Identifying key factors affecting customer loyalty in a local retailing context

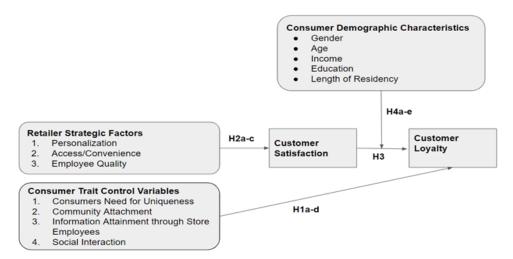Keywords: local retailing, localism, small business, loyalty

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The localism movement, which encourages consumers and businesses to purchase from locally-owned, independent businesses within 100 miles of their residence, has increased in popularity amongst consumers in the past five years (Ciuchta & O'Toole, 2018). Rather than shopping at big-box, chain retailers, consumers are choosing to shop at local, independent retailers in their community (Deloitte, 2016). Loyalty is an effective tool used by retailers to gain and retain customers. According to the customer loyalty theory, when a customer repeatedly buys from one retailer over another, then they are considered loyal to that store (Oliver, 1999). Based on prior research, there is strong evidence of customer satisfaction acting as a precursor of customer loyalty (Mittal & Kamakura, 2001; Martins Gonçalves & Sampaio, 2012). Although customer satisfaction is crucial to a local retailer, satisfaction alone cannot create repeat patronage to a business. Thus, customer loyalty is added to the conceptual framework to help explain why consumers shop local. The conceptual model is presented in Figure 1, depicting factors that act as drivers of customer loyalty to local retailers. In addition, consumer demographic characteristics are added as moderators to the study to better understand the relationship between customer satisfaction and customer loyalty.

Figure 1.

Conceptual model of customer loyalty to local retailers.

To test the conceptual model, an online questionnaire was used. The survey defined the term local retailer to participants as locally owned traditional "street-side" retail shop that is located in a building in your community. It is a small, independently owned retail business, usually in one location or a few locations (Kurland et al., 2013). This definition was used by participants to answer the remaining questionnaire measures. The questionnaire then tested the independent retailer and consumer factors, mediating variable of customer satisfaction, and the dependent variable of customer loyalty with measures adapted from previous studies. Finally, demographic questions were asked. Structural equation modeling (SEM) was used to test the hypotheses. A total of 350 participants were recruited for the study through Amazon MTurk. After data cleaning, 220 usable surveys remained. The age of the participants ranged from 18-75, with majority of participants being between 18-29 (46.82%), males (60%), with incomes between $25,000-$50,000 (36.4%) and $50,001-$75,000 (21.4%), a college graduate (43.6%) and living at their residency less than 10 years (52.27%) and 11-20 years (44.5%).

The structural model was estimated to test the hypothesized model. Personalization was found to be a suppressor variable and thus dropped from the model (see Maassen & Bakker, 2001). The results indicated an acceptable model fit ($\chi 2 = 417.81$, $df = 276$; $\chi2/df = 1.51$; CFI = 0.96; NNFI = 0.95; RMSEA = 0.05; SRMR = 0.06). Employee quality ($\beta = 0.46$, $p < 0.001$) positively influenced customer satisfaction whereas access/convenience did not. As hypothesized, customer satisfaction ($\beta = 0.13$, $p < 0.01$) positively influenced customer loyalty. A mediation analysis using a chi-sqaure difference test reveals that customer satisfaction fully mediates the effect of employee quality on customer loyalty.

Regarding the consumer trait control variables, community attachment ($\beta = 0.40$, $p < 0.001$) was the most powerful predictor of customer loyalty, followed by information attainment through store employees ($\beta = 0.32$, $p < 0.001$) and social interaction ($\beta = 0.17$, $p < 0.05$), respectfully. Consumer need for uniqueness was not significant. With respect to the moderating influences of the consumer demographic characteristics, multiple regression analysis was conducted with five interaction terms as independent variables against consumer loyalty. Age ($\beta = 0.15$, $p < 0.05$), education ($\beta = 0.19$, $p < 0.01$), and length of residence ($\beta = 0.27$, $p < 0.001$) strengthened the effect of customer satisfaction on customer loyalty.

In the context of local retailers, our study provided empirical evidence that there are multiple factors that contribute to customer loyalty for local retailers. For retailers, employee quality was found to lead to customer satisfaction and thus customer loyalty with the retailer. In the retail setting, employees play a vital role in providing customers with a superior customer experience during their shopping trip. Employees are the frontline personnel that interacts with the customers hands on by creating value and emotional bonds within the store (Bitner, 1992). Consumers will make a judgment and evaluate the service they have received with their

expectations of the retailer (Grönroos, 1984). It is essential that local retailers hire excellent employees which make them stand out from big box retailers.

For customers, the major indicators of customer loyalty were community attachment, information attainment through store employees and social interaction. These variables indicate evidence that customers are seeking out a relationship with the local retailers in their community. They are wanting to create a personal connection that they cannot find from online shopping and from large big-box stores due to their sheer size. Local retailers should be aware of these factors that create loyalty, and highlight these factors in their marketing efforts to try and reach community members on a more intimate, social level. Finally, for the consumer demographic characteristics, age, education and length of residence acted as moderators between customer satisfaction and customer loyalty. These findings imply that older and highly educated consumers who are long-term residents in a community tend to be more loyal to its local retailers if they are satisfied with them.

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