

EXPLORING SHARE OF WALLET DETERMINANTS IN FMCG RETAILING. A QUALITATIVE STUDY

VINCENZO BASILE¹

Abstract

Recent years, the Marketing Science Institute considered marketing performance measurement (MPM) a priority in marketing research and managerial practice. Several contributions on the same topic have been proposed in literature. The ability to measure the marketing performance is a cognitive gap that determined a decrease of marketing relevance within firm and organizations. Based on relevant literature on retailing and an explorative case study, we propose a conceptual and pragmatic model to investigate MPM for a consumer goods retailer. The model identifies determinants of “share of wallet”: “share of purchase” and “share of visit”. The test of the model has been carried out on three Italian leading chains.

Key words: *Marketing Performance Measurement, Share of Visit, Share of Purchase, Share of Wallet, Marketing Metrics and retail industry.*

Introduction

Recent years the analysis and the improvement of the marketing efficiency and effectiveness is one of the most analyzed topics in literature, and one of most interesting for the managerial practice. Aligning strategies and marketing performance metrics with business goals is strategically relevant for the success of the companies. In the retailing business the process of Marketing Performance Measurement (MPM) is particularly important because it permits to better plan the sales, and increase “traffic” both in terms of customers’ visits and sell-out. The purpose of this paper is to determine the share of visit (SOV) and the share of purchase (SOP) in consumer goods retail industry. Important is to understand which are the levers that foster the customers traffic in the stores and consequently increase their store purchases. The share of wallet (SOW) of each customer derives from these latter components: SOV and SOP. The analysis involves the Fast Moving Consumer Goods (FMCG) or Consumer Packaged Goods (CPG). FMCGs are sold quickly and at relatively low cost, such as have a short shelf life (i.e., meat, fruits, vegetables, dairy products, and baked goods are highly perishable), and high turnover rates (i.e., alcohol, toiletries, pre-packaged foods, soft drinks, and cleaning products). The FMCGs are interesting to investigate because have a low profit’s margin (more for retailers than suppliers do), but they are generally sold in large quantities.

Literature Review

In accordance with Macintosh & Lockshin (1997) and Reynolds & Beatty (1999), SOP is defined as the percentage of customers’ purchases in a specific period of time. Literature research suggests that satisfaction (Zeithaml et al., 1996; Reynolds and Beatty, 1999) and attitudinal loyalty influences the SOP (Berry and Parasuraman, 1991; Fornell, 1992; Zeithaml et al., 1996; Macintosh and Lockshin, 1997; Reynolds and Arnold, 2000). Some Authors suggest links between consumer satisfaction and SOP and underline the presence of a linear process between the concepts of satisfaction and product repurchase (Ngobo, 2000). The links between consumer satisfaction, consumer commitment and purchase behavior in the retailing industry are identified in the service elements evaluated by the consumer (Clerfeuille and Poubanne 2002). In the perspective of retailer, SOW has a great significance and underlines an important question: "How the customers divide their purchases across competing stores and how retail managers can increase their share of purchase?" The customer satisfaction is a way for affecting the consumer behavior and its store’s choice (Weir, 2001). The factors that determine where consumers make most of their purchases not always are that ones that determine which store they visit most frequently. Although SOP would be the dimension of ultimate interest from a managerial perspective, the possibility that some factors affect SOV to a greater extent than SOP, warrants an examination of both dimensions. For example, a consumer who is highly satisfied of a store could spend all its budget for weekly purchases at this store, and consequently increase the visits to the store. The SOV is not capable, alone, to increasing the SOW of retailers. In fact, the customers that visit the shop could be not satisfied of store’ service and then they buy only products with low margins. Another factor that has a positive effect on the SOW are the loyalty programs and consequently also impacts on the customer lifetime duration (Meyer-Waarden 2007). Therefore, the use of loyalty programs within the same stores chain can create a positive effect on SOP and SOV but it is neutralized when the consumer compares several loyalty cards (Mägi, 2003). In this case must come into play effects such as satisfaction and loyalty for create a lasting relationship with the store and these

¹ PhD Doctor Europaeus in Management Science. University of Naples Federico II, Department of Economics, Management, Institutions. Phone: +39.081675062, vincenzo.basile2@unina.it.

