Are consumers getting what they *REALLY* want?

Initial Findings from a Major Survey of Consumer Satisfaction with their Local Selection of Grocery Stores

Report of early findings from a major new study by the Advanced Institute of Management Research (AIM)

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Context of the Research

This brief Report provides a summary of the initial findings of a two-year study that has investigated the perceptions and satisfaction of consumers with the local grocery shopping facilities they have available. The Economic and Social Research Council and the Engineering and Physical Sciences Research Council jointly funded the study, through their initiative in the form of the Advanced Institute of Management Research (AIM). The central question we set out to address in the study is the extent to which consumers are satisfied with their local selection of grocery stores. The field research was carried out in March and April 2007 and the initial findings presented at an open Workshop held at the MIC Conference Centre in London on Friday 15th June 2007, which was attended by a cross-section of representatives of policy-makers, planners, retailers, consumer groups and academics.

This research was initiated and designed before the current Competition Commission inquiry into the grocery sector was announced, as an extension to our previous research (see Clarke et al., 2006; Jackson et al., 2006; Arentze et al, 2005; Oppewal and Koelemeijer, 2005). We brought forward the release of our initial results given the relevance of our research to the inquiry, which has 'local choice' as one its key themes. It is important to emphasise that our research has not been funded by any party with a direct stake in any particular agenda.

Copies can be downloaded at:
http://www.competition-commission.org.uk/inquiries/ref2006/grocery/index.htm

Aim and Objectives of the Research

Specifically, our aim was to explore, under different local conditions of socio-demographic composition, levels of accessibility to stores, and patterns of provision, what *assortment* of stores is necessary to achieve consumer satisfaction?

To achieve this aim, we set ourselves four principal objectives, to assess how different groups of consumers:

1. Perceive, value and use their *selection* of supermarkets;
2. Value and use *additions to/deletions from* their local retail facilities;
3. View the *relative role of large and small stores* in retail assortments; and
4. View the importance of the *brand of the store*, particularly for small outlets, in retail assortments.

We believe that our research is different in several respects. We offer a new perspective on choice – a way of moving from individual store choices to satisfaction with the assortment locally. We take the term 'local' to a consumer-focused neighbourhood level where real choice is experienced. We look beyond current behaviour and use of existing provision to perceived choice and ideal assortments. Finally, we develop insights into how and why consumers value their assortments of local stores, and which stores they prefer and will tend to use most.

We investigated these issues by developing a research instrument that examined:

1. Consumers' revealed choices and the frequency and spending patterns in terms of existing usage;

2. How they evaluate local assortments (e.g. based on access, range, price, etc);
3. How they perceive store brands (e.g. in terms of selection, quality, service etc);
4. How they evaluate realistic store assortment scenarios to tease out their preferred mix of outlets;
5. Respondent characteristics.

Study Areas & Research Design

Three research sites were chosen so as to highlight different local *competitive conditions*. We identified an initial shortlist of locations using the HHI index listing of postcodes in the 2000 Competition Commission Report, which ranked them by degree of local market concentration. We chose three locations to obtain a requisite variety of retail provision patterns that reflected concentration levels that were high (Milton Keynes, where Tesco dominates the local market); medium (Worcester); and low (Telford, where all of the four main brand supermarkets are operating). In addition to exploring the impact of different mixtures of retail brands and stores, the design enabled us to examine the potential effects of local domination. For example, in the three locations, Tesco respectively has 3 supermarkets and 12 convenience outlets (Milton Keynes); 2 supermarkets and 3 convenience stores (Worcester); and 1 supermarket and 1 convenience store (Telford).

Stratified sample

It is important to emphasise that our stratified sampling framework was designed to represent households living in a range of selected neighbourhoods, rather than being representative of the shoppers of given retail chains. This is an important distinction to bear in mind in the assimilation of our findings. We systematically chose multiple neighbourhoods for study on three dimensions: (1) those in both high, medium, and low deprivation neighbourhoods; (2) whether they had high, medium, or low levels of access to main party supermarkets; and (3) by overall level of local retail concentration (Milton Keynes, Worcester, and Telford in terms of high to low respectively).

