

The Future of Organic Retailing Stores: A Customer Satisfaction Survey



Outline

- Introduction
- Survey design
- Results
- Conclusions



Introduction

- The structure of the German organic market is different from that of other countries
- In Germany exists a separate marketing channel for organic food → specialized organic shops
- Organic shops are the major players today (26 % of organic food sales were generated in organic shops)
- Increasing competition in organic market:
 - Conventional supermarkets have improved their organic range
 - German discounters have entered the market
 - Organic supermarkets have gained relevant market shares

Marketing channels for organic food in Germany 2004



Specialized organic shops

- Organic shops
- Organic supermarkets
- Health shops

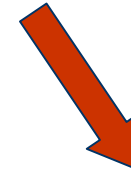
~ 35 %



Conventional retailer

- Hypermarkets
- Discounter
- Supermarkets
- Regional chains
- Drugstores

~ 40 %



Direct Farming/ Bakery/Butcher

- Direct Farming
- Farmers (weekly) markets
- Butcher
- Bakeries
- Food delivery services

~ 25 %

Source: Hamm

- ➔ All in all, the pressure on small retailers increases due to their structural cost disadvantages
- ➔ In this situation, the customer satisfaction becomes a more and more important factor to prevent switching behaviour

A Customer Satisfaction Survey – The study

- The study analyses the impact of customer satisfaction on the economic performance of small retailers in the organic market
- The study is based on 885 customer interviews and an analysis of management ratios of 11 food shops in different German cities
- The aim of the study:
 - evaluate the relationship between customer satisfaction and profit in organic food shops
 - determine the parameters which influence customer satisfaction

Survey design

- The questionnaire for customers:
 - contains 19 question blocks in which 68 items are considered
 - questions about the overall customer satisfaction, the usp, the respective store attributes (e.g. quality of products, service quality, location, shop atmosphere)
 - 5 point likert scale, ranging from -2 to +2
- Description of the customers:
 - average age: 45 years
 - gender: 78 % women
 - high income: 25 % have a net household income above 3000 € per month
 - very high educational level
 - household form: 33% families, 22% couples, 22% singles

Survey design

- The questionnaire for shops:
 - contains multiple questions about shop characteristics and data about marketing instruments used, location, competitive situation, assortment and the shop owner's attitude towards his profession
- Economic shop data:
 - 11 only specialized organic retailers (8 organic shops, 3 organic supermarkets)
 - only selling articles produced under the EU organic regulations
 - broad spectrum of differently sized shops and different locations
 - Success indicator: in our survey it was not possible to get sufficient data about profits and margins. Therefore we used the annual turnover per m² sales area.

Shop characteristics

Characteristic	Average of the enterprises	Minimum	Maximum
Sales area in m ²	203	50	600
Turnover in €	610,880	225,028	1,900,000
Gross margin	44 %	29 %	55 %
Expenditure on advertising in €	7,204	0	38,000
Staff (on a fulltime basis)	5	1.7	14

Source: own calculation

Customer satisfaction: conventional retail and specialised organic shops by comparison

