

# Customer satisfaction and retention in online grocery services: Avoid customer churn and retain already satisfied customers

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## **Customer satisfaction and retention in online grocery services: Avoid customer churn and retain already satisfied customers**

### **Abstract:**

The online grocery retail (eGrocery) in Germany accounts for a small proportion of the overall grocery retail market segment. Convincing customers of the benefits of online grocery retail is essential in order to grow and survive in this promising growth market. Due to the cost structures in online retail, a high repurchase rate is necessary. A high level of customer satisfaction is generally seen as prerequisite for customer loyalty.

However, our empirical study amongst online grocery customers ( $n > 800$ ) has shown that although customers are very satisfied with the services of online grocery retailers, many of these satisfied customers migrate back to brick-and-mortar grocery retailers before the critical break-even point, although their fears and negative pre-assumptions do not materialize (e.g. regarding poorer quality or higher prices). To better understand the root-causes of this satisfaction paradox, expert interviews have been conducted to understand the underlying drivers, derive broader understanding of the theoretical concepts of customer satisfaction in eGrocery and derive managerial advice.

*Keywords: Customer satisfaction, customer loyalty, customer retention, online grocery retailing; paradox of satisfaction; customer behaviour, delivery service, eGrocery*

## 1. Introduction: Online grocery retail: a growth market with obstacles?

The online grocery market in Germany grew strongly in 2020 and 2021 due to the coronavirus pandemic and stagnated at the same level in the post-coronavirus period (sales of around €4 billion in 2022) (behv, 2023). In relation to the overall food retail market, the online variant has a sales share of approx. 3 per cent. This corresponds to around 5.3 million people buying food online in Germany in 2023 (IFD Allensbach, 2023). Various experts see potential for growth in the share of sales to between 8 and 17 per cent of the total market by 2030, as also seen in other countries like UK or France (Grunwald et al., 2022, p. 24). To achieve profitable growth, new customers must be acquired on the one hand, and the existing customer base has to be retained.

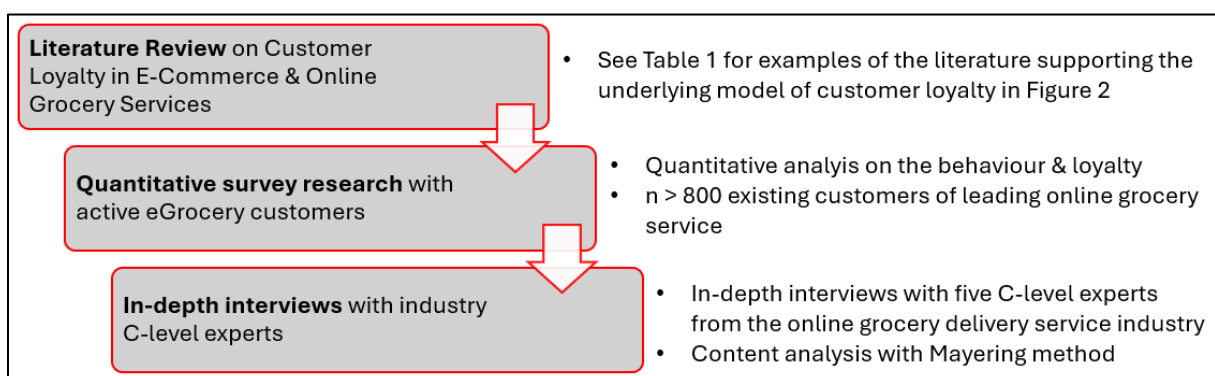
As customers in online grocery retail become profitable on average from the 3rd or 4th purchase at the earliest due to the cost structure (own survey - expert interviews), it is imperative to develop satisfied and loyal repeat customers in order to amortise the high costs of acquiring new customers over time. The provider Gorillas, for example, generated a loss of €5.30 per order in summer 2022 (Cadenbach & Dodt, 2022). An minimum order value of around €30 would be necessary to cover costs per purchase (Grunwald et al., 2022, p. 40).

