

FROM EXCLUSIVES TO BRANDLESS:

*Exploring Loyalty to Home
Improvement Brands versus
Other Retail Store Categories*

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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 home improvement stores than for the convenience store or clothing store 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, anecdotal and observational evidence for us simply serves as the basis for developing theories 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 home improvement 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:

- Home improvement stores
- Furniture stores
- Grocery stores
- Drug stores
- Convenience stores
- Department stores
- Clothing stores
- Consumer electronics stores
- Shoe stores
- General interest book stores
- Christian or religious book stores
- Pet product 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 Toyota or Ford 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 Toys R Us, not specifically the Toys R Us 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 "home improvement stores such as Lowe's or Home Depot," since using examples could have biased respondents based on their awareness of or reaction to those specific brands.

This does mean it's possible that not all consumers are on the exact same page in their definitions. Some brands (such as Menards, Home Depot, and Lowe's) are commonly called "home improvement stores." Other major retailers of home improvement products (e.g. Wal-

Mart and Sears) have a much broader product line, carrying clothes and toys in addition to home improvement items. Then there are the holdovers from the “hardware store” era, “building supply” stores, “lumber stores,” etc. It would be much more convenient to have every type of retail store clearly fall into a specific category, but this is obviously not the case in the real world. We left it to the consumers to fill each category mentally with the types of stores they frequent or of which they are aware.

It’s also 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 book store category might have told us he would only shop at Barnes & Noble when shopping in book stores, not that he would only shop at the particular Barnes & Noble located at 5th and Elm.

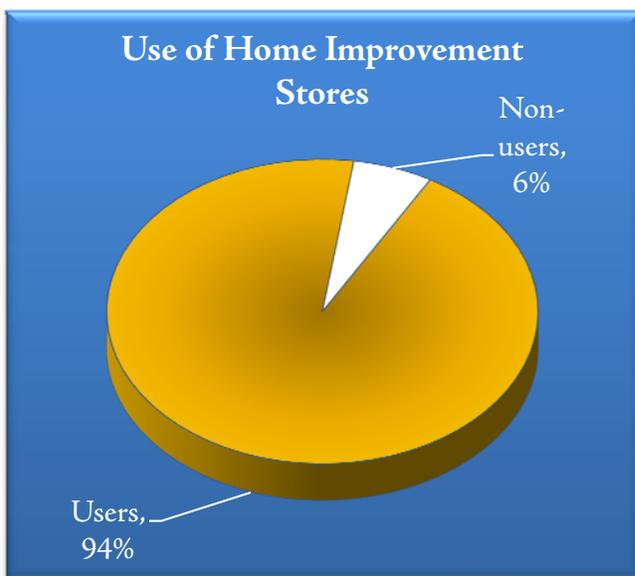


THE HOME IMPROVEMENT CATEGORY

The first thing we learned is that only 6% 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, only grocery, drug, clothing, and department stores were more likely to be used, while consumer electronics stores and shoe stores were about equal in usage to home improvement stores.

Although the proportion of non-users is small, there were a couple of demographic differences. The older the respondent, the more likely they were to be a category user. Ten percent of Americans under age 35 were total non-users of the category, compared to 6% in the 35 – 54 category, and 4% of those 55 or older. Income also played a part, with 10% of

Americans with household incomes under \$40,000 saying they do not shop at home improvement stores at all (compared to 4% and 2%, respectively, in the mid- and high-income categories). Both of these are most likely related to the lower presence of home ownership among younger and lower-income Americans.



At first glance, the usage numbers may seem surprisingly high. But remember that this does not mean almost all Americans shop in home improvement 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 home improvement category (both frequent and infrequent), there was strong loyalty to individual store brands. Five percent of all category users qualified as Exclusives, meaning they have one and only one brand of home improvement store where they will shop. Another 51% said they do have a favorite store brand, but they are willing to shop at other brands. This means nearly six out of ten category users (56%) could identify one favorite store brand within this category.