How is local choice used?

Main shop – We found that supermarket usage for 'main' shopping activity across our study towns broadly reflects the store footprints of each retailer. Whilst overall 41% of the shoppers used Tesco for their main shop; 19% used ASDA, 11% used Sainsbury; and 10% used Morrison. ASDA was more prominent in Telford where they have two stores (used by 47%), and Tesco was the dominant 'main shop' in Worcester (54%) and Milton Keynes (55%). Overall, our findings highlighted the fact that most shoppers used a *portfolio* of supermarkets rather than just one store or brand, with 96% of customers using 3 or more supermarkets.

In addition, our research shows that the proportion of consumers using a car for their main supermarket shop was high (73%) and similar across the 3 towns. In some neighbourhoods car usage for main shopping was as high as 90%.

Top-up shopping – The picture in terms of top-up shopping activity is also revealing. In our survey, 16% of shoppers reported that they did not engage in top up shopping at all, a high proportion (58%) used *two* stores, of which virtually all used a combination of 1 supermarket and 1 small store for top-up shopping, and another 23% had a wider portfolio of stores for this activity.

Taken together, these findings indicate most consumers relied on 3 or more supermarkets for their main shop, and used *both* supermarkets and small stores for top-up shopping, underlining the significant overlap and the existence of one market for groceries.

***Frequency of shopping* –** we found that over 68% of shoppers did their main grocery shop around once per week, and almost a third did some top-up shopping on a weekly basis, with as many as 78% carrying out top-up shopping at least once per week.

Internet shopping – our study confirmed the picture suggested by other studies, that around 7.3% of households engaged in internet shopping for groceries. As we will show, households overall did not perceive that the availability of internet services contributed much value to the local store assortment.

Does local store variety matter?

We assessed variations in satisfaction with local choice within each neighbourhood by asking respondents to express their degree of satisfaction with the assortment of stores they had available on a 5-point Likert scale, and subsequently converted these to an index of satisfaction (minimum 0, maximum 100%). We found very significant differences in satisfaction *between* towns as well as *within* towns. Across all the different neighbourhoods studied, the highest level of satisfaction was 96% and the lowest was 41%, with distinct differences between Telford (78%), Worcester (53%), and Milton Keynes (62%). Later in the Report, we highlight the reasons for these underlying differences in satisfaction.

Below, we characterize these effects overall with reference to two extreme examples of neighbourhoods from our study, which illustrate how and why local choice is affected by the level of provision, geographic distribution and local access to main stores, as well as by variety in provision, and the characteristics of residents themselves.

Arleston (Telford): Satisfaction rating 96%. Satisfaction here was the highest of our study sites, even though the level of neighbourhood deprivation is average. Located in western Telford, the neighbourhood is close to a main Tesco supermarket, and centrally placed relative to a wide variety of key stores (Sainsbury, ASDA, Morrisons, Aldi and Netto). Residents' satisfaction with their assortment can be explained through our four main discriminatory variables (see below): perceived variety of choice and competition (79%), perceived access to quality and healthy food (89%), perceived availability of low price stores (90%); and perceived good access to the stores they want (80%). Thus, whilst significant proportions of shoppers undertake a main shop at Tesco (41%) and Morrisons (41%), they felt highly satisfied with the variety of different formats, stores, and brands, and were able to shop locally in small stores. Top-up shopping here was the lowest of our study areas (53%).

St. Johns (Worcester): Satisfaction rating 48%. Satisfaction in this neighbourhood was one of the lowest across our study areas. Located on the west side of the town, the St. Johns neighbourhood again had average levels of deprivation, but differed in that most stores in close proximity are small stores (except for a Co-op Market Town store), and all major supermarkets are on the opposite eastern side of the River Severn. The significantly lower level of satisfaction can partly be explained with reference to perceptions of variety of competition and choice (47%) – there is no ASDA or Morrison in the town and the nearest Sainsbury and Tesco stores are some distance away. Residents did not feel they had access to sufficient choice of quality and healthy food (55%), nor did they feel they had adequate access to low prices (42%), or good financial or physical access to stores they wanted to use (56%). Probably because of these perceptions, apart from trips to the Tesco stores (40%) and Iceland in the town centre (20%), the frequency of top-up shopping more than once a week was high (84%).