## 2. Research approach and methodology

The applied research methodology consists of a three-step mixed-methods approach:

(1) literature review on customer loyalty in e-commerce and customer behaviour in online grocery services, (2) empirical study with  $n > 800$  customers of a leading online grocery services and (3) qualitative in-depth interviews with industry C-level experts to derive recommendations for action. For the analysis of the interviews a structured coding process based on Mayring was used (Mayring, 2022). Objective of this research is to contribute to knowledge and practice.

*Figure 1: Research methodology*



### 3. Customer satisfaction as key factor for customer retention?

Numerous empirical studies have shown that satisfaction has a positive influence on customer retention (e.g. Juhl et al., 2002; Yeung et al., 2013). "Particularly in industries characterized by relatively low barriers to switching, customer satisfaction has so far been attributed a particularly high degree of importance for long-term customer loyalty and brand loyalty" (Meffert et al., 2023, p. 117).

In surveys on customer satisfaction in online grocery retail, many customers were satisfied (Bitkom, 2019 and expert interviews). The question naturally arises as to whether customer satisfaction is sufficient as an influencing factor for customer loyalty and repurchase (see Homburg & Faßnacht, 1998 at this context in general).

Further sources of literature review covering critical relationships along the topic are structured within the following table:

*Table 1: Literature review: overview of important sources*

Research field	Important sources (selection)
<b>Customer satisfaction, customer loyalty and their relationship</b>	Blut, 2008; Dick & Basu, 1994; Diller, 2013; Homburg & Faßnacht, 1998, 1998; Juhl et al., 2002; Rapp, 1995; Yeung et al., 2013; Yokoyama et al., 2022
<b>Customer loyalty in E-Commerce</b>	Blömeke et al., 2013a; Chiou & Pan, 2009; Fleer, 2016; Gronover & Ebel, 2023; Simanjuntak & Mayasari, 2023
<b>Customer behaviour in E-Grocery</b>	Björge et al., 2021; Blömeke et al., 2013b; Cadenbach & Dodt, 2022; Grunwald et al., 2022; Kitzmann, 2022; Mkansi & Nsakanda, 2021; Srinivasan et al., 2002; Yokoyama et al., 2022

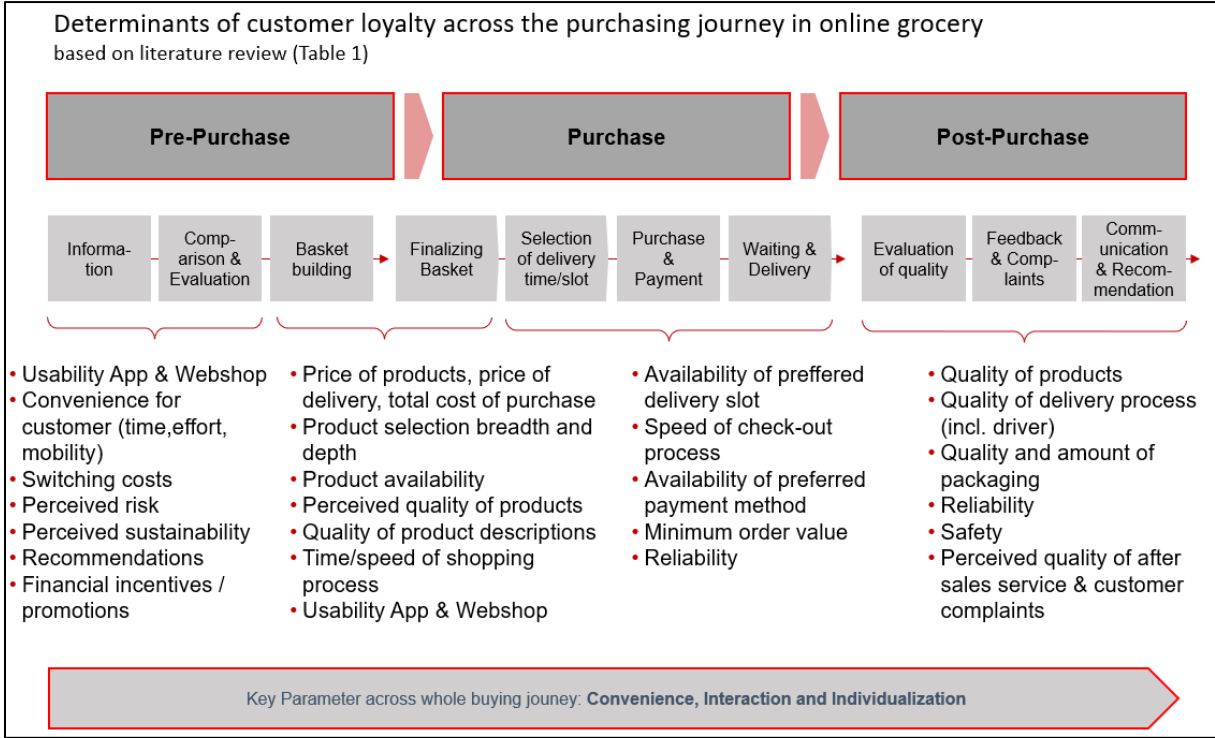
Customer satisfaction is considered an important factor influencing repurchase behaviour. Yokoyama et al (2022) investigated the development of customer satisfaction in food retail in a study conducted in 2022. They found that price, service and convenience are the key influencing factors. These parameters can also be found in Fleer et al, (2016) which also includes other parameters such as the amount of information available. Aspects such as visual design of the information, findability of the products or payment processing have a lower influence. The following additional components were named as parameters for customer satisfaction specifically for online shops: interaction, personalization, availability of the products, community, selection of products, fast order processing and customer service (cf. Blömeke et al., 2013; Srinivasan et al., 2002).

