	1	2	3	4	5	6	7
In this business, unethical behaviours shouldn't be tolerated.....	1	2	3	4	5	6	7	1	2	3	4	5	6	7
In this business, it is not justifiable to engage in unethical advertisement.....	1	2	3	4	5	6	7	1	2	3	4	5	6	7
It is unethical the way International Phone Calls services try to get new customers.....	1	2	3	4	5	6	7	1	2	3	4	5	6	7
It is unethical to call customers from competitors and try to convince them to switch International Phone call providers	1	2	3	4	5	6	7	1	2	3	4	5	6	7

Section VII. Opinions about your International Phone Calls service

Please circle the scale number (from 1 to 7) that best fits your answer for each statement below.

Strongly Disagree	Mostly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Mostly Agree	Strongly Agree
1	2	3	4	5	6	7

This is one of the best services I have ever received.....	1	2	3	4	5	6	7
This service is exactly what I need.....	1	2	3	4	5	6	7
This service has developed out as well as I thought it would.....	1	2	3	4	5	6	7
This service has fulfilled adequately my expectations.....	1	2	3	4	5	6	7
Employees from my International Phone Calls company give me personal attention.....	1	2	3	4	5	6	7
Employees from my International Phone Calls company know what they are doing.....	1	2	3	4	5	6	7
Employees from my International Phone Calls company are never too busy to respond customer requests promptly.....	1	2	3	4	5	6	7
Employees from my International Phone Calls company are	1	2	3	4	5	6	7

- polite.....
- Compared to the other providers, my International Phone Calls company provides the best service..... 1 2 3 4 5 6 7
- Compared to the other providers, my International Phone Calls company has the best reputation..... 1 2 3 4 5 6 7
- Compared to the other providers, my International Phone Calls company provides customers with the best satisfaction in overall..... 1 2 3 4 5 6 7
- I am satisfied with my decision to choose this option over all other providers..... 1 2 3 4 5 6 7

Section VIII. Personal Profile

Answer the following questions about yourself (please circle or write):

- 1) Gender 1 M 2 F
- 2) Marital status 1 Married 2 single 3 Divorced 4 Other(specify) _____
- 3) How many members are in your household ? _____
- 4) How many family members live in another city / country ? _____
- 5) Your age 1 under 20 2 21 – 30 3 31 – 40 4 41 – 50 5 Over 50
- 6) Ethnic background 1 White 2 Black African 3 Asian 4 Caribbean 5 Other (specify)
- 7) Country of birth _____
- 8) If born abroad, when did you begin to live permanently in the UK ?(year) _____
- 9) Occupation (description) _____
- 10) Income 1 under £ 10,000 2 £10,0001-20,000 3 £20,001-£30,000 4 £30,001-£40,000 5 £40,001-£50,000
 6 £50,0001-£60,000 7 £60,001-£70,000 8 £70,001-£80,000 9 £80,001-£90,000 10 Over £90,000

Thank you for your cooperation. You may add your observations below or on a separate sheet of paper.