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Customers´ relationship with their grocery store: direct and moderating effects from store format and loyalty programs

Abstract

This paper aims: (i) to characterize the priorities designed and implemented by grocery retailers concerning relationship marketing with customers; (ii) to analyse customers' relationship with their grocery store and to evaluate store format and loyalty programs as key determinants of this relationship. Exploratory interviews were conducted with grocery store managers. Two independent samples of Portuguese customers answered a questionnaire and collected data were analysed using Structural Equation Modelling. Main results suggest that supermarkets lead to higher levels of customers' trust (directly) and customers' loyalty (indirectly). Furthermore, the positive effect of customers' satisfaction on customers' loyalty is higher for members of grocery store loyalty programs.

1. Introduction

Retailers of food and other fast-moving consumer goods represent the largest retailers around the world, both in number (52.8% and 50.4% of all Top 250 retailers, in 2013 and 2014, respectively) and in size of the companies (67.5% and 66.7% of Top 250 retail revenue, in 2013 and 2014, respectively) (Deloitte, 2015, 2016). Nonetheless, a market without growth requires from companies the use of innovative strategies to keep current customers and to attract new ones.

Relationship marketing and loyalty programs are key strategies for companies facing increasing competition (Beck *et al*., 2015). Relationship marketing is an approach to marketing that focuses on the development and maintenance of long-term relationships with consumers, in contrast with the transactional exchanges (Gilaninia *et al*., 2011). Loyalty programs are business practices more and more pursued by companies in order

to enhance customer loyalty (Kumar, 2005; Meyer-Waarden, 2007; Meyer-Waarden and Benavent, 2006). Furthermore, store format decision is a powerful strategic tool for retailers to influence consumers (Gauri, 2013; Gauri *et al*., 2008).

In the current slow pace of the world economy, consumers have decreased their purchases and retail sales have been affected. For instance, according to a report by Deloitte (2015), nearly one-quarter of the Top 250's European retailers and North American retailers experienced declining retail revenue in 2013 and, for both regions, top-line revenue grew at the slowest pace since 2009. Indeed, the search for a strong relationship with customers is an important way of business in the highly competitive retail sector, with increasingly demanding customers. However, it is a difficult task for grocery retailers to maintain and build store loyalty, because of the various store formats available to consumers (Nielsen, 2015a).

Although large supermarkets and hypermarkets constitute important players, smaller formats are growing in some categories and have a significant share in others (Nielsen, 2015a). The modern store should meet the lifestyle needs of consumers wishing to buy grocery products for the next few days, rather than shopping at large hypermarkets for the next few weeks (Watkins, 2014).

Moreover, consumers spend time looking for the grocery store that offers more advantages in a certain product, instead of making all their choices in the same store. The current economic crisis has created quite rational consumers, aware of the need to save money, searching for better offers, which leads to a possible decline in satisfaction and/or trust and, also, to the temptation of breaking the relationship with the current grocery store.

In view of these significant changes from both retailer and consumer sides, it is of utmost importance to understand if these factors – loyalty programs and store format - can positively influence the long-term relationship between customers and their grocery store.

Therefore, and in order to provide relevant theoretical and practical contributions to relationship marketing in the grocery retail sector, this paper aims: (i) to characterize the priorities designed and implemented by retailers concerning relationship marketing with their customers (ii) to analyse the customer relationship with their main grocery store and to evaluate store format and loyalty programs as key determinants of this

relationship. In particular, it aims at characterizing the consumers' level of satisfaction, trust and loyalty to their grocery store, as well as to analyse the potential impact of store format and loyalty programs.

Previous studies revealed a complex relationship between customer satisfaction and customer loyalty. In addition, moderating roles for consumer characteristics (Henrique and Matos, 2015; Homburg and Giering, 2001; Mittal and Kamakura, 2001; Ndubisi, 2006; Seiders *et al*., 2005), consumer ability to elaborate upon the brand choice (Bloemer and Kasper, 1995) and product involvement (Suh and Yi, 2006), were also evidenced. Despite these efforts, no attempt has been made to study the potential moderator effect of store format and loyalty programs in such complex relationship.

The current paper fills this gap by presenting competing models for relating store format and loyalty programs with the key constructs of relationship marketing. The different roles (antecedent *versus* moderator) of store format and loyalty programs' membership in the relationship between consumers and their grocery store (measured by satisfaction, trust and loyalty) are tested and compared.

2. Theoretical framework

2.1 Relationship marketing with customers and its key constructs

Since the 90s, the highlight given by academics and marketers to the concept of relationship marketing was clear (Cristopher *et al*., 1994; Hennig-Thurau and Hansen, 2000), driven by an environment characterized by excess of productive capacity, increased competition, rapid technological advancement and high concern for the quality (Berry, 1995; Sheth and Parvatiyar, 1995).

Relationship marketing is an approach to marketing that focuses on the development and maintenance of long-term relationships with consumers, in contrast with the transactional exchanges (Gilaninia *et al*., 2011). Sharifi and Esfidani (2014) indicate that relationship marketing reduces cognitive dissonance by the consumer in the post-purchase stage and, thereby, increases customer satisfaction and loyalty, with a mediating role of trust.

Overall, several financial and marketing benefits for companies that inspire managers to retain loyalty of their customer can be listed, namely:

- Loyal customers are more likely to expand their purchases within the range of products or services of the company (Grayson and Amber, 1999);

- Loyal customers allow a continuous flow of profit, reduce marketing operating costs, increase the brand or product reference and tend to be immune to the promotional efforts of competitors (Reichheld and Teal, 2001);

- Expenses involved in gaining a new customer are much higher than those involved in the maintenance of an existing one (Pfeifer, 2005; Reichheld and Sasser Jr, 1990);

- A current customer retained is more valuable than a new customer recruited (Nunes and Dréze, 2006).

Indeed, customer's loyalty cannot be underestimated by managers (Reinartz and Kumar, 2000). Therefore, customer loyalty is considered as a key factor to measure the effectiveness of relationship marketing (Lawson-Body, 2000; Meyer-Waarden and Benavent, 2006, 2008, 2009; O'Loughlin and Szmigin, 2006a, 2006b).

In addition, there is a certain consensus that building customer loyalty as an ultimate goal of relationship marketing is only possible by means of key variables such as satisfaction (Oliver, 1997, 1999; Selnes, 1998) and trust (Moorman *et al.*, 1992; Morgan and Hunt, 1994; Selnes, 1998).