In online grocery retail, the fulfilment of high-quality expectations is particularly important, as there is a high "perceived risk" by the customer, especially at the beginning for the first purchase. The issue of sustainability in terms of sustainable packaging and delivery is also playing an increasingly important role for customers (Statista Consumer Insights, 2024). Aspects of customer satisfaction for services (see SERVQUAL grid) such as response times,

responsiveness of the e-commerce solution, reliability, etc. must also be taken into account (Simanjuntak & Mayasari, 2023).

Figure 2 shows a summary of the determinants of customer loyalty across the purchasing journey in online grocery, derived from the literature review (Table 1) and experience of the researchers. These determinants have been the major inputs for the quantitative survey, which will be discussed in the next section.

Figure 2: Determinants of customer loyalty across the purchasing journey in online grocery



#### 4. Quantitative Survey: The satisfaction paradox

The extent, to which customer satisfaction influences customer loyalty and the repurchase of online grocery customers, was investigated in a survey of online grocery shoppers in 2023 (n>800). The basis is a non-representative sample, which was skewed towards older people compared to the overall German population. Of the participants, 48% were female, 42% male, 0% divers and 10% did not provide any information. The participants generally come from urban areas, as delivery services are just available there. 58% of the participants were over 50 years old and 30% were retired. Most of the participants in the study live in 1-2 person households (90%), 80% live without children. The data also suggests that the vast majority of customers are hybrid users and therefore shop in both online and brick-and-mortar stores. Other studies confirm both (1) the hybrid purchasing pattern as the predominant purchasing behaviour of online shoppers and (2) a disproportionate number of customers over 50 years of age (Statista, 2024).

When asked about the main reason for using online grocery delivery services, respondents gave various reasons (see Table 2). Unsurprisingly, the predominant reason was "more convenient shopping" and "saving time" (convenience), followed by "trying something new" (variety seeking). This is also consistent with existing market research studies (e.g. Bitkom, 2019). The question of what is important to customers when using online grocery services is of special interest for understanding determinants for customer satisfaction. This shows that product selection, a suitable delivery window, user-friendliness and an attractive price-performance ratio are by far the most important influencing factors (see Table 2).

