FROM EXCLUSIVES TO BRANDLESS:

Exploring Loyalty to Grocery Store Brands versus Other Retail Store Categories

GREY MATTER RESEARCH & CONSULTING
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INTRODUCTION

Collectively, retailers spend billions of dollars each year trying to establish their brand in the hearts and minds of consumers. From establishing brand awareness, to building brand preference, to eventually achieving brand loyalty and even brand advocacy, retailers seek to separate their brand from the competition.

How successful are they?

The answer depends on the individual brand, of course, but much of the answer also depends on the retail category. The loyalty and preference Americans show to different retail store brands is much different for grocery stores than for the convenience store or clothing categories, for instance.

Most brand managers and executives at individual companies have at least some idea about customer loyalty to their particular brand, and some also know how their own brand's loyalty figures compare to those of direct competitors within their own category. But there is often relatively little "big picture" awareness across different retail categories.

Over the years, Grey Matter Research has had an opportunity to work with major brands across an array of categories: retailing, automotive, entertainment, sports, financial services, and many others. Working in so many categories, rather than focusing on just one, has led us to a variety of anecdotal and observational comparisons of brand loyalty across retail categories.

But, like true researchers, for us anecdotal and observational evidence simply serves as the basis for developing theories that we then try to prove or disprove through research. The result of our desire for knowledge is this brief report on how brand loyalty to grocery stores compares to other major retail categories.

STUDY BACKGROUND AND DETAILS

This study was privately developed, conducted, and funded by Grey Matter Research & Consulting. In the research, we compared Americans' self-reported brand loyalty and consideration in 12 different major retail categories:

- Grocery stores
- Department stores
- Convenience stores
- Christian or religious book stores
- General interest book stores
- Home improvement stores
- Pet product stores
- Drug stores
- Furniture stores
- Clothing stores
- Consumer electronics stores
- Shoe stores

We used the following question:

> *Think about the brand names of different types of stores where you might shop. For instance, there are nationwide brands of toy stores such as Toys R Us and KB Toys, as well as local brands with only one or two stores. For each type of store listed below, which statement best describes how you choose where you shop?*

We provided the toy store example in the question for a few reasons. First, consumers don't always think of stores as "brands" – they are sometimes more comfortable with the idea of a brand being an actual product (such as Crest or Aquafresh in toothpaste), or a manufacturer (such as Dodge or Subaru in vehicles). Second, we wanted to make sure they didn't just think of major national retailers as "brands," but included in their answer local retailers that may have a strong presence in their particular market. Third, we wanted to make sure respondents understood the question was asking about brands, and not store locations (e.g. a preference for shopping at KB Toys, not specifically the KB Toys store on 3rd and Main).

However, individual brands were not mentioned in relation to each category. In other words, the question did not ask about "grocery stores such as Safeway or Kroger," since using examples could have biased respondents based on their awareness of or reaction to those specific brands.

Unfortunately, it's impossible to include every retail category in a study such as this. Many consumers shop at more specialized retailers such as bakeries, swimming pool supply stores, hobby stores, greeting card stores, and nurseries, among many others. However, we attempted to include a broad spectrum of retail categories in which a majority of consumers shop at least occasionally.

This study was conducted among a representative sample of 1,007 American adults, through a demographically balanced pre-recruited online panel. The final sample was further weighted by age, geography, race/ethnicity, and household income, to assure a completely representative sample.

The margin of error for the total sample size is ±3.0 percentage points at a 95% confidence interval with a 50% response distribution.

Within the study, we first determined whether respondents were users of each retail category. It's important to note that "users" was not defined as "regular users" or "frequent users." Essentially, people who said they don't shop in a particular kind of retail outlet "at all" were eliminated from the brand loyalty measurement for that category. Some categories, such as grocery or drug stores, are likely to have many frequent users, while others, such as furniture or consumer electronic stores, are likely to see much less frequent use. But only the people who said they don't shop a particular category "at all" were excluded from that category's loyalty measurement.