Thus, based on relationship marketing studies, it is widely accepted in the literature that loyalty is the desirable end-result of the long-term relationship with the customer (Oliver, 1997; Reinartz and Kumar, 2000), trust is an antecedent of loyalty (e.g., Bove and Mitzzifiris, 2007; Garbarino and Johnson, 1999; Morgan and Hunt, 1994) and satisfaction has a key role in building trust and loyalty relationships (e.g., Bove and Mitzzifiris, 2007; Davis-Sramek *et al.*, 2009; Garbarino and Johnson, 1999; Shabbir et al., 2007).

From the existing literature, it is possible to conclude that these three theoretical constructs - satisfaction, trust and loyalty - are the key factors in long term relationships. Therefore, they were chosen to incorporate the competing models under analysis.

2.1.1. Customer satisfaction

Customer satisfaction can be defined as a subjective evaluation, performed after a specific purchase decision (Churchill Jr and Surprenant, 1982; Oliver, 1980, 1993), that the chosen alternative corresponded to, or exceeded, the expectations (Meuter *et al.*,

2000; Mohr and Bitner, 1995). In this sense, customers evaluate their level of satisfaction using different expectations of reference, such as the ideal, the expectable, the possible, the desired or what it should be (Martenson, 2007).

According to Gustafsson *et al.* (2005) customer satisfaction is a customer's overall evaluation of performance for a current offering. However, some authors (e.g., Anderson *et al.*, 1994; Bolton, 1998; Brunner *et al.*, 2008) stated that consumer satisfaction should be considered as a judgement based on cumulative satisfaction (i.e., based on the past and present experiences of customers regarding the performance of the company's products or services) rather than as the result of a post-purchase evaluative judgment in a specific transaction.

Oliver (1997) stated that loyalty is the end result of customer satisfaction. Conceptualizing satisfaction with a judgement about a single specific transaction is too restrictive when it regards the relationship between customer satisfaction and loyalty (Fornell *et al.*, 1996; Homburg and Giering, 2001). Furthermore, it was found that cumulative satisfaction is a better predictor of loyalty, rather than the satisfaction obtained with a specific transaction (Anderson *et al.*, 1994; Yang and Peterson, 2004).

Several previous studies revealed the existence of a positive relationship between customer satisfaction and loyalty (e.g., Hallowell, 1996; Homburg and Giering, 2001; Ming-Tien *et al.*, 2010; Prasad and Aryasri, 2008; Wallace *et al.*, 2004). Others authors showed the following positive effects of customer satisfaction: customer retention (Bolton and Lemon, 1999; Rust and Zahorik, 1993), repurchase intention (Bolton and Lemon, 1999; Taylor and Baker, 1994), repurchase behaviour (Anderson and Sullivan, 1993; Cronin Jr *et al.*, 2000; Mittal and Kamakura, 2001), positive references (word-of-mouth) to potential customers (Bitner, 1990; Grönroos, 2004; Palmatier et al., 2006; Swan and Oliver, 1989).

2.1.2. Customer Trust

Consumer trust means that customers believe their long term interest will be served by the salesperson (Crosby *et al.*, 1990). According to Morgan and Hunt (1994, p. 23) trust exists "when one party has confidence in an exchange partner's reliability and integrity". In line with Doney and Cannon (1997); Rempel *et al.* (2001), trust derives from a mechanism wherein characteristics, motives and intentions are attributed to exchange partners, with the evaluation of their potential being facilitated by the

assumption that their behaviour is predictable and corresponds to what has been promised.

According to Ganesan (1994) trust plays a key role in determining the long-term orientation of both retail buyers and their vendors. Moreover, Black (2008), Yaqub (2010); Yaqub *et al*. (2010) stated that the degree of mutual trust is crucial to the success and failure on inter-organizational relationships. Harris and Goode (2004); Hong and Cho (2011) positioned trust as a central driver of loyalty in B2C online market. Reichheld and Schefter (2000) noted that it is necessary to first gain consumers' trust in order to subsequently win consumers' loyalty. In the same line, Lin *et al*. (2011) and Martínez and Rodríguez del Bosque (2013) showed that customer loyalty is directly affected by customer trust.

Furthermore, Luk and Yip (2008) confirmed that customer satisfaction is an antecedent to brand trust. Lombart and Louis (2014) demonstrated the mediator role of trust in the connection between customer satisfaction and customer loyalty in the grocery retail sector.

2.1.3 Customer Loyalty

It is widely accepted in the relationship marketing literature that loyalty is the desirable end-result of the long-term relationship with the customer (Oliver, 1997; Reinartz and Kumar, 2000).

One of the more recognized definitions of loyalty is attributed to Oliver (1997, p. 392): ''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''. This concept already recognizes the external influences on consumer behaviour, incorporating the behavioural and the attitudinal components.

According to Reichheld and Teal (2001) customer loyalty is the main indicator that measures the company's performance in creating value for the customer by integrating the various dimensions of business. Reichheld (2003) goes even further, stating that the company's best indicator and growth rate predictor is the willingness of customers to recommend the company to a friend, family member or colleague (referrals) and not their degree of satisfaction or their ratio of retention.

Loyalty is the customer' willingness to continue consuming a specific product (Jones and Sasser Jr, 1995) or the strength of the relationship between an individual's relative attitude and repeated purchase at the same supplier (Dick and Basu, 1994). McGoldrick and Andre (1997) stated that consumer loyalty implies an ongoing commitment and not just a simple preference.

Hence, four research hypotheses are proposed:

H1*:* Customers' satisfaction with their grocery store has a positive impact on customers' trust.

H2*:* Customers' trust on their grocery store has a positive impact on customers' loyalty.

H3*:* Customers' satisfaction with their grocery store has a positive impact on customers' loyalty.

H4*:* Trust has a mediating effect on the relationship between customers' satisfaction and customers' loyalty.

2.2. Store format

Store format is defined by González-Benito *et al*. (2005, p. 59) from the perspective of demand, as "broad, competing categories that provides benefits to match the needs of different types of consumers and/or different shopping situations". According to the authors, store formats determine a retail competitive structure.

Different store formats are designed to suit the diverse shopping patterns of the buyers. The flexibility also provides the retailer the opportunity to meet the changing demands of the new planning policies. Kumar (2005) states that when designing a new store format it is crucial to take into account specific needs of the local community and to ensure that the architecture and settings match the surrounding environment.

Nielsen (2015b) considers six types of store format – hypermarkets, big supermarkets, small supermarkets, free services, grocery stores, drugstores - which differ according to the sales area, the category of products sold and the operating system (self-service versus customer service counter). Since the current research focuses on food retail, drugstores were excluded from the study. Hypermarkets remained as a single category labelled "hypermarkets"; whereas a new category labelled "supermarkets" was created, including large supermarkets, small supermarkets, grocery stores and self-service.

