Title:

Offline to Online: The Transfer of Store Loyalty in Grocery Shopping in the UK.

Abstract: (Your abstract <u>must</u> use 12pt Times Roman font and <u>must</u> not be longer than 200 words)

Our research uses Mosaic Geodemographic profiling to compare offline and online grocery shoppers and the customers of different online grocers in an attempt to explore the transference of offline store loyalty. We find heterogeneity in online grocers' customer profiles, indicating that there is not a direct, straightforward transfer of loyalty from offline to online shopping. These differences are more marked for Waitrose/Ocado and for Asda than for Sainsbury's and Tesco. Our findings have important implications for e-grocery providers and potentially for other e-retailers. Retailers cannot count on a straightforward transfer of customer allegiance from offline to online.

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Keywords

Internet shopping; online grocery shopping; Geodemographics; customer profiling; loyalty

1. Introduction

The UK has the most developed online grocery market (Mintel, 2003) with more than 1.3 million people shopping for groceries online (Daily Record, 2004). However, online grocery purchases are estimated to account for only 2% of the total UK grocery market (justfood.com, 2006). Research (Authors, 2007) suggests that online shoppers continue to shop offline, switching between the two modes of shopping. Furthermore, online grocery shopping may be discretionary: abandoned when a particular trigger disappears, but equally, it may be restarted as changing life events create new triggers. This qualitative research was used in the design of the large scale quantitative survey reported here. We focus on the customer profiles of offline and online grocery retailers in an attempt to explore the transference of offline store loyalty in online grocery shopping.

2. Theoretical Background

There has been considerable research on the differences between online and offline purchase; shopping behaviour (e.g. Andrews and Currim, 2004); the importance of brand names (e.g. Degeratu et al., 2000); and shopping motives (Rohm and Swaminathan, 2004). More recently, Ramus and Nielsen (2005) have investigated consumers' perceptions of the advantages and disadvantages of shopping online for groceries. The study of the motivational determinants of shopping behaviour is at least half a century old. Amongst the earlier studies, Stone (1954) identified four orientations or motives for shopping: economic/price; ethical; personalising/service; and apathetic. A combination of personal and social motives was found by Tauber (1972) to underlie shopping behaviour. On these premises, an extensive body of research has focused on developing a typology of shoppers, both in general (e.g. Bellenger & Korgaonkar, 1980; Darden & Ashton, 1974; Ezell & Russell, 1985; Westbrook & Black, 1985; Williams, Slama & Rogers, 1985) and in relation to internet shopping in particular (e.g. Brown, Pope & Voges, 2003; Childers, Carr, Peck & Carson, 2001; Fenech & O'Cass, 2001; Rohm & Swaminathan, 2004; Sénécal, Garbi & Nantel, 2002). Contrary to expectations from previous research (e.g. Corbett, 2001), time saving did not appear to motivate consumers to shop online, possibly because of the time which elapses between placing the order and receiving the goods. Recent research has emphasised the importance of situational factors and that the offline and online modes of grocery shopping are complementary rather than substitutive (Authors, 2007). Dissatisfaction with the quality of service may trigger discontinuation of online grocery shopping. Internet shopping is perceived as risky (Forsythe and Shi, 2003) but perceptions of risk are attenuated though experience. Trust is important (Kolsaker & Payne, 2002), with trust of the online supplier as a crucial factor (Raijas & Tuunainen (2001; Lee and Tan, 2003). Furthermore, Ramus and Nielsen (2005) found that confidence in the retailer's supply and delivery ability are associated with the decision to shop online. These findings suggest that there may be a relation between online and offline grocery store, as indicated by a small scale (45 respondents) online survey of university lecturers (Rafiq and Fulford, 2005). This study focuses on this area.