This is important to remember, because all too often, repeat brand *use* is confused with actual brand *loyalty*. For instance, a consumer may stop at the same convenience store every morning for a cup of coffee, because it's the first such store she encounters on her way to work. This person has frequent *use* of that brand, and she may even be fully satisfied as a consumer. However, that doesn't mean she has any actual *loyalty* to that brand. She may not even be able to recall whether that particular store is a 7-Eleven, AM PM, or Circle K.

One poor experience with the product or service could drive her to another nearby convenience store. A competitor opening up even closer to her house could get her to switch brands. A great experience at a competitor store could do the same thing, as could something as simple as a change in her daily route to work. Our example consumer may be a regular user of the brand, but that doesn't mean she's brand loyal at all, or even has a particular preference for the brand she uses.

Because of the need to avoid confusing usage and loyalty, we did not include frequency of usage as part of the loyalty measurement. We simply asked people what is their general shopping preference for each retail category if they use that category at all, dividing category users into five unique groups:

THE EXCLUSIVES:

- Within a category, Exclusives have only one brand of store where they will consider shopping.
- Example: "When it comes to drug stores, I'll only shop at CVS."

THE FAVORITES:

- Within a category, Favorites have a favorite brand of store, but will also shop at others.
- Example: "I prefer to shop at CVS, but for various reasons sometimes I shop at Rite Aid or McClain's Drugs, a local store."

THE SELECTIVES:

- Within a category, Selectives have a small number of brands where they will consider shopping, with no particular favorite among those.
- Example: "I divide my drug store shopping among Walgreens, CVS, and Rite Aid. Where I go on any given trip depends on what items I need and who has a good sale."

THE AVOIDERS:

- Avoiders have certain brands of stores they avoid, but no particular brands they prefer.
- Example: "I don't really have a favorite drug store, but I will not shop at Walgreens. Anywhere but there."

THE BRANDLESS:

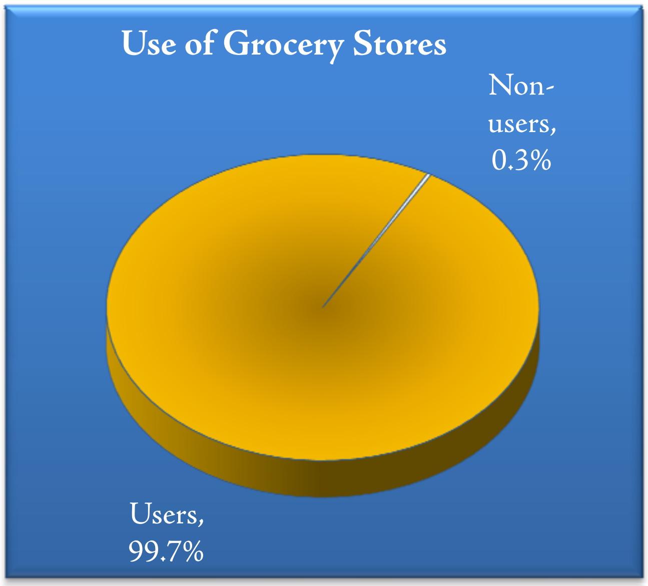
- True to their name, the Brandless don't really pay attention to the brand or name of the store when they shop within a particular category.
- Example: "I look at the ads and see what's on sale, then buy what I need wherever it's cheapest. I couldn't care less if I'm shopping at CVS, some local store, or anywhere else."

There are a couple of things to note about the terminology and definitions used in this report. First, we need to make it clear that in this report, a "store brand" means a brand of store; it is not any reference to a private label brand sold only in one store chain.

Second, keep in mind that the questionnaire was asking people about *brands*, not about *individual stores*. In other words, an Exclusive in the home improvement category might have told us he would only shop at Home Depot when shopping in home improvement stores, not that he would only shop at the particular Home Depot located at 5th and Elm.

THE GROCERY STORE CATEGORY

The first thing we learned is that less than 1% of all Americans said they are complete and total non-users of this category. Out of the 12 different retail categories included in this study, grocery stores were the most likely to be used. Drug stores, department stores, and clothing stores (98% each) were close to the same proportion of use as grocery stores.