Why does satisfaction with choice vary locally?

Our analysis shows that consumer satisfaction with the mix or assortment of food stores locally can be explained statistically with reference to four composite variables:

1. The perception that they have "Plenty of Choice and Competition";
2. The perception that they have "Choice of Healthy and Quality Food";
3. The perception that they "Pay Lower Prices"; and
4. The perception that it is "Easy to get to Better Stores".

Consumer perceptions on these four dimensions of choice can also be explained. In our initial analysis, we concentrate on trying to explain differences in levels of satisfaction with reference to our two extreme locations: Telford and Milton Keynes. Here we only report the most significant results. Our analysis identifies:

The effect of Deprivation. We did not find a direct correlation between simple deprivation and dissatisfaction with choice – possibly because of the interplay of other factors. However, one significant observation revealed that consumers in specifically deprived neighbourhoods in Telford were actually more satisfied with choice than affluent consumers. A possible explanation for this is the availability and prominence of a number of discounters in the area and the prominence of two extensive and price-focused ASDA stores.

The effect of Proximity to Supermarket. Our results showed that consumers close to a main supermarket had higher levels of satisfaction, and in Telford we found that elderly residents were particularly sensitive to being close to a main store.

The effect of Car Availability – We found that consumers with a car were more satisfied with their local store assortment, and this effect was greater in Milton Keynes than in Telford, possibly because residents of Milton Keynes, where the market is more concentrated, need to get access to a wider variety of stores to be as satisfied.

Key effects on Perceptions of Choice

The most significant underlying influences on our four perceptions of choice dimensions were:

1. ***Effects on "Perceived Competition and Choice"*** – we found that consumers in Telford felt they had more competition and choice, with a key influence on this being the

availability of a car. However, we also found that perceptions were affected by the proximity to a store. Importantly, we noted that elderly consumers who are deprived and geographically remote from stores had the lowest perceptions of choice.

2. ***Effects on "Perceived Choice of Quality and Healthy Food"*** – our results showed that Telford is perceived as having a better choice of locations to buy quality and healthy food, reflecting the influence of lower levels of retail concentration. Moreover, those closer to a supermarket perceived they had better choice.

3. ***Effects on "Paying Lower Prices"*** – our results demonstrated that shoppers in Telford perceived they were paying *lower* prices as a result of the additional variety of retail provision, whereas shoppers in Milton Keynes felt that they were paying *higher* prices.

4. ***Effects on "Easy Access to Better Stores"*** **–** in Milton Keynes, our results showed that consumers perceived they had difficulty in getting access to better stores, especially if they were further away and without a car. The elderly without a car perceived access to be particularly difficult, even when they were close to a supermarket, because of the constraining effect of poor mobility.

What is the 'Ideal' Local Store Assortment?

Our research involved approximately 1800 household-level personal interviews, each of which lasted around 25 minutes. Part of the questionnaire asked respondents to complete a series of stated-preference tasks. Respondents were required to evaluate alternative store assortments presented on a series of cards, with the mix of stores being varied systematically across the sample in terms of stores available within 5 minutes; within 15 minutes (edge of town); within 15 minutes (towards town); and internet home delivery (the latter was assumed to be offered by Tesco).

These experiments firstly enabled us to estimate the particular contribution to consumer satisfaction made by individual store brands located within a 5-minute radius (see Figure 1). Two important features stand out: (1) a Tesco supermarket is considered to offer greater value to our respondents than Sainsbury; (2) the presence of a small store is clearly valued as part of a store assortment; but (3) it does not appear to matter to consumers who operates these small local stores, be it a Tesco Express convenience outlet, small brand store, or a hypothetical Sainsbury convenience store.

The experiments also enabled us to estimate the perceived value of the four main supermarket brands and other operators (including Aldi and Lidl and Waitrose) located at 15 minutes (Figure 2). Across our sample, Tesco is clearly perceived to offer greater value compared to other main supermarket brands, followed by ASDA, Morrison and Sainsbury. Note that a Tesco Express c-store at 15 minutes is of negligible value to consumers. Internet availability has virtually no effect on satisfaction with local choice, suggesting the majority of consumers do not see it as a substitute for store-based availability.