In a competitive grocery retail characterized by a growing heterogeneity of demand and the proliferation of new retail formats, cross-shopping behaviour by consumers regarding store formats has been quite usual, i.e., consumers change from a grocery store to another according to their purchase needs and the attributes of each store (Bustos-Reyes and González-Benito, 2008). According to Van Waterschoot *et al.* (2008), the choice of a store is linked to the information that customers collect about its products. González-Benito *et al.* (2005) stressed that consumers first choose the store format at which they will shop and later a particular store within this format, suggesting a greater rivalry within store formats (intra-format) than between store formats (inter-format). In the same line, Bustos-Reyes and González-Benito (2008) indicated that disloyalty among consumers exists due to their disloyal behaviour towards store formats rather than toward stores within the same format.

Several determinants of consumer behaviour have been emphasized in the retail sector. According to Macintosh and Lockshin (1997) trust and commitment to the salesperson, when there is an interpersonal relationship, are directly linked with purchase intentions. In line with Martenson (2007), one important factor for consumers satisfaction is their feeling that the store understands their needs. Chaney *et al.* (2015) highligh that perceived legitimacy explains the effect of in-store quality incongruency on consumer behaviour.

Particularly in the grocery market, Martínez-Ruiz *et al.* (2010) presented the factors - services, convenience, quality image, economic value - that have a large influence on consumer satisfaction in grocery retail, and emphasized the existence of differences considering distinct sub-samples of buyers based on store format (hypermarkets or supermarkets). Home proximity and customer attention are the main attributes contributing to satisfaction of grocery consumers in Spain (Martínez-Ruiz *et al.*, 2012).

As far as store format is concerned, Juhl *et al.* (2002) provided evidence of differences in customer satisfaction and loyalty in Denmark: customers in supermarkets showed higher levels of satisfaction and, especially, of loyalty than those in hypermarkets.

Hence, two types of research hypotheses and two competing models (A and B) are proposed, as represented in Figure 1: Model A postulates direct effects from store format on the three dimensions of relationship marketing (H5, H6 and H7); Model B postulates moderating effects from store format on the relationship between the three dimensions of relationship marketing (H8, H9 and H10):

H5*: Supermarkets provide higher customers' satisfaction than hypermarkets.*

H6*: Supermarkets provide higher customers' trust than hypermarkets.*

H7*: Supermarkets provide higher customers' loyalty than hypermarkets.*

H8*: The positive effect of customers' satisfaction on customers' trust is higher in supermarkets than in hypermarkets.*

H9*: The positive effect of customers' satisfaction on customers' loyalty is higher in supermarkets than in hypermarkets.*

H10*: The positive effect of customers' trust on customers' loyalty is higher in supermarkets than in hypermarkets.*

....Figure 1..

2.3. Customer Relationship Management and Loyalty Programs

Companies that focus on the establishment of long-term relationships with customers use instruments of Customer Relationship Management (CRM), such as loyalty programs or reward programs. Meyer-Waarden (2008) states that loyalty programs are a CRM tool that creates opportunities for individualisation and have become the key marketing activity to increase the retention rates of the company's customers.

Most retailers aim to design and implement a commercial strategy able to differentiate them from competitors and better meet customers' needs (Martínez-Ruiz *et al*., 2010). Loyalty programs are an integrated system of marketing actions whose goal is the establishment of higher levels of loyalty between the most profitable segments (for the benefit of the company), encouraging a loyal consumer behaviour through reward (Bolton *et al*., 2000; Leenheer *et al*., 2007) and by increasing satisfaction and value delivered to those customers (Bolton *et al*., 2000). According to Yi and Jeon (2003), loyalty programs are based on the premise that customers are open to establish or to strengthen relationships with suppliers, and thus become more profitable in the long run.

These loyalty programs are strategies based on the offer of incentives or rewards directed towards profitable customers, in order to build their loyalty (García Gómez *et al*., 2006; Yi and Jeon, 2003), resulting in strong, stable and lasting relationships (Gee *et al*., 2008), which generate value to the company by increasing the Life Time Value (LTV) (Rowley, 2007). They offer customers loyalty incentives such as discounts,

points exchanged for products or services associated with the company (Reinartz, 2006).

Several studies showed a positive impact of retail loyalty programs on store loyalty (Omar *et al*., 2010) and on purchase behaviour (Lewis, 2004; Rajiv and Bell, 2003; Taylor and Neslin, 2005). De Wulf and Odekerken-Schröder (2003) showed that tangible rewards from a retailer have a direct impact on customers' trust and an indirect impact on customers' behavioural loyalty, as observed in Belgian and Dutch samples.

Leenheer *et al*. (2007) found a positive effect of loyalty program membership on behaviour loyalty (measured by share-of-wallet) in Dutch households, when analysing grocery retailing. Moreover, acording to the results of Meyer-Waarden (2008), during a three-year period, the members of loyalty programmes revealed more positive purchase behaviours in supermarkets than non-members. Also, Demoulin and Zidda (2008) showed that loyalty card owners are more loyal to a store, essentially, when they are satisfied with the reward scheme of the loyalty program.

Thus, two types of hypotheses and two competing models (C and D) are proposed, as represented in Figure 2: Model C postulates a direct effect of loyalty programs' membership on consumer loyalty (H11); model D postulates moderating effects of loyalty programs' membership on the relationship between the three dimensions of relationship marketing (H12, H13 and H14):

> **H11***: Members of grocery store loyalty programs are more loyal to the store than non-members.*

> **H12***: The positive effect of customers' satisfaction on customers' trust is higher in members of grocery store loyalty programs than in non-members.*

> **H13***: The positive effect of customers' satisfaction on customers' loyalty is higher in members of grocery store loyalty programs than in non-members.*

> **H14***: The positive effect of customers' trust on customers' loyalty is higher in members of grocery store loyalty programs than in non-members.*

> ....Figure 2......................................

3. Research method

3.1. Research design and data collection

A mixed methodology was used: an exploratory qualitative research involving personal interviews and a quantitative survey based research.

Firstly, four personal interviews with store managers (from different format) of Portuguese grocery retail companies were conducted in January 2015. The collected data were subject to a qualitative analysis, but the condition of anonymity guaranteed by researchers to the respondents was preserved.