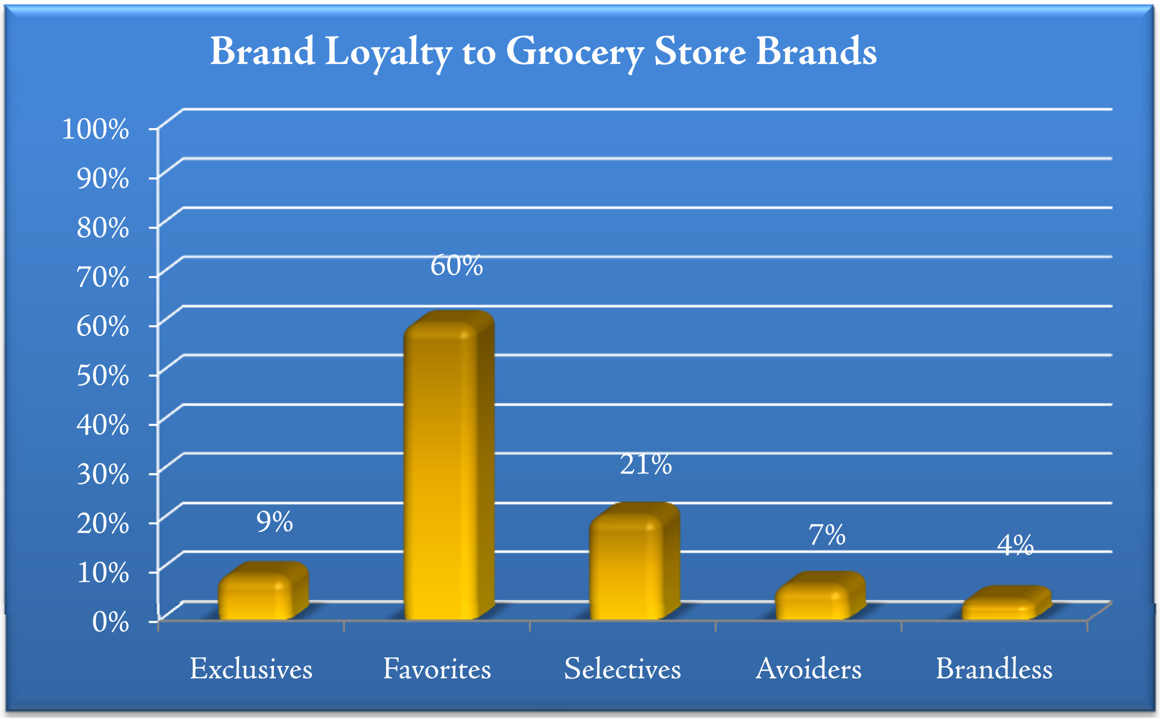
At first glance, the usage numbers may seem surprisingly high. But remember that this does not mean almost all Americans shop in grocery stores on a regular basis, such as weekly or monthly. What it means is that almost all Americans either do shop there, have shopped there, or feel they may shop there in the future; therefore, they are unwilling to call themselves complete non-users of this category. This figure is not at all comparable to other studies that report frequency of use of the category.

Among users of the grocery store category (both frequent and infrequent), there was strong loyalty to individual store brands. Nine percent of all category users qualified as Exclusives, meaning they have one and only one brand of grocery store where they will shop. Another 60% said they do have a favorite store brand, but they are willing to shop at other brands. This means nearly seven out of ten category users (69%) could identify one favorite store brand within this category.

Twenty-one percent were Selectives – they have a small group of brands where they will shop, but no particular favorite. Seven percent were Avoiders, meaning while they have no particular favorite grocery store brand, there is at least one they avoid using.

Finally, 4% of category users were truly Brandless. If they need something from a grocery store, they feel equally likely to walk into Safeway, Tom Thumb, Albertsons, H-E-B, or any other brand within the category. They simply do not pay attention to the brand at all when it comes to grocery stores.