In Figure 3, we provide some significant estimates of the effects of different *combinations* of stores. We highlight three types of effect:

a) ***Brand duplication*** – the figure highlights the marginal effect of, for example, additional Tesco stores, suggesting that consumers perceived that additional stores from an existing retailer operating in their town added progressively less value to the assortment;

b) ***Brand substitution*** – the impact of an additional supermarket by another operator at the very local level (within 5 minutes travel time) leads to only a marginal increase in perceived value to the consumer;

c) ***Brand synergies*** **–** certain brands, however, are shown to have a synergistic effect on each other in terms of their impact on consumer satisfaction. The most noticeable was the effect of the joint presence of a Sainsbury and Aldi or Lidl. For our respondents, satisfaction with an assortment was far higher if the combination of these stores was present, reflecting the complementarity of these two stores' offerings to consumers.

Conclusions

1. Our principal conclusion highlights the contributions of different retail stores to consumer satisfaction with their local selection of grocery stores. Whilst a Tesco supermarket had the greatest contribution overall (across consumers, neighbourhood types and possible assortments), the local assortment was more attractive where there was requisite *variety* in store mix. For example, consumers in our study were more satisfied if their local area had one Tesco and one ASDA, than if they had two Tesco stores and no ASDA. Some stores were particularly valued if they were jointly present with another store (e.g. Sainsbury and Aldi/Lidl) while other stores added very little value when they were added to an assortment (e.g. having a second supermarket within 5 minutes travel).

2. The presence of a <u>small</u> store within a local (5 minute) assortment is <u>significantly</u> valued but it makes little difference (in terms of relative contribution) whether it is operated as a Tesco Express, Independent, or other multiple chain. The presence of a Tesco supermarket did not seem to affect the valuation of a local Tesco Express.

3. It is important to note that while our research clearly identified the importance of 'variety' within a local store assortment (i.e. multiple brands as well as small and large stores) this does <u>not</u> imply that every consumer will only be satisfied when they have equal access to all the main party stores within 5 minutes of their home. Variety can be achieved in many different ways and different store format solutions, and access does not necessarily have to mean 'proximity' or access by car. Access encompasses public and other means of transport and delivery that can all be enhanced and improved to impact on satisfaction with store assortment provision. Our research shows that one particular group – the elderly – have particularly low perceptions of choice and are likely to benefit the most from steps taken to improve access.

4. The "local" picture of retail choice provision is very different and more extreme than is found at the national or regional level. Our research found that different supermarkets dominated in different neighbourhoods. In Milton Keynes, for example, in some neighourhoods as many as 90% of households used Tesco as their main

supermarket but in other neighbourhoods ASDA and Morrisons achieved high levels of share of local ‘main supermarket’ expenditure.

5. There is as much variation in satisfaction <u>within</u> towns as <u>between</u> towns. This highlights that satisfaction masks significant local disadvantage where particular consumers are challenged by local or personal circumstances. The implication is that if policy-makers and planners are serious about protecting consumer satisfaction from detrimental effects of competition, they will need to ‘drill down’ analysis to the neighbourhood / intra-urban level. A comparison of locations highlighted important examples. Arleston (Telford) showed high satisfaction with four main supermarkets and a healthy selection of complementary stores. Residents in St. Johns (Worcester) had substantively less choice and showed much lower levels of satisfaction.

6. Consumer satisfaction does <u>not</u> depend simply on proximity to a particular supermarket, or to a large supermarket, or to a particular brand of retailer, but depends on a <u>local combination</u> of these factors as well as on levels of mobility; age of respondents and level of affluence. These factors also influenced the perceptions of prices, variety, and availability of, and access to, quality and healthy food that underlie variations in satisfaction.

7. Our research reaffirms the importance of a local focus when examining and investigating local competition and choice issues, which needs to: adopt a consumer-centred neighbourhood approach; incorporate an evaluation of <u>variety</u> of provision in terms of brands, formats, store sizes, and locations; and assess the needs of particularly vulnerable groups where perceived access is demonstrably different to the theoretically-driven benchmark of access to a certain number of stores within a certain distance.