factors have a positive effect on SOW (Keiningham, Perkins-Munn and Evans, 2003). There is a positive relationship between SOW and lifetime duration, which indicates that more the customers buys proportionally in a specific store, longer they will remain with that retailer. Furthermore, the impact of SOW on lifetime duration increases over time. However, results are in accordance with East et al. (1997, 2000) but they contrast with Reinartz (1999). Different explanations are possible due to consumer heterogeneity. For example, SOW and lifetime may not be related when shoppers lack interest in stores and have a lifestyle that emphasizes activities unrelated to shopping. In these circumstances, people try to simplify their shopping problems by limiting the range of stores they use and continuing to use the same store for long period of time. Increased SOW also occurs when people ignore deals and simplify their shopping by consistently using the same stores (East et al., 1997). The percentage of SOW in terms of monthly expenditure that a household gives to a store chain also depends on its attraction to product-service system (PSS) of a particular retailer compared to the attraction of the competitors. In order to analyze the effects of loyalty programs on SOW, we need to understand what drives customers to become loyalty program members. The basic idea is that the SOW of a store depends on its relative attraction for a consumer (Leenheer, Bijmolt, Van Heerde and Smidts 2004). Empirical studies (Wirtz, Mattila & Lwin, 2007) show that the SOW of a firm customer base is positively related to presence of a loyalty program. For all supermarket chains, the customer's average predicted SOW is higher when a loyalty program is available. Several studies (Cooil, Keiningham, Aksoy & Hsu 2007) indicate that changes in satisfaction are positively but not linearly, related to the SOW that a customer allocate to a particular product-service category over time. The relationship between satisfaction and SOW is moderated by both demographic and situational customer's characteristics (Anderson, Pearo, & Widener 2008). In particular, income and length of relationship are significant predictors. This two latters, negatively moderate the same relationship between satisfaction and SOW changes (Cooil, Keiningham, Aksoy & Hsu 2007). Similar findings regard the relationships between satisfaction and repurchase intention, and between satisfaction and retention (Mittal and Kamakura 2001). Recent studies (Babakus & Yavas, 2008) suggest other variables, as the quality of interaction and quality of goods, that exert significant influences on SOW. The strengths of these effects vary according to gender. For male customers, the total effect of good's quality on SOW is stronger than the total effect of interaction quality. In accordance with Iacobucci and Ostrom (1993), male customers give more importance to core service (or goods) respect to the relational quality. According to Mittal and Kamakura's (2001), female customers give the same importance to interaction and goods quality. Finally, the customer's gender influence the SOW (Babakus and Yavas, 2008). The purchases' characteristics of consumers have been deeply debated in the literature. A significant factor is related to purchases' motivations of customers in retail industry. The purchase assumes a hedonistic and utilitarian value, the consumers choice between hedonic and utilitarian goods (Dhar and Wertenbroch, 2000) and they are influenced by the nature of the decision task. Greater is the utilitarian and hedonic shopping value, higher is satisfaction and this latter, also affects positively the attitudinal loyalty (Chaudhuri, and Holbrook, 2001). The attitudinal loyalty demonstrates positive relationships with consumers' behavioral outcomes, such as word of mouth communication and SOP (Carpenter 2008). Kim, Ok and Canter (2010) give an important contribution to the definition of SOV in the restaurant industry, where there is a high level of service. The latter factors directly impact on customer SOV (namely CSOV) and influence the consumer involvement and perceived brand heterogeneity in retail industry. According to the Table 1, there are other scholars that examine the key factors influencing SOW in a B2B markets. Customer satisfaction is the most important factor that influencing SOW in B2B market. In the B2B crucial is to know the customer's needs, develop new products and optimize the services to firms. All of these aspects are the foundation to increase SOW. Giving the real and full information to customers, maintain integrity and honesty in all dealings with customers, and striving to increase the rate of customer's retention are also important measures to increase SOW. These conclusions provides suggestions to develop an effectively CRM's system, and have positive impact on upgrading the CLV (Cheng, Han and Cao 2011). Other areas of interest, discussed in literature in the last ten years, regard the sales in hard discount stores. The turnovers of the top 10 discounters over the world are expected to grow by 50% from 2010 to 2015. The characteristics of the store (service, price and convenience) have a direct impact on store satisfaction (SS) which is in turn influenced by the consumer confidence (CC), such as by socio-demographic variables (age, income and family size) and the service's quality in store chain. Therefore, the store's SOW (SSOW) is determined directly by the SS and indirectly by the CC (Hunneman, Verhoef and Sloot, 2015).