Loyalty to different grocery store brands showed relatively few demographic differences. One small difference was by gender. Seventy-two percent of all female category users could identify one particular brand of grocery store that is their favorite (as either Exclusives or Favorites), compared to 64% of men.



Exclusives: will only shop in one store brand. **Favorites:** have a favorite brand, but will shop others. **Selectives:** have a small number of brands they will shop, with no particular favorite. **Avoiders:** no favorite, but certain brands they avoid. **Brandless:** don't pay attention to brands when choosing where to shop in this category.

Another small difference was by age. Category users under age 35 were less likely than others to be Exclusives, while respondents age 55 and over were more likely than others to be able to name a favorite grocery store brand. Only 5% of respondents under age 35 were Exclusives, compared to 10% among people 35 and older. Seventy-five percent of the respondents 55 and older were either Exclusives or Favorites, compared to 64% of younger shoppers.

However, that was about it. Loyalty to grocery store brands did not differ at all based on household income, race/ethnicity, type of community (urban, suburban, small town, or rural) or region of the county. Even the differences based on age and gender were relatively small.

Projected onto the entire U.S. adult population, there are approximately 19,447,000 Americans who at least occasionally shop at grocery stores and are completely loyal to one brand – they won't shop anywhere else. Another 135,226,000 do have a preferred store brand, but will shop at others. There are also 48,166,000 Selectives, with 15,377,000 Avoiders, and 8,819,000 who are truly Brandless – they'll shop at any grocery store without selecting based on the brand. Again, these figures do not cover only regular or frequent grocery store shoppers, but people who do not say they are complete non-users of this category.

COMPARISON WITH OTHER CATEGORIES

Brand loyalty to grocery stores was easily the highest for any of the 12 retail categories included in this study. Sixty-nine percent of category users were able to identify one favorite store brand within this category.

Only two other categories had even a majority who were able to identify one favorite brand: home improvement stores (56%) and drug stores (55%).

Next in line were pet product stores (47% had a favorite brand), consumer electronics stores (45%), clothing stores (43%), department stores (41%), and general interest book stores (41%).

Toward the bottom were Christian/religious book stores (38%), shoe stores (36%), convenience stores (34%), and furniture stores (28%).

Very few consumers were Exclusives within any of these retail categories; grocery stores, at 9%, were at the top, along with pet product stores (9%) and drug stores (7%).

On the negative side, 11% of grocery store users could not identify even a small set of preferred brands – they were either Brandless or Avoiders. This was easily the lowest proportion for any category; only home improvement stores (16%), drug stores (17%), clothing stores (20%), and department stores (20%) were close.