After the exploratory qualitative research, a questionnaire was applied to two samples of Portuguese customers: the target population is confined to individuals living in Portugal over 17 years old, who could be considered as consumers. LimeSurvey software was used to edit the first questionnaire, which was made available online, between 3rd and 23rd of February 2015, to a convenience sample gathered using a snow ball sampling technique. Collected data (988 valid responses) were used to conduct exploratory factor analysis. A second questionnaire was then used to collect the main sample. Data collection was made by a company specialized in field work and market research, between 16th and 22nd April 2015, through their online household research panel of 600.000 users. This main sample was established by quotas, according to data collected by INE (2011) at the time of the 2011 Portuguese Census, and representative of the general population by age, sex and district of residence. The respondents accessed the questionnaire through an online link distributed via email. In total 618 valid and complete responses were obtained and used to validate the measurement scales, estimate the global model and test the research hypotheses.

3.2. Instrument and Measures

The questionnaire included two main sections: i) identification of the main grocery store and characterization of the relationship with this store concerning Satisfaction, Trust and Loyalty; ii) socio-demographic characteristics of the respondents.

Satisfaction (SAT) was measured by five items adapted from Davis-Sramek *et al*. (2009); Garbarino and Johnson (1999). Trust (TRUST) was measured by three items adapted from Gurviez and Korchia (2002); Swaen and Chumpitaz (2008); Lombart and Louis (2014). Loyalty (LOY) was measured by five items adapted from Zeithaml *et al*.

(1996). All these 13 items were measured in seven-point Likert-type scales, from 1="Strongly Disagree" to 7="Strongly Agree". Table 1 presents the complete wording of the items that were used.

....Table 1...

3.3. Data analysis procedures

Statistical analysis was carried out using IBM SPSS Statistics Software Version 22.0 (IBM SPSS, 2013) and IBM Amos Software Version 20.0 (IBM AMOS, 2011).

The constructs proposed in the conceptual model were initially checked for dimensionality using principal component analysis in SPSS Statistics. Cronbach alpha values were used to assess constructs' reliability; values above 0.70 were considered as reliable (Nunnally and Berstein, 1994). Multicollinearity was evaluated with the VIF statistic regression module implemented in SPSS Statistics (Gaur and Gaur, 2006).

The existence of outliers was assessed in AMOS 20.0 by the Mahalanobis distance (**Error! Reference source not found.**): four observations were considered as outliers and removed from the sample. The possibility of normality of the distribution underling the observed variables was assessed by the exogenous asymmetry coefficient (Sk) and kurtosis (Ku) (Shumacker and Lomax, 2004) and no severe violations of the Normality assumption were found ($|Sk| < 3$ and $|Ku| < 10$, Kline (1998)).

A two-step maximum likelihood structural equation modelling procedure was then conducted using AMOS 20.0. Confirmatory Factor Analysis (CFA) was used to build the measurement model (Arbuckle, 2011; Blunch, 2013). The three constructs in the model were validated for reliability, convergence and discriminant validity (Bagozzi and Yi, 2012). The reliability of each construct was assessed through composite reliability (CR), capturing the degree to which the items behave in a similar manner relating to a common latent construct. CR values above 0.70 are considered as satisfactory (Hair *et al*., 2015). The average variance extracted (AVE) was calculated to evaluate convergent validity and values greater than 0.50 were considered to demonstrate convergent validity (Fornell and Larcker, 1981; Hair *et al*., 2015). Discriminant validity was assumed when the square root of the AVE of each construct was larger than the correlation between that construct and any other (Fornell and Larcker, 1981).

Once the measurement model was validated, the global structural equation model was estimated and the research hypotheses were tested. Model-data fit was assessed through a variety of fit indices. A good model-data fit is assumed when the chi-square value (**Error! Reference source not found.** is not statistically significant (p<0.05), the ratio of **Error! Reference source not found.** to its degrees of freedom is less than 3.0, the comparative-of-fit-index (CFI) and the Tucker-Lewis index (TLI) are larger than 0.90 (Hair et al., 2015). A root mean square error of approximation (RMSEA) value lower than 0.08 is indicative of good fit, while an acceptable fit is assumed for RMSEA values between 0.08 and 0.1 (Byrne, 2010). The coefficients of determination R^2 were obtained in order to evaluate the proportion of variance of each dependent latent variable explained by its explanatory variables in the model. These can vary from 0 to 1 and the higher the value, the greater the explanatory power of the structural relations (Hair *et al*., 2015). The significance of the structural weights was evaluated using the Z tests computed by AMOS (Arbuckle, 2011) and statistical significance was assumed at the 5% level.

Recall that the proposed research hypotheses proposed concern direct, mediating or moderating effects. Statistical inferences about mediation effects are often based on asymptotic methods which assume that the limiting distribution of the estimator is normal, with a standard error derived from the delta method. However, the bootstrapping procedure is another way to estimate the indirect effects and provides a check on the classical and delta methods when they are applied under no ideal conditions (Bollen and Stine, 1990). Bone et al. (1989) stated that the bootstrapping procedure tends to generate estimated parameters that are more robust. Given the above, the analyses presented in this paper were conducted in AMOS, based on a covariance matrix built using a bootstrapping procedure involving 1000 random samples, equal in size to 95% of the actual sample.

Regarding the study of moderating effects, a multi-group analysis was used to estimate the potential effects of the moderating variable of interest on the relationships between the constructs in the model. For this purpose, the sample was divided into subsamples (groups) according to the predefined categories of each moderating variable: store format (hypermarkets; supermarkets) and loyalty programs' membership (non-members; members).

4. Results

4.1. Main results from the qualitative exploratory study

This section presents the main results of the qualitative analysis from the in-depth interviews with grocery store managers. A qualitative exploratory study was developed with two main objectives: (i) to characterize the priorities designed and implemented by grocery retailers concerning relationship marketing with customers; (ii) to consolidate the set of relevant constructs/items from literature review and the respective relationship according to store managers.

Thematic content analysis was used as the qualitative research method. Table 2 presents the questions that were used in the in-depth interviews with grocery store managers, as well as a summary of the main conclusions from the content analysis that was conducted.

....Table 2...

In brief, the interviews that were conducted significantly contributed to the perception of the characteristics of Portuguese grocery retail in terms of relationship marketing and to a better identification of the set of constructs and relevant items, in accordance with the opinion of these grocery store managers. There is evidence that retailers seek to strengthen the relationship with their customers with the objective of maintaining long-term relationships through higher levels of satisfaction, trust and loyalty. Furthermore, loyalty programs are a common practice in grocery retail. Also, supermarkets have some advantage in the relationship with customers when compared to hypermarkets.