3. Research Design

The research involved an initial qualitative stage, running focus groups with both lapsed and current users of online grocery retail sites to explore general usage and attitudes to online grocery shopping. In this second stage, a postal survey was used to quantify and amplify the

findings from the focus groups, with the design of the questionnaire was informed by the qualitative findings. The resulting questionnaire covered a wide range of issues such as the frequency of shopping online for groceries, the reasons for choosing a particular provider and attitudes towards grocery shopping in general and online. After piloting with 40 respondents, the final questionnaire was posted to a sample of 5,000 names, randomly extracted from a commercial list of online grocery shoppers. The research was conducted in April – May 2006. A response rate of 26% was achieved with 1,320 questionnaires returned; giving us 1,128 respondents after excluding those that had never used the internet for grocery shopping). Mosaic Geodemographic codes were attached using each respondent's postcode. Mosaic provides a useful means of respondent profiling and an ability to compare our sample with data from published sources such as TGI. In order to assess the representativeness of our sample we compared the MOSAIC profile of our respondents with the profile of the UK population that is connected to the Internet and with that of the population undertaking their main grocery shop online[1]. Table 1 shows that the three profiles are very similar, with the exception that Mosaic Group E (Urban Intelligence) accounts for a much higher proportion of those who use the internet for their *main* grocery shop than of the internet-connected or of our sample which includes lighter Internet users. This customer type, therefore, has a disproportionately high tendency to use the Internet for their main groceries shop.

Table 1: Comparison of Mosaic Profile of Survey Sample, UK Population with Internet Connection and UK Population Undertaking Main Grocery Shop Online

Mosaic Group	Survey Sample (%)	UK Population with Internet Connection(%)[1]	UK Population Undertaking Main Grocery Shop Online[1]
A (Symbols of Success)	13	14	13
B (Happy Families)	15	16	14
C (Suburban Comfort)	18	16	14
D (Ties of Community)	15	15	14
E (Urban Intelligence)	8	9	12
F Welfare Borderline)	4	4	5
G (Municipal Dependency)	4	3	4
H (Blue Collar Enterprise)	8	8	8
I (Twilight Subsistence)	2	2	3
J (Grey Perspectives)	8	6	7
K (Rural Isolation)	5	7	6
Total	**100**	**100**	**100**

[1] Source: Experian (2007)

4. **Results**

Respondents' experience of online grocery shopping varied: 20% of respondents had started shopping in the previous year, but 34% had more than three or more years experience of online grocery shopping. Some 65% had last shopped online for groceries in the last month or more recently. The survey shows that there is a high degree of online repeat patronage among grocery shoppers with 71% always using the same site. Main reasons for choosing the site they use most often include: reliability of order (67%), reliability of delivery (65%), availability of delivery slot (39%), low prices (39%), to use a specific store loyalty card (34%). These questions were pre-coded, but 41 respondents used the open ended alternative to write in that they chose their online store because they used the same store offline. This suggests that store loyalty may persist between the online and offline shopping modes. However, users do not always have a choice of online store: 110 respondents indicated they had no choice of online grocery store in their area.

4.1 Analysis of online grocery retailers' market shares

Table 2 shows the online grocery retailers' market penetration as measured by our survey. This is an expression of market share. Ocado and Asda each have a 10% share of online grocery shoppers, Sainsbury has 19% and Tesco is far out in front with 61%. These are broadly in line with their market shares at the time of the research (Verdict, 2005; Keynote, 2006). All other things being equal, we would expect the online retailers' market shares to be consistent across the Mosaic groups. As can be seen from Table 2, however, this is very far from being the case and the overall market share figures mask considerable variation by Mosaic Group. Ocado has above average shares of Mosaic Groups A (Symbols of Success) and E (Urban Intelligence), Asda is performing well above its average in Mosaic Groups F (Welfare Borderline), G (Municipal Dependency) and I (Twilight Subsistence), Sainsbury has higher than its average shares of Mosaic Groups C (Suburban Comfort) and E (Urban Intelligence). Although Tesco is the market share leader in all Mosaic Groups, its lead is narrowest in Group E (Urban Intelligence), where it is only 10% points clear of Sainsbury, and in Group A (Symbols of Success), where it has a 25% point lead on Ocado. We saw earlier (Table 1) that Mosaic Group E has a very high propensity to shop online for groceries, and this is clearly a battleground for market share where Tesco's usual dominance is weakened. Each online grocery retailer has, therefore, a distinct Mosaic customer profile. The Ocado profile is affected to a certain extent by the company's spatial distribution; for example, Ocado does not offer a service in Scotland where there is a high concentration of Mosaic Group G (Municipal Dependency). Spatial inequalities in the distribution of Mosaic groups only go a small way, however, towards explaining the variations in online customer profiles. We now explore the extent to which these are caused by access to and use of the internet, and by transference of offline store loyalty.