Method

In order to identify a conceptual model to measure the marketing performance (MP) in retailing industry, our research's design provide the following stage. **1.** Qualitative exploratory analysis (Gummesson, 2005; Spanjaard & Freeman, 2006; Cantone & Testa, 2011) of key managers (Sales Director, Category Manager, Chief Executive and Marketing Office of leading consumer goods retailing chain operating in Italy), in order to identify the variables of an emergent conceptual model on MPM, under a managerial perspective. The technique adopted is key informants (Tremblay, 1957) in depth interviews to some managers of "Superò" (a master franchisee of SMA Spa ,Auchan Group, operating in Campania Region with a chain of 27 supermarkets), "Decò" (the outlets label of Multicedi Group, a multi-channel company ,operating mainly in southern Italy, based on network of 5

Ad Hoc cash&carry centers, 253 Decò outlets and 3 Ayoka pet shops) and “U2” (the outlets label of Unes Spa, Finiper Group, operating mostly in northern Italy, with a chain of more than 190 direct and franchise supermarkets). The focus of individual interviews were the determinants of performance metrics that lead and control the marketing activities. **2. Assessing the emergent conceptual model to measure MPM in FMCGs.** We are currently completing an administer a quantitative (Lefébure et Venturi 2001, Agresti, Alan 2002, Larose 2005, Tufféry 2011) survey on key sample of high-spending clients of Superò and Decò (emerged from loyalty cards) in order to test the conceptual measurement model. However, at the moment, this phase of research isn't completed yet. In the retailing industry, consumers typically attend multiple stores. Crucial point is to understand how to gain a greater part of consumer's expenditures in the store. Therefore, one way to increase consumer lifetime duration (and consequently SOV and SOP) is leveraging on the quality and variety of products offered, not forgetting the contribution of loyalty program and fidelity cards. In the initial phase of this study, it's has been conducted an individual interviews to the CEO, General Manager and Marketing Manager of Superò, Decò and U2 supermarkets. The focus of the interviews were the determinants of performance metrics that lead and control the marketing activities. A particular focus with interviews lead the factors that convey the customers to visit the supermarkets of the company.

Empirical analysis

Managing the levers which reinforce the customer retention in the retailing industry is difficult for many reasons. First of all, for the economic crisis, which has increased the competition and therefore, the consumer gives to the convenience more importance and in a broader sense (not only in economic terms) includes both the *value for money and time saving*. These last two factors directly affect on following three metrics: the repurchase (SOP), the frequency of visits (SOV), and the share of expenditure (SOW) that a household destined to weekly or monthly purchases. For example, it's important to save time in making purchases at the store and there are several factors that influence this feature: payment at the cashier, ease of parking and availability of products. The time has become a crucial factor and consequently, also the store's location increasing the competition among different supermarkets, in the same geographic area. Superò and Decò operate a selective reduction of the price on a number of products in a limited period, in order to increase the total value of sales and stimulate the purchase of products without promotions (high–low pricing strategy²). U2 ensures low and stable prices on the entire product's assortment, this pricing strategy considers that the strong sales promotions has negative effects on consumers (Edlp model³). Superò and Decò maintains a high level of service's quality by the sale of fresh products (for example, short life foods). This approach creates a trust relationship with the consumers. The consumer's loyalty ,for retailers, is determined by three components of offering system: 1) *fruit and vegetable corner* (refers to the importance of product's exhibition in supermarket and grocery store) 2) *deli corner* (the product's quality is critical to build over time trust relationships with the consumers) 3) *the butcher and fishmonger corner* (the trust in sales people is significant). There are products which are critical to retain the consumers and for create cross-selling. These products are: 1) *fresh milk* (essential for retailer's competitiveness is the best price), 2) *bread* (price competitiveness and an efficient supply chain are strategic), 3) *mozzarella* (the product's quality is guaranteed by an excellence of the supply chain), 4) *ham* (quality is related to product's selection). The private label is a key factor for create customer loyalty in the EDLP model, in U2's offering system it has a own identity compared to the leader brand (for Unes/U2 Group, private label affects 40% of total turnover). For Superò and Decò, the 70% of total sales is given by fresh corners, and the remaining 30% derived from other goods. Analyzing the conceptual model (Figure 2), we can identify the four determinant blocks of SOW. In our empirical case, the retailer' SOW corresponds to SOW^{f2} (share of wallet final). The positive effect of consumer satisfaction in terms of SOV and SOP creates SOW^{c1}, adding the residual SOWⁱ⁰ (present at the beginning period considered).