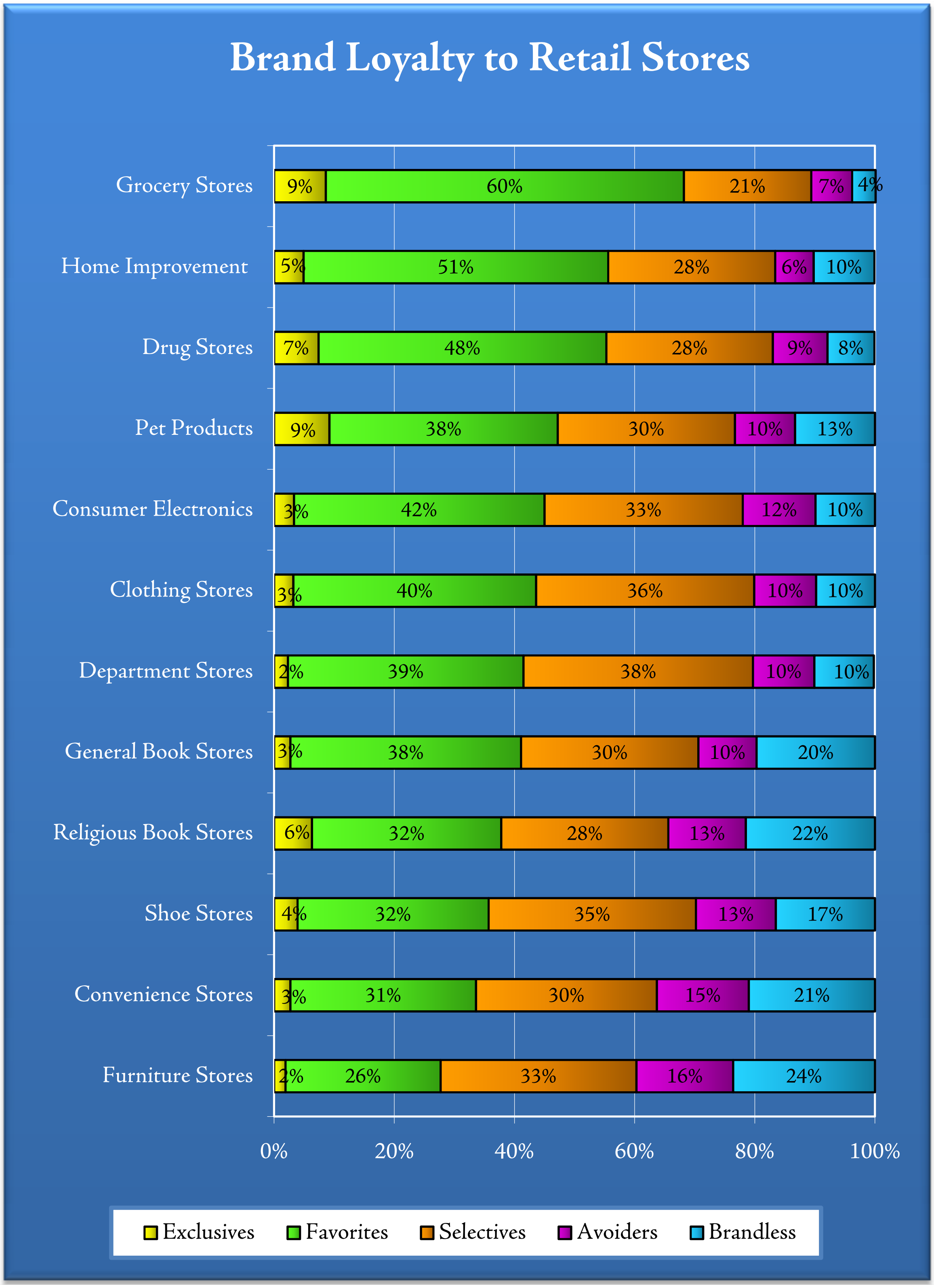
One additional step we took in this study was to compare grocery stores directly with convenience stores and drug stores. While obviously these are three different retail categories, there is considerable merchandise crossover among the three categories. Consumers who go to Publix for pain reliever, a six pack of soda, and a bag of chips can just as easily accomplish the same thing at Walgreens or 7-Eleven.

Among users of both grocery stores and drug stores (which included most Americans), 62% had the same level of brand loyalty in both categories. For instance, they were Brandless in both, Selectives in both, etc. Breaking it down further, we find that 3% were Exclusives in both grocery stores and drug stores, while 38% were Favorites in both, 13% were Selectives in both, 4% were Avoiders in both, and 3% were Brandless in both.

However, 27% had stronger levels of loyalty to grocery store brands than to drug store brands, while only 11% had stronger levels of loyalty to drug store brands than to grocery store brands. Whether examined by comparing the numbers for both categories among all Americans, or by directly comparing users of both categories, grocery stores in general have done a better job of creating brand loyalty than have drug stores.

A comparison of grocery stores and convenience stores shows an even greater gap. Among users of both categories (89% of all Americans), just 45% had the same level of brand loyalty in both categories.

Looking deeper, 2% were Exclusives in both categories, 23% were Favorites in both, 12% were Selectives in both, 5% were Avoiders in both, and 3% were Brandless in both. Just 6% had a higher degree of loyalty when it came to convenience stores, while 50% had a stronger level of loyalty to grocery store brands than to convenience store brands. To demonstrate just how much difference exists between these two categories, note that 19% of the consumers who could name a favorite grocery store brand were either Avoiders or Brandless when it came to convenience stores.