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Figure 1 - Local Store Assortment (5 minutes) - Individual Store Contributions

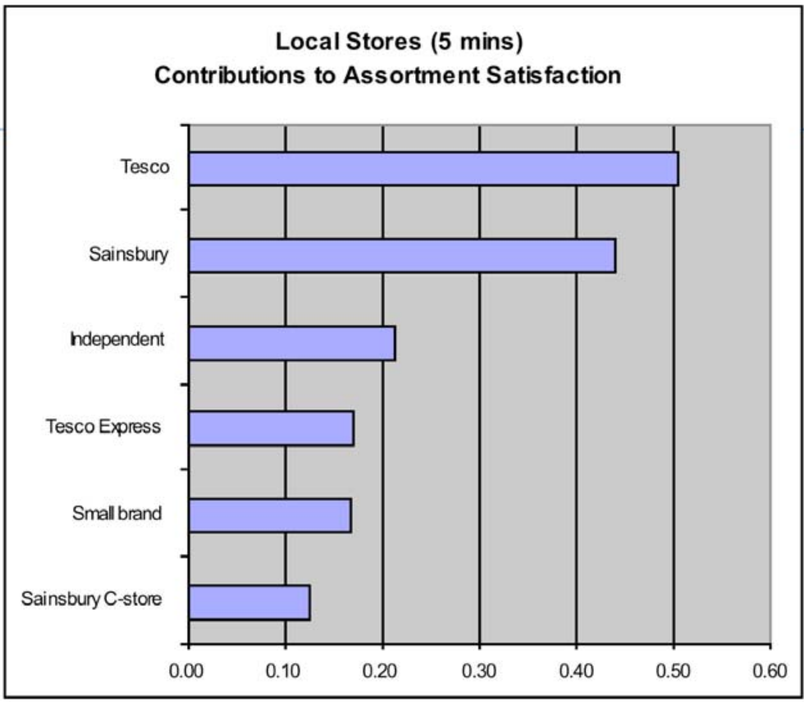

Figure 2 - Local Store Assortment (15 minutes) – Individual Store Contributions

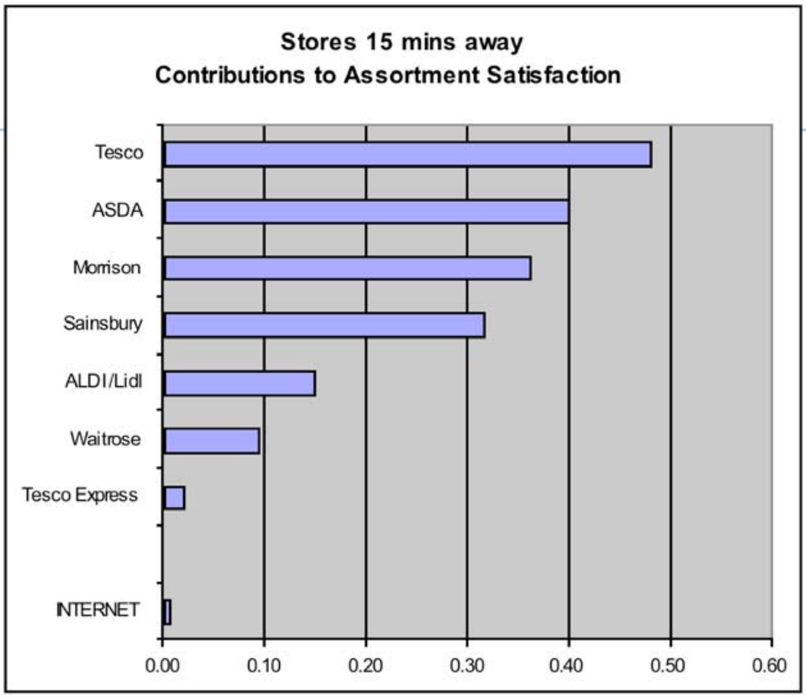

Figure 3 - Local Store Assortment – Combination Effects on Satisfaction