Table 2: Selected results of the customer survey (n > 800)

Table 2a	
Reasons for the initial order / first purchase (multiple answers possible)	
Reason / feature:	Percentage positive answers
I wanted to be able to shop more conveniently	63%
I wanted to save myself time	48%
I wanted to try something new	28%
I generally like to shop online	23%
I had a voucher / discount	15%
I have a better budget overview	4%
It was recommended to me	3%
I don't know anymore	1%

Table 2b	
Reason for satisfaction with the online grocery offer (multiple answers possible)	
Reason / feature:	Percentage positive answers
Product availability	79%
Suitable delivery window	76%
User friendliness of website	74%
Attractive offer / promotional price	69%
Good selection of organic / regional / seasonal / animal welfare products	41%
Accessibility and helpful customer service	34%
Eco-friendly packaging	31%
Eco-friendly delivery	19%
Others	7%

A correlation analysis between the repurchase behaviour of the respondents and the level of satisfaction has found no significant correlation. The **paradox of satisfaction** in this case shows that although customers are satisfied/very satisfied with the service, this does not lead to a significantly higher repurchase behaviour. This also leads to the assumption that the service providers (nowadays) hardly differ in the dimensions surveyed in Table 2b, so that this is no longer relevant for loyalty and delight. Most of these factors can already be regarded as hygiene factors or satisfaction factors according to the dimension of the Kano model (Kano et al., 1984).

## **5. Qualitative in-depth interviews: Reasons for the paradox of satisfaction**

In order to understand the paradox of satisfaction in more detail, in-depth interviews were conducted with 5 decision-makers from the online grocery sector in the period November 2023 - February 2024. The selected experts are characterized by the fact that they play active leading roles in online grocery services firms, have decision-making authority, budget responsibility and have a broad understanding of customer behaviour in online grocery retail.

The survey was divided into the following question areas: (1) Is the paradox of satisfaction confirmed by practical experience? (2) What could explain the satisfaction paradox? (3) Which areas should online grocery retailers focus on to increase the repurchase rate?

The experts were introduced to the paradox of satisfaction, the finding that high customer satisfaction does not necessarily lead to repeat purchases. In principle, they all see a high to very high levels of customer satisfaction based on their own experience and internal research, but all respondents also confirmed what seems to be one of the main problems of online grocery retailing: that a large number of newly acquired customers do not make any further purchases after their first purchase, even if satisfied/highly satisfies. This high churn rate means that online grocers are only partially successful in converting marketing-expensive first-time customers into regular customers. One expert explained that the company had conducted cohort analysis on the relationship between customer satisfaction and churn. Although this showed that satisfied customers were more likely to return than dissatisfied customers, more than 50% of satisfied new customers still churned.

The experts attribute the confirmed high level of customer satisfaction to the fact that customers rate the quality of the delivery services as very good in key parameters. For example, particular emphasis is placed on the quality and freshness of fruit and vegetables, the online shops and apps are constantly being developed and adapted to customer needs, the price level is lowered to "supermarket level" and great importance is attached to optimized logistics processing. Although these services require a great deal of effort and are not easy to implement, customers now tend to perceive them as basic or performance features.

To explain the paradox of satisfaction, several reasons emerge from the interviews: (1) Grocery delivery in Germany is still an innovation that is only at the beginning of its life cycle. (2) Customers are reluctant to change their shopping behaviour, which they have learnt over decades, and want to try out the "new online shopping" with their first purchases (curiosity, variety seeking), but remain loyal to their previous shopping places and habits. (3) Only in a few special situations do customers abruptly change their buying behaviour, usually in connection with situations such as a new life situation (e.g. birth of a child) or mobility restrictions (e.g. illness). (4) Delivery services continue to cause dissatisfaction due to failures in basic or service requirements such as product availability, availability and desired flexibility in delivery windows or the duration of the entire online ordering process. (5) In addition, competition for online delivery services, especially in large cities, is now quite strong and customers have a wide range of options to choose from. In larger cities, delivery services include Rewe, Amazon Fresh, Tegut, Knuspr, Picnic, Flink, Getir/Gorillas, Wolt, Lieferando, Flaschenpost and local organic box and beverage suppliers.

The experts are also aware of the problems that can cause customer dissatisfaction and lead to customers switching to competitors, whether online or offline, in the short term: (1) online shopping experience on the website or app that could be improved, (2) product availability, (3) customers' perception of higher prices (often unjustified), (4) problems with delivery (goods broken or spoilt, driver was too early or too late) and (5) above all the issue of missing items and substitutes as the biggest disadvantage or rejection feature of online retail compared to bricks-and-mortar retail.