Brand Loyalty to Retail Stores
Grocery Stores
Home Improvement
Drug Stores
Pet Products
Consumer Electronics
Clothing Stores
Department Stores
General Book Stores
Religious Book Stores
Shoe Stores
Convenience Stores
Furniture Stores
9% 60% 21% 7% 4%
5% 51% 28% 6% 10%
7% 48% 28% 9% 8%
9% 38% 30% 10% 13%
3% 42% 33% 12% 10%
3% 40% 36% 10% 10%
2% 39% 38% 10% 10%
3% 38% 30% 10% 20%
6% 32% 28% 13% 22%
4% 32% 35% 13% 17%
3% 31% 30% 15% 21%
2% 26% 33% 16% 24%
0% 20% 40% 60% 80% 100%
Exclusives
Favorites
Selectives
Avoiders
Brandless

BRAND LOYALTY AMONG CONSUMERS

Brand loyalty can vary widely from brand to brand and from category to category, but there are some common traits we can evaluate through this research. Although this study does not encompass every possible retail category, it does cover 12 different categories that are commonly used by American consumers.

To test across categories, Grey Matter Research used a regression model that evaluated a total of 10,801 observations across the 12 retail categories.

When we look beyond the findings for individual retail categories and search for common themes about brand loyalty to retail categories among U.S. consumers, one of the most notable findings is that there are few notable findings.

What we mean is that when brand loyalty is viewed across all 12 retail categories (among users of each category), there are not strong differences in levels of loyalty according to things such as age, gender, household income, race/ethnicity, marital status, or geography.

For years, marketers have been looking for some sort of "Holy Grail" of loyalty. They've tried to find a particular type of person who has a high propensity for brand loyalty. Consultants who specialize in reaching certain segments of the population often like to tout how, if you just spend money reaching the segment they specialize in, that segment will be especially loyal (or how, since the segment they specialize in is rarely loyal to brands, you need their help to reach that segment effectively). You've probably heard generalizations such as, "Older consumers tend to be very brand loyal, while younger consumers have little loyalty." Or maybe, "Latino consumers form much stronger loyalties to brands than do other types of consumers."

Unfortunately, at least when it comes to these 12 retail categories, there was very little differentiation in brand loyalty likelihood among various demographic segments. Actually, there was *no* overall tendency to be more loyal or less loyal to store brands according to either age or race/ethnicity. And while there were differences according to gender, household income, region of the country, and education, these differences were relatively small.

In the regression model, the dependent variable (or outcome variable) in this case is ordered categories. An Exclusive in the grocery store category, for example, was given the highest possible score (5), while a Brandless grocery store shopper was given the lowest possible score (1). This same process was used to create the dependent variable, from all respondents across all of the tested retail categories. An ordered logit model was used to predict the outcome of the dependent variable (level of loyalty) given the range of independent variables (e.g. demographics, geography) in the model. In addition to the independent variables, each of the tested retail categories was controlled for in the model.

This type of regression analysis allows for the prediction of probabilities, meaning the chances of someone exhibiting greater levels of brand loyalty across categories, based on the independent variables in the model. Of all the independent variables, five were found to be statistically significant. They were gender, educational attainment, household income, geographic region, and whether the respondent regularly attends religious worship services.

Everything else equal, women were slightly more likely to be brand loyal than were men. Individuals with lower levels of education were more likely to be brand loyal than were people with higher levels of education. People with higher household incomes were more likely to be brand loyal than were those with lower household incomes. And respondents living in the Northeast and South were more likely to be brand loyal than were residents of the West or Midwest.

The following table captures the probability that a respondent will be an Exclusive or a Favorite across the 12 retail categories, when all other independent variables are held constant at their respective means or medians.