Table 2: Online Retailers' Penetrations by Mosaic Group

Mosaic Group	Ocado		Asda		Sainsbury		Tesco		Total
	N	% Penetration	N	% Penetration	N	% Penetration	N	% Penetration	
A (Symbols of Success)	27	24	8	7	22	20	55	49	112
B (Happy Families)	16	12	11	8	24	18	83	62	134
C (Suburban Comfort)	8	5	15	10	40	26	90	59	153
D (Ties of Community)	5	4	15	12	21	16	86	68	127
E (Urban Intelligence)	13	18	9	12	22	30	29	40	73
F Welfare Borderline)	3	10	6	20	6	20	16	50	31
G (Municipal Dependency)	0	0	10	27	2	5	25	68	37
H (Blue Collar Enterprise)	3	4	8	11	9	13	50	72	70
I (Twilight Subsistence)	1	6	4	24	2	12	10	58	17
J (Grey Perspectives)	3	5	5	7	11	16	48	72	67
K (Rural Isolation)	4	9	0	0	4	9	38	82	46
	83	10	91	10	163	19	530	61	867

4.2 The effects of internet access and usage

Table 3 compares the Mosaic profile of each online grocery retailer with that of households connected to the internet. All things being equal, we would expect each online retailer's profile to mirror that of internet-enabled households, in which case the index values would be 100. Each profile is significantly different from that of internet-enabled households, indicating that factors beyond internet access are driving and shaping choice of online grocery retailer.

Table 3: Comparison of Grocers' Mosaic Profiles with Population Having Internet Access

Mosaic Group	Internet Access %[1]	Ocado		Asda		Sainsbury		Tesco	
		%	Index	%	Index	%	Index	%	Index
A (Symbols of Success)	14	32	228	9	64	14	100	10	71
B (Happy Families)	16	19	119	12	75	14	88	16	100
C (Suburban Comfort)	16	10	62	16.5	103	24	150	17	106
D (Ties of Community)	15	6	40	16.5	110	13	87	16	107
E (Urban Intelligence)	9	16	178	10	111	14	156	5	56
F Welfare Borderline)	4	4	100	6	150	4	100	3	75
G (Municipal Dependency)	3	0	0	11	367	1	33	5	167
H (Blue Collar Enterprise)	8	4	50	9	112	6	75	10	125
I (Twilight Subsistence)	2	1	50	4	200	1	50	2	100
J (Grey Perspectives)	6	4	67	6	100	7	117	9	150
K (Rural Isolation)	7	4	57	0	0	2	29	7	100
Total	100	100		100		100		100	

[1] Source: Experian (November 2007)

However, not all Mosaic groups have the same propensity to use the internet for grocery shopping, and therefore Table 4 compares each online grocery retailer's Mosaic profile with that of people undertaking their *main* grocery shop online.

Table 4: Comparison of Grocers' Mosaic Profiles with Population Undertaking Main Grocery Shop Online

Mosaic Group	UK Population Undertaking Main Grocery Shop Online[1]	Ocado		Asda		Sainsbury's		Tesco	
		Online %	Index	Online %	Index	Online %	Index	Online %	Index
A (Symbols of Success)	13	32	246	9	69	14	108	10	77
B (Happy Families)	14	19	136	12	86	14	100	16	114
C (Suburban Comfort)	14	10	71	16.5	118	24	171	17	121
D (Ties of Community)	14	6	43	16.5	118	13	93	16	114
E (Urban Intelligence)	12	16	133	10	83	14	117	5	42
F (Welfare Borderline)	5	4	80	6	120	4	80	3	75
G (Municipal Dependency)	4	0	0	11	275	1	25	5	125
H (Blue Collar Enterprise)	8	4	50	9	112	6	75	10	125
I (Twilight Subsistence)	3	1	33	4	133	1	33	2	67
J (Grey Perspectives)	7	4	57	6	86	7	100	9	129
K (Rural Isolation)	6	4	67	0	0	2	33	7	117
Total	100	100		100		100		100	