## **6. Theoretical and managerial contributions: Actions to overcome the paradox of satisfaction**

Based on the results discussed the following theoretical and managerial contributions can be identified.

Theoretical contributions are the establishment of deeper insights into customer behaviour in e-commerce transactions, mostly the determinants of customer satisfaction and dissatisfaction with online grocery services, based on “real-life” customers of a leading online grocery retailer (see Figure 2). This complements existing research on customer behaviour in e-commerce with the more specific area of online grocery, as the grocery industry is an important part of the overall retail sector across countries, which is still underdeveloped from an e-commerce perspective. In addition, the study analyses the paradox of satisfaction in online grocery retailing. Although customers are satisfied, they do not return on a regular basis. This finding contradicts much other research, which often finds a clear correlation between customer satisfaction and repeat purchases.

The research also gathered insights from industry experts, deriving management implications to further increase online grocery customer satisfaction, loyalty and reduce the paradox of satisfaction.

The continuous improvement of performance and service features is a key aspect in order be attractive to customers (managerial contributions):

(1) **Convenience and communication:** Increase of the "convenience" factor for customers further and improve communication of the benefits: convenient delivery, ease of use, "no more lugging around" (not even to high floors), quick and uncomplicated shopping experience, time savings. (2) **Optimized customer journey:** Further optimization of the shopping experience to make it even easier and faster to create a shopping basket, especially for the first order. (3) **Price perception / pricing strategy:** no price mark-ups compared to current supermarkets price levels; clear structure of the delivery fees (ideally no delivery fee), expansion of entry-level price ranges; price promotions and retail marketing in cooperation with manufacturers; clear communication of the above. (4) **Reduction of dissatisfiers:** Reducing dissatisfaction factors such as lengthy shopping basket creation, delivery problems (unpunctuality, delays, product availability, damage, driver friendliness, poor product quality), etc.



In order to increase customer loyalty and develop differentiating features compared to online and offline competitors, companies are primarily looking to invest in the following features:

(1) **Delivery:** Optimising delivery speed and delivery windows while balancing the negative effects on profitability (problem: the more flexible and faster, the more expensive). (2) **Product availability:** Closing gaps in assortment and especially availability, clear assortment strategy. (3) **Assortment selection:** Increasing the range of organic and regional products, intensifying the cooperation with regional fruit and vegetable suppliers, bakeries, butchers, etc. and also clearly communicating these advantages. (3) **Private labels:** Increasing focus on own brands (problem: minimum purchase quantities of private label manufacturers are hardly reached with initially low volume in the growth phase of the service). (4) **Inventory management:** Improve inventory management and technical features of the merchandise management system to avoid out-of-stocks, while balancing the negative impact on profitability (problem especially for fresh food, which has a very short selling window, e.g. often only one day in the fruit and vegetable sector). (5) **Communicate emotionally:** positioning and branding, quality of the website and app, appearance of the delivery driver and highlighting unique selling points or differentiators (e.g. regional). (6) **Personalised marketing:** Personalised communication and data-driven promotions are a major advantage over offline markets, which typically have little customer data and therefore find it much more difficult to segment and target customers.

## 7. Conclusion & Limitations

The aim of this research was to identify reasons for this situation and recommendations for action as support for practice to retain satisfied customers. In addition to a literature review, an extensive customer survey and expert interviews were conducted.

In summary, the paradox of satisfaction has been demonstrated for online grocery retailing. Suppliers are caught between a protracted process of behavioural change on the customers side and already very high customer expectations, which are often well met by competitors. Service providers are aware of the challenges and are prioritising measures in the areas of convenience, price and interaction. In this context, it is recommended that providers continue to communicate their special features and unique selling points in order to differentiate themselves from the competition and at the same time remove barriers to the offering. An emotional, personalised and target-group-specific approach is one way to differentiate, especially from bricks-and-mortar retailers. The over-50s target group should also be explicitly addressed.

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