



# Enhancing Customer Loyalty in the E-Food Industry: Examining Customer Perspectives on Lock-In Strategies

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|                                                                                                                                                                                                                                                                                                                                                                                                                                             | ABSTRACT                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| <p>2024 Research Leap/Inovatus Services Ltd.<br/>All rights reserved.</p> <p><b>DOI:</b> <a href="https://doi.org/10.18775/jibrm.1849-8558.2015.83.3001">10.18775/jibrm.1849-8558.2015.83.3001</a><br/> <b>URL:</b> <a href="https://doi.org/10.18775/jibrm.1849-8558.2015.83.3001">https://doi.org/10.18775/jibrm.1849-8558.2015.83.3001</a></p> <p><b>Keywords:</b><br/> <i>E-Food industry, Lock-in strategies, Customer loyalty</i></p> | <p>Although management consultancies emphasize customer loyalty as an important factor for the profitability of e-food business models and various lock-in strategies are already being used successfully in foreign e-food markets, there is still a lack of implementation among German e-food providers. To derive how customer loyalty strategies should be designed in the German e-food market, this paper focuses on a qualitative-explorative analysis of which determinants characterize loyalty to an e-food provider from the customer's perspective. The results of the study partly confirm the determinants for customer loyalty in e-commerce in general that have already been identified in other studies. It becomes clear that the consideration of the individual recurring needs of customers significantly strengthens customer loyalty in the e-food market. In addition, the characteristics of the German e-food market show that lock-in strategies from other European markets cannot be transferred to the German e-food market without conceptual adjustments.</p> |

## 1. Introduction

The development of the e-food market in Germany can be divided into three phases. The first phase began at the end of the 1990s with the development of the first business models for buying food online (Theuvsen and Schütte, 2013). Despite the pioneers Webvan from the USA and LeShop from Switzerland, market growth in the German-speaking e-food sector stagnated for several years due to high costs, low returns, and logistical challenges (Schu, 2020). The expansion of the Amazon marketplace for groceries heralded the second phase in Germany in 2010 (Theuvsen and Schütte, 2013), but this led to the insolvency or withdrawal of some players from online grocery retail (Schu, 2022). Experts expected a radical change or the third phase in Germany in 2017 with the market entry of the food delivery service Amazon Fresh (Reimann, 2018). The start of the COVID-19 pandemic in 2020 provided a disruptive boost for the industry in Germany. On the consumer side, temporary lockdowns and contact restrictions increased demand for e-food offerings. Convenience increasingly become a requirement for food purchases (Appinio and Spryker, 2021). Even after the COVID-19 pandemic, online grocery retail in Germany is in a dynamic phase with volatile developments, in which established brick-and-mortar retailers are expanding their business through online retail and online-only grocery retailers are gaining in importance (Wiedemann et al., 2023). The

increasing number of new e-food players of different sizes is leading to cut-throat competition in German cities and city centers, which is reflected in an increase in customer acquisition costs (Loderhose, 2021). The marketing expenses of e-food players are a major cost driver at 10 or 15 percent of sales, depending on the operating business model (Handelblog and Maier, 2021 quoted from Loderhose, 2021). Most of the e-food players' marketing expenditure is made up of brand development (de Boer et al., 2022) and incentives for acquiring new customers (Rinke, 2022). A comparison of the marketing expenditure of bricks-and-mortar food retailers in Germany amounting to 1.5% of turnover clearly shows the scale of that in online food retail (EHI Retail Institute, 2021).

### 1.1. Problem Statement

Customer loyalty is a relevant lever for the profitability of online food retailers (Simmons et al., 2022). The lock-in effect (Eurich and Burtscher, 2014) is considered an effective strategy for increasing customer loyalty and retention and reducing the willingness to switch in the business-to-consumer sector. As the switching costs responsible for the lock-in effect are very individual in customer perception and therefore difficult for providers to predict (Schu, 2020), there is a need to identify which determinants are relevant for the German-speaking e-food market from the customer's perspective.

## 1.2. Aim of the Study

Although initial findings on customer loyalty and lock-in factors from the customer's perspective are available, industry-specific implications for the customer-oriented conceptualization and operationalization of lock-in effects for the e-food market are a largely unexplored topic. The objective of this thesis is to identify and record specific determinants that characterize customer loyalty to an e-food provider from a systematic literature analysis, qualitative customer interviews, and expert validation. By combining theoretical findings and empirical data, the aim is to develop a comprehensive understanding of which strategies online food retailers in German-speaking countries can use to strengthen customer loyalty and thus sustainably increase their profitability.

## 2. Literature Review

In 2013, Blömeke *et al.* investigated consumer perceptions of customer loyalty instruments in e-commerce with a sample of  $n=1,027$  (Blömeke *et al.*, 2013). First, seven overarching customer loyalty instruments in e-commerce were derived from the existing literature. The overarching customer loyalty instruments examined are information, individualization, interaction, integration, convenience, community, and incentive systems (Blömeke *et al.*, 2013). As part of an online customer survey, the test subjects each assessed one of five online stores from which they had already ordered at least once (Blömeke *et al.*, 2013). A structural equation model was used to measure the customer loyalty effect of the higher-level customer loyalty instruments (Blömeke *et al.*, 2013). It was found that the construct of customer loyalty is significantly determined by three of the superordinate customer loyalty instruments (Blömeke *et al.*, 2013). Convenience, for example in the form of self-explanatory user guidance, clear product descriptions, or short website loading times, can be described as the strongest driver of customer loyalty in e-commerce according to the survey results. Interaction also has a highly significant influence on the strength of customer loyalty. This could include advisory systems, expert chats, newsletters, or prompt responses to customer concerns. The third important driver for customer loyalty in e-commerce is individualization. Customer loyalty can be strengthened through individual offers, a personalized design of website areas, and a personal approach to customers based on their purchase history. In contrast, no significant effect on customer loyalty was found for the customization of products (Blömeke *et al.*, 2013).