[1] Source: Experian (November 2007)

Table 4 once again illustrates heterogeneity in the online retailers' customer profiles, even allowing for the varying propensities of Mosaic groups to use the internet for grocery shopping. Tesco is only obtaining 5% of its online customers from Mosaic Group E (Urban Intelligence), while this segment accounts for 13% of online grocery shoppers. Ocado and Sainsbury's are both performing relatively well in this segment, with indices of 133 and 117 respectively. Ocado's strength in Mosaic Group A (Symbols of Success).

4.3 *The persistence of store loyalty in grocery shopping*

Finally, we compared the Mosaic profiles of online and offline shoppers for the four main major stores. If there was a direct transfer of loyalty from offline to online, we would expect the grocery retailers' offline and online Mosaic profiles to be very similar, allowing for biases caused by internet access and usage. Table 5 shows significant variations between the offline and online profiles, indicating that loyalty transfer is not even. For example, Mosaic Group B

(Happy Families) accounts for almost three times the proportion of Ocado shoppers than it does Waitrose shoppers. Group E (Urban Intelligence) accounts for over three times more Asda online shoppers than Asda offline shoppers and for double the proportion of Sainsbury's online than offline shoppers, considerably greater upweights than would be expected, even allowing for this segment's heavy usage of the internet for grocery shopping.. Tesco's offline and online profiles are more similar than those of the other grocery retailers, but Mosaic Group K (Rural Isolation) accounts for 75% more online than offline shoppers, possibly a reflection of Tesco online's superior distribution infrastructure in rural areas.

Table 5: Comparison of Grocery Retailers' Online and Offline Mosaic Profiles

Mosaic Group	Ocado/Waitrose			Asda			Sainsbury			Tesco		
	Online %	Offline[1] %	Index	Online %	Offline %	Index	Online %	Offline %	Index	Online %	Offline %	Index
A (Symbols of Success)	32	30	107	9	4	225	14	14	100	10	9	111
B (Happy Families)	19	7	271	12	13	92	14	12	117	16	14	114
C (Suburban Comfort)	10	26	38	16.5	16	103	24	25	96	17	19	89
D (Ties of Community)	6	8	75	16.5	21	78	13	15	87	16	17	94
E (Urban Intelligence)	16	6	267	10	3	333	14	7	200	5	4	125
F Welfare Borderline)	4	1	400	6	5	120	4	3	133	3	3	100
G (Municipal Dependency)	0	1	0	11	11	100	1	3	33	5	6	83
H (Blue Collar Enterprise)	4	5	80	9	18	50	6	9	67	10	14	71
I (Twilight Subsistence)	1	1	100	4	3	133	1	2	50	2	3	67
J (Grey Perspectives)	4	11	36	6	4	150	7	7	100	9	7	128
K (Rural Isolation)	4	4	100	0	2	0	2	3	67	7	4	175
Total	100	100		100	100		100	100		100	100	

[1] Source: Experian (August 2007)

5. Discussion and Conclusions

Grocery retailers' offline and online customer profiles are significantly different, indicating that there is not a direct, straightforward transfer of loyalty from offline to online shopping. These differences are more marked for Waitrose/Ocado and for Asda than for Sainsbury's and Tesco, indicating that for these smaller retailers online shopping provides the greatest opportunity of transcending the customer profile that arises as a result of their branch networks. For example, the finding that Mosaic Group B (Happy Families) accounts for a much higher proportion of Ocado shoppers than Waitrose shoppers may be caused by this customer segment aspiring to be Waitrose shoppers, but not having the opportunity due to branch locations. Asda's online profile is considerably more upmarket than its offline profile; the online brand appears to be attracting segments, such as Urban Intelligence, that are unwilling or unable to use the offline brand.

These findings have important implications for e-grocery providers and potentially for other e-retailers. Retailers cannot count on a straightforward transfer of customer allegiance from offline to online. Through their online stores retailers can serve customer segments that their offline stores cannot reach and this enables them to transcend the customer profile dictated by their store catchment areas.

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