1) The **supermarkets characteristics (SC)** influence directly SOP and then SOV, and these are:

- *quality of fresh products* (refers to supplier' selection);
- *re-assortment* (to ensuring a continue availability);
- *private label* (especially in Edlp model)
- *low price on primary products* (a distinctive factor in hi-low pricing strategy);
- *informed purchase* (assure every day low price to consumer)
- *store's proximity* (important for choose nearest supermarket)
- *employee skills* (supermarket' sales people) useful for creating a trust relationships with customers.

2) The **competitive attraction of stores (CAS)** chain impact in the same way on SOP and SOV. The key factors of the CAS are:

² Lugli, 2002.

³ Bolton, Shankar, 2003.

- *price and perceived convenience* (customer's value for money)
- *discounts* (the incidence of retail's leaflet is strong in hi-low pricing strategy)
- *innovation* (driven mainly by the store's service)
- *time saving* (make shopping easy)
- *exposure shelf* (shopping experience)

3) The **household's characteristics (HC)** impact mainly on SOP and is referred both in their spending power and in number of family's members. The SOV's influence on HC is limited and is more related to purchasing's characteristics and by lifestyle's patterns. Typical factor of Campania's retail, are the *fractionated purchases* (not stocking products) which enhances the frequency of visits (SOV) to the supermarket. The retailers has increased the number of sales points to direct in its supermarkets the largest number of consumers.

4) The model analyzes the **purchases behaviors (PB)** affecting in equal mode SOV and SOP, and they are:

- *biologic foods* (the consumer is more careful and informed, and buys better products)
- *reduced dose* (the single-dose consumption and in small quantities, takes more importance)
- *H24 times* (new lifestyles and different working shifts, open to new opportunities for consumption)
- *take away* (meals or other food, purchased at supermarket, ready to eat)
- *repeated purchases* (people make more visits in supermarkets for weekly purchases)
- *online shopping* (lately Unes-Amazon did a partnership in the e-commerce channel)

Therefore, *supermarkets characteristics, purchases behaviors, competitive attraction of stores and household's characteristics* play an important role to create customers traffic in the store, in terms of visit and more purchases. The retailer's managers preside these factors through a high level of innovation to ensure the best *service quality* for the customers. Loyalty programs and fidelity cards contribute to the creation of SOWf, both in old customers (existing in portfolio), that in new customers. Empirically the loyalty card is used in hi-low model (Superò and Decò), while for EDLP (Unes/U2) it is an unnecessary cost and often to be eliminated.