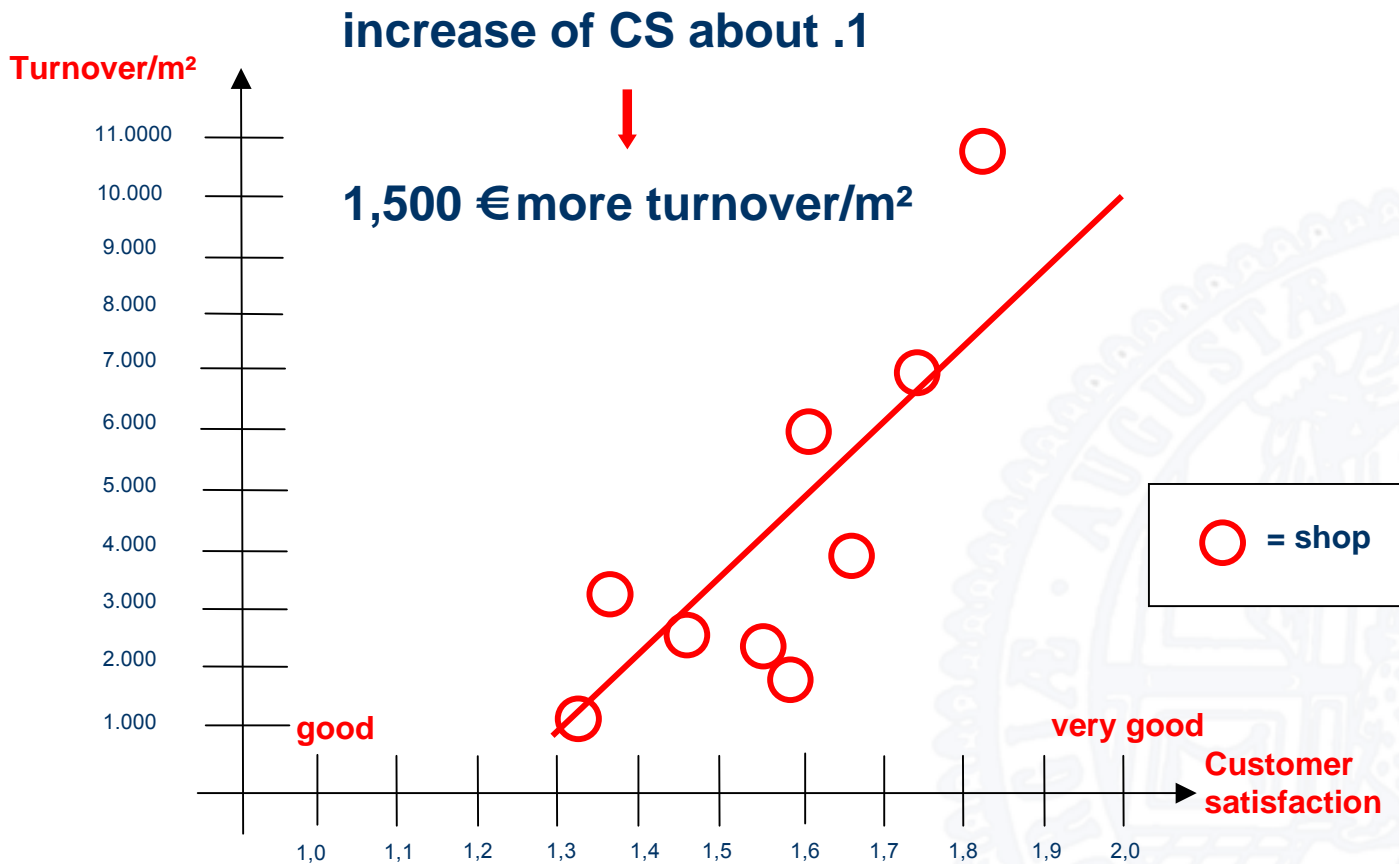


Source: GfK 2005, own study in specialised organic shops

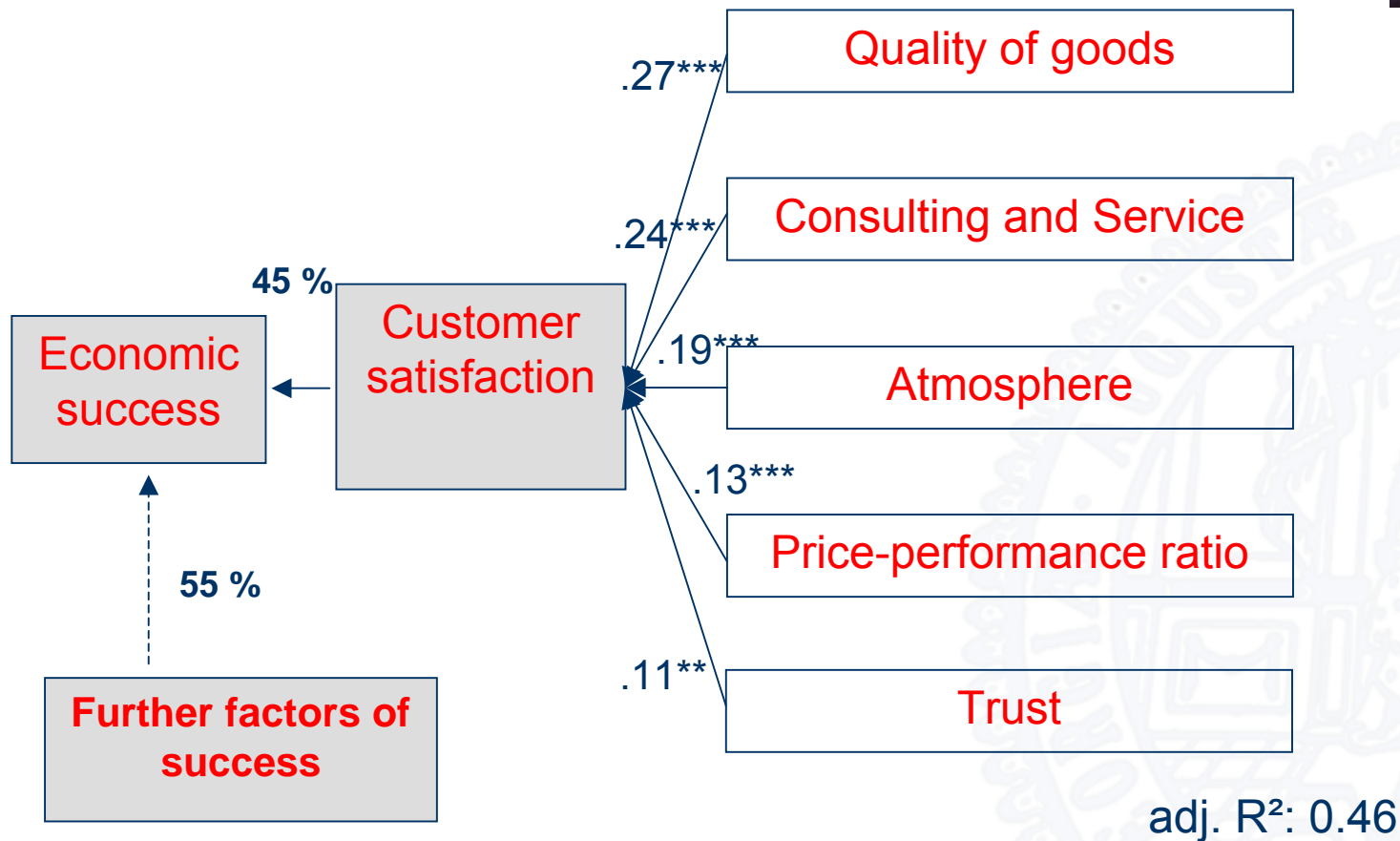
Characteristics of the shops with the lowest and highest CS

Variable	Mean	Shop with lowest customers satisfaction	Shop with highest customer satisfaction
Sales area in m ²	203	470	50
Turnover in €	610,880	513,407	544,363
Gross margin	42 %	-	40.5 %
Expenditure on advertising in €	7,205	2,500	2,413
Staff (full time)	5.04	5	3.5
Average spending per customer in €	12.44	13.50	6.50
Number of products	2,888	5,311	2,100