4.2. Descriptive statistics from the quantitative study with customers

The pre-test sample included 988 customers, with ages ranging from 18 to 78 years old, with a mean of 39 years old. Most respondents where female (61%) and hold a bachelor degree or a higher education level (72.2%).

The main sample included 618 valid respondents, 52.4% of which were female. The percentage of respondents aged 64 years old or more equals 23.3%, followed by 22.6% aged between 25 and 34 years old. Additional details concerning the main sample characteristics are presented in Table 3.

Regarding their main grocery retailer, 52.8% were customers of the Sonae Group; 26.5% chose the Jerónimo Martins Group; 6.6% the Auchan Group and the remaining 14.1% were customers of other grocery retailers. Analysing the distribution of the customers' responses regarding grocery store format, 52.4% of the respondents are customers of supermarkets and the remaining 47.6% are customers of hypermarkets. As far as loyalty programs' membership is concerned, a large majority of respondents is a member of a loyalty program with his/her grocery retailer (86.1%). When analysing customers' assessment of the relationship with their grocery store, it is possible to conclude that all 13 items under analysis show high values in a seven-point Likert-type scale, from 1="Strongly Disagree" to 7="Strongly Agree". SAT 1 presented the highest levels of agreement (with 65.4% of the respondents with levels of agreement of 5 and 6), whereas SAT5 presented the lowest levels of agreement (21% of the respondents with levels of agreement between 1 and 3).

4.3. Measures validation – exploratory and confirmatory factor analysis

Statistical analysis concerning the dimensionality and reliability of the scales was first conducted using the 988 responses of the pre-test sample. In the exploratory analysis the bivariate correlations between the pairs formed by the 13 items were inspected. The item LOY5 showed extremely high correlations with some other items and was removed from the analysis. Principal component analysis was then conducted using the 12 remaining items chosen to measure satisfaction, trust and loyalty. A Promax rotation was considered and a total variance explained of 83.0% was obtained. Each item has loaded according to what was expected: these three dimensions are in line with the literature review that was conducted. Cronbach's Alpha values were calculated, ranging from 0.92 (TRUST and LOYALTY) to 0.94 (SATISFACTION).

A confirmatory factor analysis model with 3 correlated factors measured by the 12 items, specified according to the structure obtained in the exploratory analysis was then estimated in AMOS, using data from the main sample. A good model-data fit was obtained [**Error! Reference source not found.**(51)= 271.936 (p<0.001), **Error! Reference source not found.**/df= 5.332; CFI= 0.97, TLI= 0.96, RMSEA= 0.08]. The **Error! Reference source not found.**statistic was significant (p<0.001), however, its ratio to the degrees of freedom was within the usually accepted range. CFI and TLI have satisfied the recommended criteria as very good fit, while RMSEA value was indicative

of an acceptable fit. Overall, the measurement model showed a good fit to the data and was within the required criteria for good psychometric properties. Estimated factor loadings (in a standardized solution) are shown in Table 4, ranging from 0.82 (SAT1) to 0.97 (TRUST2); the Z-values ranged from 24.66 (SAT1) to 32.39 (TRUST2) indicating that each item did load significantly on the construct it is measuring.

.....................................Table 4...................................

At this phase, the three constructs were validated for their reliability, convergent validity and discriminant validity. As indicated in Table 4, composite reliability (CR) was marginally equal to, or above, the minimum recommended, ranging from 0.75 (TRUST) to 0.83 (SATISFACTION). Convergent validity was accepted for all constructs: AVE value ranged from 0.77 (SATISFACTON and LOYALTY) to 0.85 (TRUST). Constructs have discriminant validity since correlations between all pairs of constructs are lower than the square rooted AVE values of the corresponding constructs (see Table 5).

.....................................Table 5...................................

4.4. Validating the structural relationships among Relationship Marketing constructs and testing research hypotheses H1 to H4

The structural model involving the three RM constructs was estimated in AMOS, using the bootstrap procedure available to estimate the mediation effect postulated in H4.

A good model-data fit was obtained: **Error! Reference source not found.**(51)= 271.936 (p<0.001), **Error! Reference source not found.**/df = 5.332; CFI= 0.97, TLI= 0.96, RMSEA=.08. The coefficients of determination R^2 suggest that SATISFACTION explains 67% of the variance of TRUST; a total of 72% of the variance of LOYALTY is jointly explained by SATISFACTION and TRUST.

As hypothesized in **H1**, customers' satisfaction has a significantly positive effect on trust (standardised coefficient=0.82, p<0.001). Moreover, results validate **H2**, revealing that customers' trust has a significantly positive effect on loyalty (standardised coefficient=0.21, p<0.01). A significantly positive direct effect of customers' satisfaction on loyalty was obtained (standardised coefficient = 0.67, p<0.001) thereby supporting **H3**. **H4** was also supported since a significantly positive indirect effect of customers' satisfaction on loyalty, with trust as a mediating construct, was also obtained (standardised coefficient = 0.17, p<0.001).

4.5 Direct and moderating effects of store format: testing research hypotheses H5 to H10

In order to test whether there are significant differences on the levels of Satisfaction, Trust and Loyalty according to store format (H5 to H7), model A was proposed (recall Figure 1), having store format as a dummy variable (with reference category "hypermarkets"), possibly influencing the three constructs under analysis.

Statistically significant differences ($p<0.05$) in the levels of Trust were found by Store Format: supermarkets have a positive impact on trust levels (standardised coefficient= +0.05), thereby validating **H6**. However, the effects of store format on the levels of satisfaction and loyalty were not statistically significant ($p>0.05$) and, consequently, results did not support **H5** and **H7**.

The proposed competing model B postulated a moderator effect of store format on the relationship between the three RM constructs. To test research hypotheses H8 to H10, a multi-group analysis was performed. For this purpose, the sample was divided into two subsamples defined by store format: customers from hypermarkets *versus* from supermarkets.

To test for the invariance of the three structural weights, the unconstrained model (with no equality restrictions between the two groups) was compared with a constrained model that assumes that the impact of store format on satisfaction, trust and loyalty is the same for customers in supermarkets and in hypermarkets. Since these two statistical models are nested, the chi-square difference test can be used. A $\chi 2$ difference of 2.480 was obtained, with $\Delta DF=3$, suggesting that the constrained model holds (since the critical value of a $\chi 2$ distribution with 3 degrees of freedom equals 7.815). Therefore, the structural weights can be considered as invariant in the two groups; **H8**, **H9**, **H10** are not supported and there is no significant moderation effect of store format on the relationship between satisfaction, trust and loyalty.