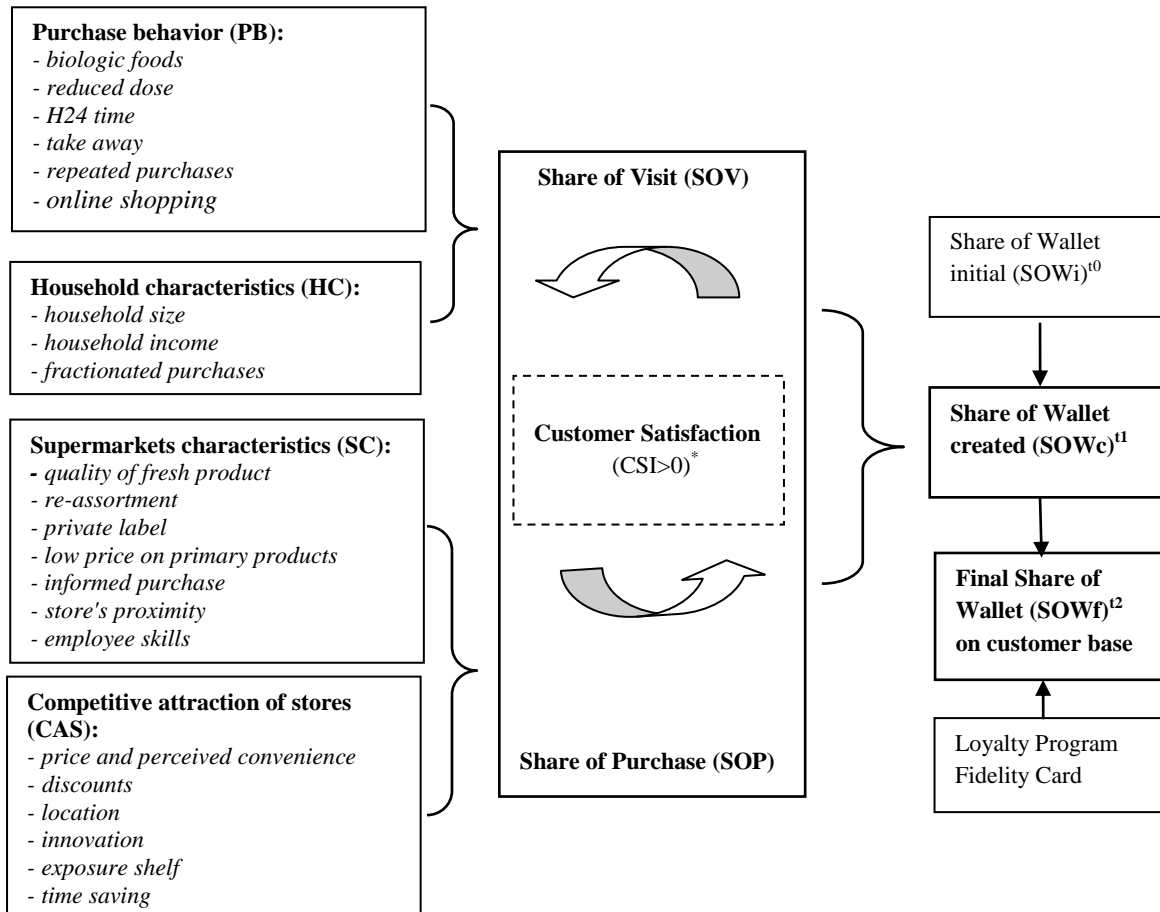
Findings and Discussion

The paper presents the first evidences of an ongoing research project arranged in: phase 1, related to the points sub a) qualitative exploratory analysis of key managers⁴ to identify the variables of an emergent conceptual model on MPM and b) assessing the emergent conceptual model to measure MPM in FMCGs; phase 2, in a forthcoming study, related to the point sub c) administer a quantitative survey on key sample of high spending clients of Superò and Decò in order to test the conceptual measurement model. The originality of this paper is to explore the MPM in terms of conceptual and measurement model, under a managerial perspectives, in a FMCGs provided of key informants and data useful for such an aim. The contribution of this paper is to explain from the point of view of the retailer the most appropriate decisions to increase the total supermarket's turnover. Even in the choice of the characteristics of the store and the type of products sold, in a second phase we will analyze the perspective of the consumer. Finally we link the three interviews to create a holistic tool for measurement these phenomena and support the management. The dynamics of customer loyalty has significant value in relation to the customer's choices and product's assortment. In the retail industry, there are product's category that retain the customers and others not, for example industrial goods not trigger this process as fresh products. Industrial brands fails to enhance customer loyalty, because the level of pressure that have on retailers' chains is very high. Indeed, the frequency of promotional programs for industrial products is very high, so the retailers cannot create loyalty on these products. Finally, the retailers suffering a price positioning on these products, by industry. Then on industrial products also the promotional programs of the supplier is very strong, so the retailer cannot create loyalty through its products, suffering a price by industry. This determines that the other lever to compete, for retailers, are: *-the store's proximity, -the value for money, -the shopping experience and the increase of private label*. Then, the innovation of retailers in product's assortment, becomes successful for success of retailers' strategies. The new purchasing behavior increase traffic's stores in terms of visits and in terms of purchases (lower value purchases but repeated over time). The innovation in service's quality must be induced by retailers and not passively incorporated by the market. In retail industry, the contractual power of suppliers on packaged food products is strong. Some products are pushed in the distribution channels but do not generate a high traffic