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

Finally, 10% of category users were truly Brandless. If they need something from a home improvement store, they feel equally likely to walk into Menards, Lowe's, or any other brand within the category. They simply do not pay attention to the brand at all when it comes to home improvement stores.

Loyalty to different home improvement store brands showed almost no demographic differences. Although home improvement is often portrayed as a man's world, 58% of all female category users could identify one particular brand of home improvement store that is their favorite (as either Exclusives or Favorites), compared to 54% of men.

The study also found that unmarried individuals were twice as likely to be Brandless in this category as were those with a spouse (15% to 7%). In addition, residents of urban areas were more likely to be either Avoiders or Brandless (unable to identify even a small group of brands they prefer) than were other Americans. Twenty-three percent of urban residents were Avoiders or Brandless, compared to 16% in suburban areas, and 14% in small towns or rural areas.



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 difference that doesn't have any clear explanation is that loyalty varied by political viewpoint. Among people who consider themselves to be politically liberal, 17% were truly Brandless when it came to home improvement stores. This is compared to 6% of moderates, and 9% of conservatives. Political liberals were also slightly less likely to be category users at all.

However, that was about it. Loyalty to home improvement store brands did not differ significantly based on household income, race/ethnicity, gender, age, or region of the county.

Projected onto the entire U.S. adult population, there are approximately 10,628,000 Americans who at least occasionally shop at home improvement stores and are completely loyal to one brand – they won't shop anywhere else. Another 108,543,000 do have a preferred store brand, but will shop at others. There are also 59,472,000 Selectives, with 13,794,000 Avoiders, and 21,709,000 who are truly Brandless – they'll shop at any home improvement store without selecting based on the brand. Again, these figures do not cover only regular or frequent category users, but people who do not say they are complete non-users of this category.



COMPARING HOME IMPROVEMENT WITH OTHER RETAIL CATEGORIES

Brand loyalty to home improvement stores was among the highest of the 12 retail categories included in this study. Fifty-six 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: grocery stores (69%) and drug stores (55%).