4.6. Direct and moderating effects of loyalty programs: testing research hypotheses H11 to H14

In order to test whether there are significant differences on loyalty levels between members and non-members of loyalty programs model C was proposed (recall Figure 2). Loyalty programs membership is a dummy variable, possibly influencing loyalty, with reference category "non-members". The positive effect of loyalty programs

membership on loyalty levels was not statistically significant (p>0.05) and consequently **H11** was rejected.

Model D postulated a moderator effect from loyalty programs membership on the relationship between the three RM constructs. To test research hypotheses H12 to H14 a multi-group analysis was conducted. The sample was divided into two subsamples, non-members *versus* members of a loyalty program, and a statistical procedure similar to that presented in the previous section was adopted. The χ2 difference now equals 9.379, with ΔDF=3, suggesting that the unconstrained model holds: the three structural weights are not invariant for members and non-members of loyalty programs. Additionally, each structural coefficient was separately inspected in the two groups. It is possible to conclude that the coefficient for the satisfaction-trust path did not differ statistically between non-members and members of loyalty programs, not supporting **H12**. A statistically significant difference between the two groups was found for the satisfaction-loyalty path, supporting **H13**: the relationship between satisfaction and loyalty is weaker for non-members than for members of loyalty programs. The difference between the 2 groups for the trust-loyalty path was also significant, but suggested the relationship between trust and loyalty is stronger for non-members of loyalty programs than for members, thus not supporting **H14**.

5. Discussion and conclusion

5.1. Discussion

This investigation provides specific knowledge on possible determinants of a successful relationship between retailers and their customers, which may help retailers formulate strategies to increase customers' levels of satisfaction, trust and loyalty.

From the exploratory qualitative study, conducted in order to characterize the priorities designed and implemented by grocery retailers concerning relationship marketing with customers, there is evidence that grocery retailers seek to strengthen the relationship with their customers with the objective of maintaining long-term relationships through higher levels of satisfaction, trust and loyalty.

To improve customers' satisfaction, managers make an effort to identify the needs of customers and to match their desires, but consider that this is a delicate process, due to the high level of demand from customers, and also because of some inconsistency in

their demand. Moreover, managers state that customers' satisfaction and customers' trust are necessary but not sufficient conditions to ensure long-term relationships. Thus, loyalty programs are a common practice in grocery retail and, in accordance with the opinion of grocery store managers, supermarkets have some advantage in the relationship with customers when compared to hypermarkets.

Several conclusions can be drawn from the quantitative study, conducted in order to analyse customers' relationship with their grocery store and to evaluate store format and loyalty programs as key determinants of this relationship.

The majority of the customers present high response values to the items measuring satisfaction, trust and loyalty with their main store. Results suggest that customers' satisfaction has a positive impact on customers' trust and customers' loyalty and, also, has an indirect impact on customers' loyalty through trust. Moreover, customers' trust has a positive impact on customers' loyalty. These results are in agreement with previous academic literature, namely Bove and Mitzzifiris, 2007; Davis-Sramek *et al.*, 2009; Garbarino and Johnson, 1999; Lombart and Louis, 2014; Shabbir *et al.*, 2007; Sharifi and Esfidani, 2014.

Analysing the distribution of customers' responses, regarding their chosen store format, results show that most respondents are customers of supermarkets. At the beginning of the millennium, hypermarkets were the preferred type of retail store in Portugal for frequently purchased packaged goods, due to their low prices (Farhangmehr *et al.*, 2000, 2001). In recent years, the retail operators in Portugal opened several small supermarkets to cover the country (Hipersuper, 2014) and prices in supermarkets have become more competitive. On the other hand, the emerging consumer attitudes influenced by the economy, technology and new store formats are providing new challenges, options and opportunities for retail top managers (Lombart and Louis, 2014).

There is evidence that supermarkets lead to higher levels of customers' trust when compared to hypermarkets, as well as to an indirect impact on customers' loyalty. This result meets the perceptions of the interviewed store managers, and also the results in Martínez-Ruiz *et al.* (2010, 2012); Martínez-Ruiz *et al.* (2011). Nevertheless, in the current study there is no evidence of higher levels of customers' satisfaction and loyalty in supermarkets, contradicting the results of Juhl *et al.* (2002). Also, the magnitude of

the relationships among the three Relationship Marketing constructs (satisfaction, trust and loyalty) is similar for customers of supermarkets and of hypermarkets.

Regarding loyalty programs, although the large majority of respondents are members of a loyalty program, they did not reveal higher levels of store loyalty when compared to non-members. Indeed, other empirical studies have also shown that retail loyalty programs do not necessarily generate positive effects on consumer behaviour (De Wulf *et al*., 2001; Mägi, 2003; Sharp and Sharp, 1997). Some loyalty programs limit themselves to seduce customers with an attractive offer instead of rewarding loyal customers (Parker and Worthington, 2000). Such strategy denotes a failure concerning the objectives of the creation of customer loyalty programmes and works against the perspective of a long-term orientation of relationship marketing (Morgan *et al*., 2000). Capizzi and Ferguson (2005) admit that customer loyalty programs have reached maturity, and they can be in a terminal phase of their life if marketers don't renew the concept of loyalty and CRM strategies.

Furthermore, it is important to note that the effect of the structure of the loyalty program on consumers' perceived status (known as exclusivity) varies between industries and between customers. More specifically, in the grocery retail, characterized by low perceived exclusivity levels, the loyalty program structure has no effect on perceived status (Arbore and Estes, 2013). Hence, grocery retailers should identify innovative strategies that differentiate them from competitors, as well as improve fair rewards to the most profitable customers, in order to increase their levels of satisfaction, trust and loyalty.

Definitely, the recent proliferation of loyalty programs in the Portuguese retail stores has not produced the desired effect. The results of the current paper reinforce the idea that loyalty programs fail to generate value for customers; that their efficacy may be decreased with their maturity (no longer innovators) and the proliferation of grocery programs by almost all retailers (no longer differentiators). However, important results were found in the analysis of loyalty programs as a moderating variable. Significant differences were found between members and non-members of loyalty programmes, concerning their relationship with retailers. For non-members the relationship between satisfaction and loyalty is weaker; whereas the relationship between trust and loyalty is stronger.

According to the obtained results, satisfaction is a strong predictor of loyalty, when compared to trust. Also, when customers enrol loyalty programmes, they may assume a stronger and mutually trustful relationship with the retailer, thus potentiating the impact customers' satisfaction has on loyalty.

5.2. Academic and managerial implications

This investigation contributes to the knowledge on potential predictors and moderators inherent to the relationship marketing constructs emphasized by academic literature over time, focussing on grocery retail. Moreover, using multi-item scales to measure each construct under study, rather than single-item scales, captures the complexity of the concepts in a more efficient way.