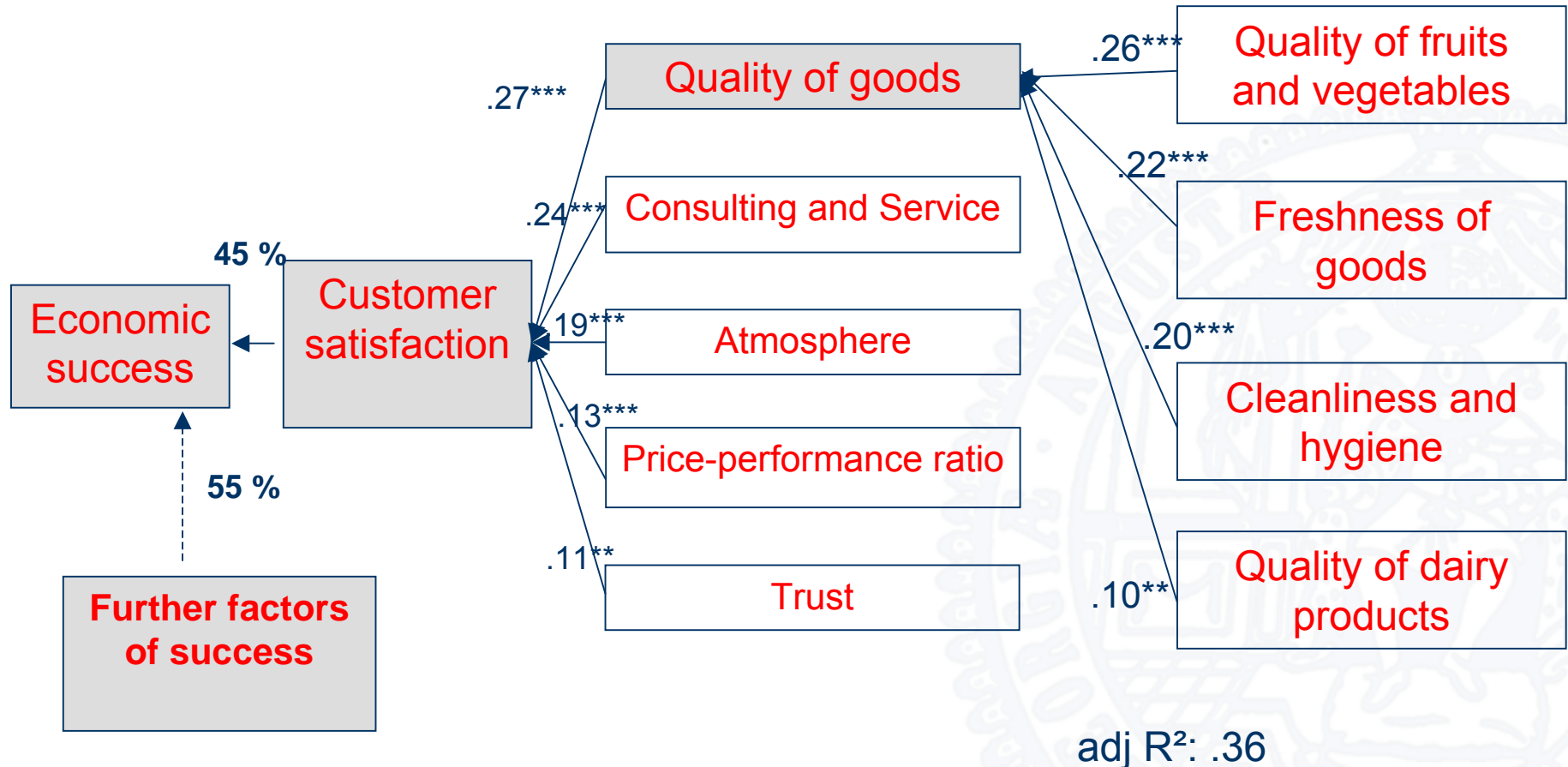
The impact of CS on shop profit



Regression model to explain customer satisfaction



Regression model to explain quality of goods



Summary

- Customer satisfaction (CS) is very high, but it varies between the different shops
- CS is not a question of size
- CS has a high impact on shop profit
- CS explains 45 % of annual sales per m² (which is much more higher than in conventional supermarkets)
- We could identify 5 dimensions of CS

Conclusions

- CS is very closely linked with economic performance especially for small and medium sized retailers
 - the organic retailers should manage the CS more professional
- The high relevance of consulting and service indicates, that psychological and emotional factors determine the buying decision
 - the personal atmosphere and a close contact with the customers is a chance for the small and medium sized retailers
- CS is a necessary but not a sufficient condition to prevent switching behaviour
 - creating customer loyalty by surprising the customers (customer enthusiasm)
- A customer oriented marketing strategy will help to get a higher economic success

Thank you for your attention

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Results – Regression model to explain the economic success

- CS explains 45 % of annual sales per m²

Independent Variables	Beta	t-Value
Customer satisfaction	.699	2,933**

N = 11; depending variable: Annual sales volume per m² sales area;
adj. R²: 0.432; F-Value: 8.604; ** p ≤ 0.017

Source: own survey

Results – Regression model to explain customer satisfaction

Independent Variables	Beta	t-Value
Quality of goods	.27	8.954***
Consulting and service	.24	6.998***
Atmosphere	.19	5.920***
Price-performance ratio	.13	4.259***
Trust	.11	3.286**

N = 885; depending variable: customer satisfaction; adj. R²: 0.46; F-Value: 133.11; *** p ≤ 0.001; ** p ≤ 0.01; * p ≤ 0.05

Source: Own Survey