⁴ The findings contained in the paper are the result of interviews to the company managers (Supero' Deco' and U2), for this the responsibility of what has been argued, is exclusively of the author. The checking's phase of interviews to the managers is however in progress. The paper is being check on managers but mostly the conceptual model confirms the existing evidence in the literature.

both in terms of SOP and SOV. Different matter regards the fresh food products because the consumer's behavior are constantly monitored by the retailer. The marketing strategies for Superò is focused on service's

Figure 2: conceptual model on share of wallet (SOW) determination



* as assumptions in the model, Customer Satisfaction Index has positive effect

Innovation and product's quality and the product's assortment is essential to ensure product's quality in fresh foods. The evidence that emerged, from data collected on Superò store's chain, shows that there are shops, where the incidence of the fidelity card is greater than 50%, compared to an average incidence company of 42%, with peaks of 60% and relates to those supermarkets typically service in certain areas than others less virtuous in this aspect because they are covered by a high foot traffic, here we will have also a decrease of the share receipt for the customer (SOW) but we have a high number of transactions (SOP). The consumers, usually, use more loyalty cards and in Superò there are particular types of customers defined "high-spending" (for example, 5% of card holders on 50.000 fidelity, active representing 30% of total revenue), with interesting insights. These shopping dynamics, similar to the ones of Decò supermarkets, while in U2 we cannot determine the high-spending customers. Even for Decò is possible to determine, in the same mode seen before, the high-spending customers. For U2 manager these spending trends are entrusted to the observation of the customers when they are in the store by the employees (e.g. the cashier's workers). An important performance metrics to be implemented for Unes group is measuring the level of customer loyalty and the number of goods by product category (basket analysis), buying at U2 shops. All the investigated retailers at the present time are unable to do this type of analysis (either for the amount of data that for an adequate ICT infrastructure). The reading of this information is limited to the receipt line where is indicated the expenditure amount. The market data confirm the growth of the EDLP/U2 model (on average 60% annually) also supported by the high incidence of private label. The Deco-Multicedi company structure is composed of three subsets: 1) affiliates, 2) members and 3) direct ownership of the CEDI. The first measurement of performance is did on VAT taxable purchases (at the aggregate level) and then with other metrics on the results for each business units. For performance on affiliates there's an analysis of the income statement and then calculate the royalties received under the services offered

by Multicedi. An important metric to monitor the affiliates is the percentage of fidelity. Primarily it's measured through incidental indicators (inspections, product notes) and by the annex scheme of customer/supplier where for each year is analyzed the estimated percentage in the three food departments that are not directly managed by Multicedi, such as: 1) meat, 2) bread and 3) dairy products. These analysis, integrated with the revenue registry of customer/supplier, are required to quantify the price margin attributable to the affiliate on the final consumer's price. The economic results related to the affiliate weighs about 50% of total company turnover. The information on business performance for the Unes/U2 group are based on information derived from weekly/monthly reports. The first four metrics to check are: trend % in customers and sales, % margins and productivity of working hours. The assortments and the rationalization of the references are fundamental decisions that is to expand the offering in terms of products and not of brands. The Multicedi group also makes a report for each geographical area (Avellino, Caserta, Naples, etc) where there is the analysis of the acquired references and the frequency of visits in different types of retail outlets (superette, hypermarket, maxistore, etc).

Limitations and directions for future research

The main research limitations are related to a case study approach (Feagin et al 2001 and Yin 2013) and qualitative methods during the first explorative step. The studies on loyalty programs remain rare and incomplete, one restriction of our investigation is the difficulty of getting the mixed data on which our analysis is based (store intern scanner data and single-source panel data). Thus, applying our approach to other industry (e.g., airlines, restaurants) is difficult, because single-source panel data usually exist only for FMCGs, as in this work. More replications in other industry are needed to enhance the generalizability of our findings, from retailing to other industry. In a next step of our research, we compare our research with other important national labels (e.g. Carrefour, Coop and Conad). The study will be integrated with a quantitative approach on food retail and FMCGs and will be implemented the customer perspective through the questionnaire on high-spending consumers of Superò and Decò.

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