Many important contributions for the business scope can be drawn from the empirical results of this paper and some suggestions can be provided to store managers, headquarter managers and retail top managers.

Firstly, the investigation provides specific evidence that customers' satisfaction proved to be a major predictor of both customers' trust and loyalty. Headquarter managers should allocate their efforts primarily to improve the levels of customers' satisfaction, mainly by: satisfying their customers in overall; always meeting their expectations; giving them the superior and/or "perfect" service; differentiating the company from its competitors; in such a way that customers consider they have made the right choice of retailer.

Prior research revealed that price level, assortment and distance (location) are the main determinants of consumers' choice concerning grocery store formats (Solgaard and Hansen, 2003). A global study carried out by Nielsen (2015a), shows that price (68%), quality (55%), convenience (46%) and special promotions (45%) are the most common motivations consumers have regarding store choice behaviour, whereas the least common are cleanliness (39%), selection/assortment (36%) and store staff (27%). Moreover, the variety of products is an important environmental determinant of customer satisfaction, and pleasant atmosphere, accessibility and responsiveness explain the customers' choice of hypermarket, while nice decoration and empathy with the staff explain the customers' choice of supermarkets (Marques *et al.,* 2013).

Secondly, according to previously and current research, since supermarkets lead to higher levels of customers' trust when compared to hypermarkets, as well as to an

indirect impact on customers' loyalty, retail top managers should open more supermarkets, choosing a store location (convenience for customers) that is more attractive than that of the existing hypermarkets. Moreover, they need to offer competitive prices and special promotions, simultaneously guarantying good quality standards for their products and services. For instance, an assortment that includes fruits, vegetables, meat and fish always fresh. At the same time, a nice decoration and friendly staff could help to attract and maintain customers.

Thirdly, the relationship between satisfaction and loyalty was found to be stronger for members of loyalty programs than for non-members. Therefore, store managers should allocate their efforts primarily to improve satisfaction levels of customers that are members of loyalty programs. Store managers need to clearly distinguish and benefit the members of their loyalty programs by giving them attractive and fair rewards.

5.3. Limitations and suggestions for future research

Due to the adopted sampling method, results of this paper cannot easily be generalized to the Portuguese population. Another limitation is the small size of the subgroup of non-members of loyalty programs, which might have led to the non-significant findings concerning the impact on customers' loyalty.

Future research should examine the proposed models by conducting a longitudinal study, in order to improve the current understanding about the impact of store format and loyalty programs on the key constructs of relationship marketing.

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Figures

Figure 1 – Diagram of the two competing models with the proposed research hypotheses concerning direct effects (Model A) and moderating effects (Model B) of store format.

Model A: direct effect of store format
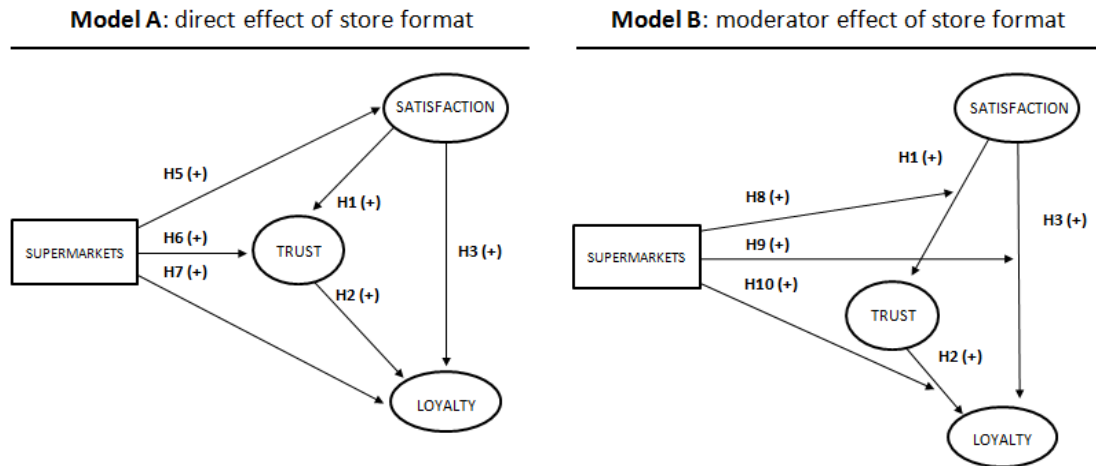
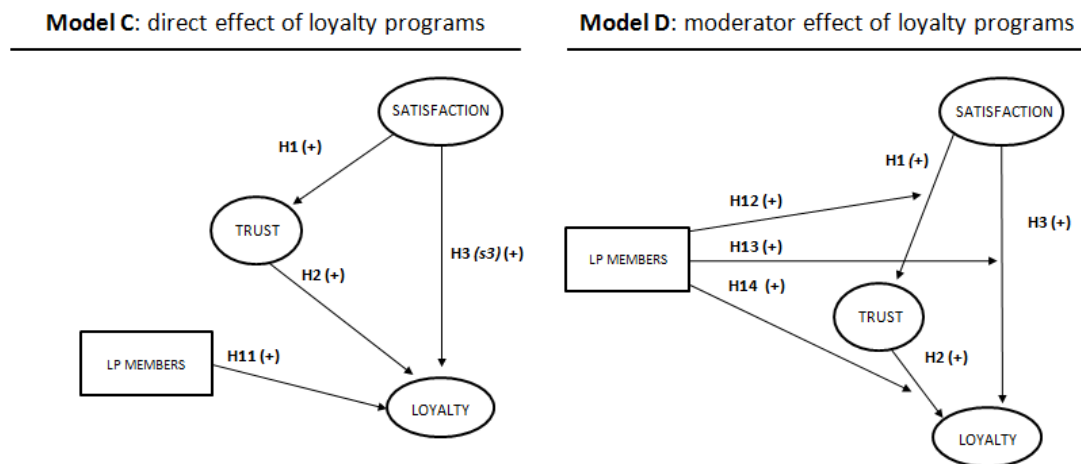**Model B:** moderator effect of store format

Figure 2 - Diagram of the two competing models with the proposed research hypotheses concerning direct effects (Model C) and moderating effects (Model D) of loyalty programs membership.

Model C: direct effect of loyalty programs

Model D: moderator effect of loyalty programs

Tables

Table 1 - The three Relationship Marketing constructs in the model and the items used to measure them.