Cross-category Brand Loyalty			
Variable	**Chances of Being Exclusives/Favorites**		**Net Difference**
Gender	**Women** **46%**	**Men** **41%**	**5 points or 12%**
Education	**No High School Degree** **38%**	**Graduate Degree** **43%**	**5 points or 13%**
Household Income	**Under $20K** **45%**	**More than $149K** **39%**	**6 points or 15%**
Region	**Northeast Region** **49%**	**Non-Northeast Region** **41%**	**8 points or 20%**
Region	**Southern Region** **45%**	**Non-Southern Region** **41%**	**4 points or 10%**
Worship Services	**Attends Services** **41%**	**Does Not Attend Services** **37%**	**4 points or 11%**

The data shows there are differences. But it also shows that these differences are relatively minor. For instance, women are 12% more likely than men to show loyalty to brands within these 12 tested categories. That is a statistically significant figure, but probably not enough of a difference on a practical level to make a dramatic change in most companies' branding plans.

The data is *not* suggesting that if an individual brand makes a targeted, concerted effort to reach a particular population segment that this effort will not be rewarded with greater brand loyalty. The branding process is full of anecdotal evidence that a determined effort to reach and speak relevantly to a particular population segment is often rewarded. The study is also not saying that there are no demographic differences in loyalty toward individual brands.

What the data *is* saying is that there are no demographic segments of the population that already tend toward dramatically greater levels of loyalty regardless of the retail category or brand. This study helps explode the myth that older adults are naturally more brand loyal than younger adults, or that certain racial or ethnic groups tend towards greater levels of brand loyalty in general, or that higher-income consumers have very different levels of brand loyalty in general than do lower-income consumers – at least when it comes to retail categories.

There are a few demographic differences when we examine the big picture, but these differences are modest and have a relatively soft impact on the likelihood of brand loyalty within individual retail categories. In essence, if younger adults or African-Americans or any other demographic group is highly loyal to your brand, it's not because of their natural tendency toward brand loyalty – it's because of their connection to your brand specifically.

For grocery store brands specifically, this says a couple of things. First, the lack of substantial demographic differences shown for grocery stores is not unique to this category, but is common across the different categories tested in this study.

Also, the difference in loyalty levels that existed for grocery stores by age, although small, is relatively unique to grocery stores – it is not just a trait that is common across different retail categories. However, the small difference that could be seen by gender is not specifically related to grocery stores, but is something that tends to exist for other categories, as well.

The second thing this regression model does is confirm that there are not that many individuals who are "brand loyal" or "not brand loyal" overall – loyalty depends largely on specific store brands, as well as on particular retail categories. It was not at all uncommon for a specific consumer to be an Avoider on drug stores, an Exclusive on book stores, a Favorite on grocery stores, and a total non-user on pet product stores, for example. Because someone has a high level of brand loyalty to CVS, Home Depot, and Barnes & Noble (for instance) does not mean they'll necessarily have any loyalty whatsoever to Kroger.

ALL ABOUT GREY MATTER

Since 1996, Grey Matter Research & Consulting has been conducting both qualitative and quantitative research for a wide variety of clients, including numerous Fortune 500 companies. Our clients are highly diverse and our work is very broad-based, with experience in retail, financial services, grocery, publishing, automotive, health services, and a number of other sectors.

CLIENTS WE HAVE SERVED INCLUDE:

- General Motors
- Macy's Department Stores
- Coca-Cola
- LifeWay Christian Stores
- Suzuki
- BMW
- American Red Cross
- Dove Chocolates
- World Vision
- Goodwill
- Hancock Bank
- Electronic Retailing Association
- Navistar
- Alzheimer's Association
- Pulte Homes
- Audi
- Basha's Supermarkets

Results from these studies have been covered in the international media, such as *USA Today*, *The Financial Times of London*, Associated Press, MSNBC, *Los Angeles Times*, USA Radio Network, *Dallas Morning News*, Salem Radio Network, *Manila Times*, and many other outlets in the USA, China, England, Canada, Russia, New Zealand, Norway, Korea, Sweden, Hungary, the Philippines, Australia, and other parts of the world.

Grey Matter Research is available to serve clients through privately commissioned research studies such as brand awareness, customer satisfaction, concept testing, and customer loyalty.

More information on the company is available at www.greymatterresearch.com.