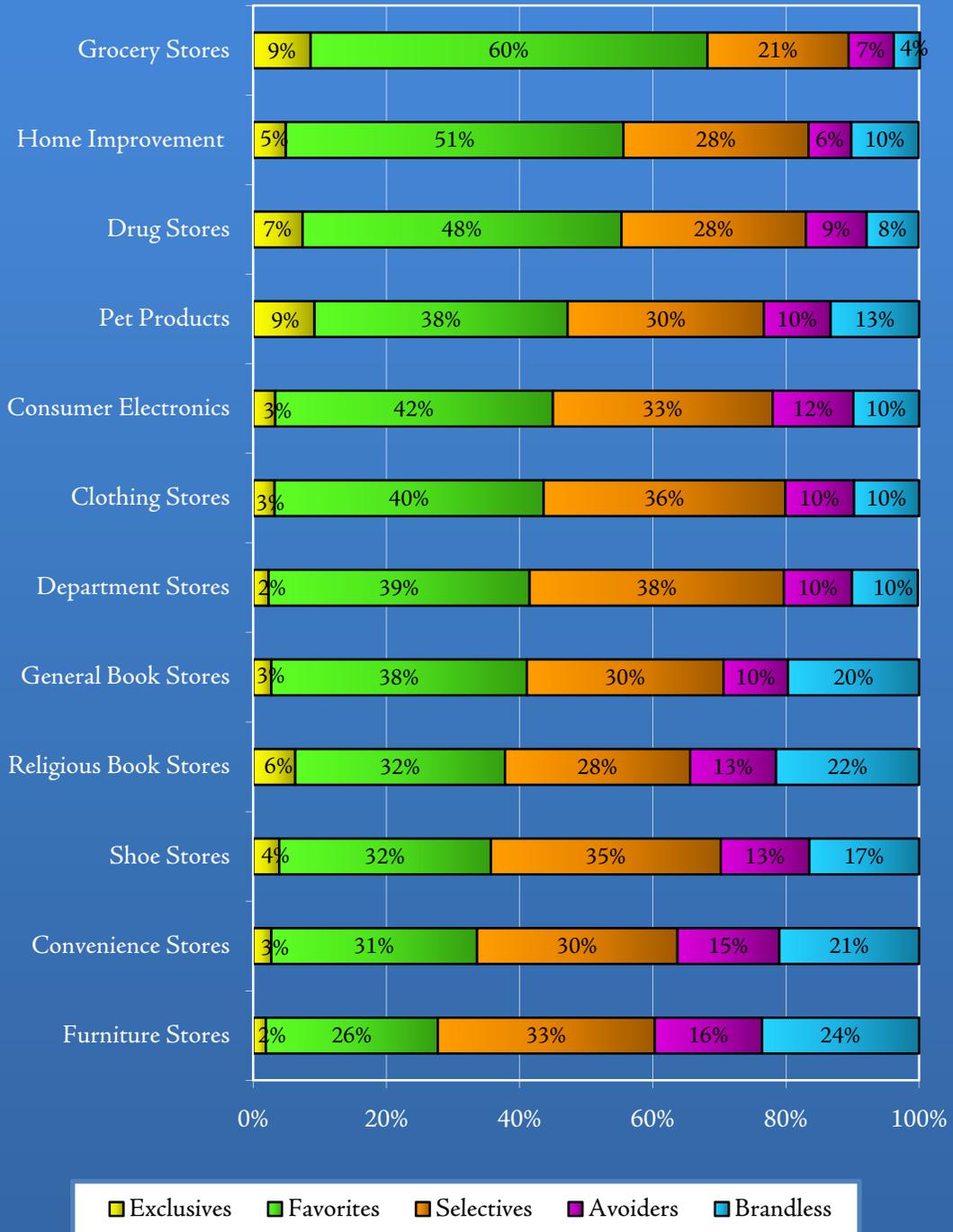
Next in line were pet product stores (47% had a favorite brand), consumer electronics stores (45%), clothing stores (43%), department stores (41%), and general interest book stores (41%).

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; pet product stores and grocery stores, each at 9%, were at the top. Home improvement stores, at 5% Exclusive users, fell into the same second-tier grouping as drug stores (7%), religious book stores (6%), and shoe stores (4%).

On the negative side, 16% of home improvement store users could not identify even a small set of preferred brands – they were either Brandless or Avoiders. This was not as low as grocery stores (11%), but it was among the lowest in the study along with drug stores (17%), clothing stores (20%), and department stores (20%). Other retail categories had up to 40% who couldn't identify even a small set of preferred brands.

Brand Loyalty to Retail Stores





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 Home Depot, it's not because of their natural tendency toward brand loyalty – it's because of their connection to that brand specifically.

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

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 home improvement 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, Kroger, and Barnes & Noble (for instance) does not mean they'll necessarily have any loyalty whatsoever to Home Depot.



ALL ABOUT GREY MATTER

Since 1996, Grey Matter Research & Consulting (formerly Ellison Research) has been conducting both qualitative and quantitative research for a wide variety of clients, including numerous Fortune 500 companies, directly and in partnership with their marketing or branding agencies. 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:

- PetSmart
- Pulte Homes
- Macy's Department Stores
- Coca-Cola
- General Motors
- Electronic Retailing Association
- BMW
- Fairmont Hotels & Resorts
- American Red Cross
- LifeWay Christian Stores
- Dove Chocolates
- Chrysler Corporation
- Design Forum/Interbrand
- Herman Miller
- Caremark
- Reddy Ice
- Goodwill Industries
- Suzuki
- Basha's Supermarkets
- Samsung Electronics
- Audi
- General Mills

We have also conducted numerous studies at our own expense to understand the American consumer mindset more thoroughly (including this one).

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.