Constructs	Items	Questions	Source
Satisfaction (SAT)	SAT1	Overall, I am satisfied with this company	Davis-Sramek, Droge, Mentzer and Myers, 2009; Garbarino and Johnson, 1999
	SAT2	This company comes very close to giving me "perfect" service	
	SAT3	This company sets itself apart from other, because of its superior service	
	SAT4	My choice for this company was right	
	SAT5	Shopping in this company always meet my expectations	
Trust (TRUST)	TRUST1	This company is interested in its customers	Gurviez and Korchia, 2002; Swaen and Chumpitaz, 2008; Lombart and Louis, 2014
	TRUST2	This company is forthright in its dealing with consumers	
	TRUST3	This company is honest with its customers	
Loyalty (LOY)	LOY1	I say positive things about this company to other people	Zeithaml, Berry and Parasuraman, 1996
	LOY2	I consider this company first choice when I need products of categories sold	
	LOY3	I encourage friends and relatives to do business with this company	
	LOY4	I intend to do more business with this company in the next few years	
	LOY5	I recommend this company to someone who seeks my advice	

Table 2 – Questions used in the in-depth interviews and a summary of the main conclusions from the content analysis.

Questions	Summary of the main conclusions
1. **a)** How do you characterize the Company's relationship with its customers? **b)** What issues should the company address first, in order to create and/or improve that relationship?	• **a)** Very satisfactory to good. • **b)** To achieve higher levels of customer satisfaction; creation of trust relationships between the parties.
2. **a)** Do you consider that there are differences in the relationship with the customer according to the store format? **b)** In the case of this specific store format, what are the most obvious differences comparatively with other store formats?	• **a)** Yes. • **b)** Supermarkets have some advantages in the relationship with customers, vis-a-vis hypermarkets; small supermarkets have a more familiar environment, allowing for a greater proximity and contact with customers.
3. **a)** Does the Company identify the needs and desires of its customers and is it able to offer products/services that correspond to the levels they desire? **b)** What type of actions has been undertaken aiming to increase customer satisfaction?	• **a)** Companies make an effort to identify the needs of customers and to match their desires, but consider that this is a delicate process, due to the high level of demand from customers, and also because of some inconsistency in their demand. • **b)** To ensure that customers find the product/brand they want at the right price, to provide a good service, to offer a welcoming environment to which customers will want to return for their future purchases; to offer services that add convenience (e.g., home delivery, online sales), expand the range of products and services available in a single location (e.g., takeaway), providing the customer with an adequate management of the time spent in the store by placing at the store's entrance numbered tickets for the various sections, ensuring a faster payment in the tellers with the option of self-service payment and enable payment facilities with a customer card that doubles as a credit card.
4. **a)** Does the Company monitor the effectiveness of the customer satisfaction measures implemented? **b)** How does it assess them?	• **a)** A modernize of the distribution system and adopt advanced information and management technologies. • **b)** The complaints were thoroughly assessed and satisfaction questionnaires were periodically run.
5. **a)** Do you consider it important for the company to build the confidence of its customers? **b)** What efforts has the company developed to that end, and what benefits are expected?	• **a)** A great importance. • **b)** If customers believe that the company honours its commitments, they will remain faithful, are less likely to buy from competitors and recommend the company and/or store to their families and friends.
6. **a)** Does the Company seek to strengthen the relationship with its customers with the objective of maintaining a long-term relationship? **b)** If so, how?	• **a)** Of course. • **b)** The generation of high satisfaction and the assurance of mutual trust. Satisfaction and trust are necessary but not sufficient conditions to ensure long-term relationships; there are other factors that can potentiate or limit long-term relationships (e.g., the store format and location, the proximity to the consumer, the promotional campaigns developed).
7. **a)** Does the Company offer its customers a loyalty program? **b)** If so: what is the main purpose of that program? If not: do you intend to implement a loyalty program in the future?	• **a)** Yes, loyalty programs are a common practice in retail firms, implemented mainly via the customer card. • **b)** To collect information on purchases, while increasing the frequency of visits to the store and the volume of the sales, rewarding the best customers, and building customer loyalty.

Table 3 – The main sample socio-demographic characteristics (n=618).

	n	%		n	%
Total sample			**Marital status**		
Size	618	-	Married/consensual union	349	56.4
Gender			Single	221	35.8
Female	324	52.4	Divorced/separated	26	4.2
Male	294	47.6	Widower	22	3.6
Age (years)			**Household composition**		
18–24	60	9.7	Only adults	384	62.1
25–34	140	22.6	With children <18 years	234	37.9
35–44	81	13.1	**Family income**		
45–54	106	17.2	Do not know/no answer	104	16.8
55–64	87	14.1	1–500 euros	34	5.5
More than 64	144	23.3	501–1,000 euros	134	21.7
Education level			1,001–1,500 euros	135	21.8
Compulsory education	300	48.5	1,501–2,000 euros	100	16.2
Associate Degree	19	3.1	2,001–3,000 euros	80	12.9
Bachelor's Degree	225	36.4	3,001–4,000 euros	16	2.6
Masters Degree	73	11.8	More than 4,000 euros	15	2.4
Doctorate	1	0.2	**Region of country**		
Occupation			Northern mainland	187	30.3
Middle or higher manager	107	17.3	Center mainland	141	22.8
Skilled worker/specialist	254	41.4	South mainland	262	42.8
Unemployed	47	7.7	Autonomous regions	28	4.5
Housewife	131	21.2	**Place of residence**		
Student	8	1.3	Rural	122	19.7
Unskilled worker	71	11.5	Urban	496	80.3

Table 4 - Results for the measurement model chosen for Relationship Marketing (n=618).

Constructs/ items	Stand. Estimate	Variance explained	Z-value	CR	AVE
SAT				0.83	0.77
SAT1	0.82	0.68	24.66		
SAT2	0.86	0.75	26.70		
SAT3	0.87	0.76	26.95		
SAT4	0.89	0.79	27.97		
SAT5	0.86	0.74	26.48		
TRUST				0.75	0.85
TRUST1	0.84	0.70	25.43		
TRUST2	0.97	0.93	32.39		
TRUST3	0.95	0.90	31.36		
LOY				0.80	0.77
LOY1	0.90	0.81	28.48		
LOY2	0.86	0.74	26.48		
LOY3	0.83	0.70	25.10		
LOY4	0.85	0.73	25.95		

Table 5 - Inter-construct correlation and square root of AVE (boldfaced values).

	SAT	TRUST	LOY
SAT	**0.88**		
TRUST	0.81	**0.92**	
LOY	0.83	0.75	**0.88**