The qualitative study by Harrison *et al.* (2012) aims to identify lock-in factors in service relationships. Although customer loyalty is a well-researched topic, satisfaction and barriers to switching are often considered in other studies to be the sole reasons why customers feel loyal to a service provider (Harrison *et al.*, 2012). To further investigate lock-in factors, 22 in-depth interviews were conducted with participants of different professions aged between 21 and 69 years (Harrison *et al.*, 2012). During the interviews, the participants described both

positively and negatively perceived personal service relationships, for example with hairdressers, dentists, banks, or telecommunications providers (Harrison *et al.*, 2012). From the interviews, four overarching lock-in factors were identified that lead to a strong bond with the service provider in both positively and negatively perceived customer-service provider relationships. The four overarching categories of lock-in factors according to Harrison *et al.* are a sense of obligation, personal factors, relationship benefits/satisfaction, and barriers to switching (Harrison *et al.*, 2012). Most of the participants in the study cited all four or a combination of the overarching lock-in factors as reasons for their close relationship with a service provider, in contrast to what has been assumed in existing research to date. A lock-in effect should therefore be seen as the result of several factors (Harrison *et al.*, 2012). The existence of the four superordinate lock-in factors varies only minimally for positively or negatively perceived service relationships (Harrison *et al.*, 2012).

This section may be divided by subheadings. It should provide a concise and precise description of the experimental results, their interpretation, as well as the experimental conclusions that can be drawn.

## 3. Research Methodology

This chapter focuses on the description of the chosen qualitative-explorative research design. The survey method used was qualitative semi-structured individual interviews with current and potential customers or users of the e-food market. Customer or user interviews are a classic instrument of market research and user-centered product development.

Qualitative and explorative studies are generally limited to small samples composed of individual cases that are particularly meaningful for the research question. It is not least for this reason that non-random sample selection procedures are established in qualitative research. In addition, random selection leads to distortions and a reduction in informative value if the sample size is small. For this reason, criteria-driven sampling is used in a qualitative sampling plan for the subsequent sub-survey. In a qualitative sampling plan, three characteristics, which are often socio-demographic in samples of individuals, are usually considered. This allows a heterogeneous sample structure to be obtained and variability to be maximized (Schreier, 2020). For the empirical study, the socio-demographic characteristics of gender and household size as well as the behavioral characteristics of shopping behavior were used as the basis for the sampling plan shown in Table 1. The combination of the values of the three nominally scaled characteristics results in the cross-tabulation with eight cells shown. For reasons of research economy, it was decided to use one case per cell, resulting in a total sample size of  $n=8$ .

**Table 1:** Qualitative sampling plan as the basis for the sample survey

| Sex    | Grocery shopping behavior | Household size       |                        | Total |
|--------|---------------------------|----------------------|------------------------|-------|
|        |                           | one-person household | multi-person household |       |
| female | stationary and online     | 1                    | 1                      | 2     |
|        | only stationary so far    | 1                    | 1                      | 2     |
| male   | stationary and online     | 1                    | 1                      | 2     |
|        | only stationary so far    | 1                    | 1                      | 2     |
| Total  |                           | 4                    | 4                      | 8     |

The interviews were structured, and the comparability of the data was ensured by constructing a guideline with eight open questions (Misoch, 2019). The guidelines were constructed according to the SPSS procedure for creating guidelines, which has proven itself in research practice (Kruse, 2014), with the four steps of collecting, checking, sorting, and subsuming (Helfferich, 2022). In the first step, as many questions as possible of interest to the research objective were collected by the principle mentioned above. The collected questions were then critically evaluated in terms of suitability and wording. The remaining questions were then grouped into question blocks and classified according to the guidelines (Helfferich, 2022), and specific follow-up questions were developed (Kruse, 2014). The structure of the guideline is based on the four phases according to Misoch. The guide begins by asking about the socio-demographic characteristics of age, place of residence, household size, and the behavior-oriented characteristic of online food retail usage behavior. The closed questions can be used to obtain the necessary preliminary information on the use of online food retail, which allows for filtering. The subsequent content-related warm-up refers to industry-independent customer loyalty measures, which are intended to familiarize the interviewees with the interview situation and provide an open introduction to the topic area. The questions in the main part of the guideline focus on the interviewees' own experiences in online food retail and their subjective perception of various lock-in strategies. As part of a scenario technique, attitudes, and behavior regarding possible design elements of lock-in strategies for online food retailing are surveyed. A pre-test was carried out in advance to ensure the quality of the guidelines and to check the comprehensibility of the questions and the time required for an interview. The guidelines were then revised and optimized in individual areas.

A total of four women and four men with an average age of 28 were interviewed via the Microsoft Teams collaboration software between January 18 and January 29, 2023. All interviewees order products in e-commerce occasionally to regularly and can be described as digital natives. The heterogeneity of the sample results not only from the age distribution but also from different household sizes and the usage behavior of online grocery retailers.

Due to its suitability for guideline-oriented interviews, the data was analyzed using Kuckartz's content-structuring qualitative content analysis (Kuckartz, 2018). The statements and tendencies that emerged from the qualitative content analysis were then communicatively reviewed and evaluated by experts from the field (Flick, 2022). The communicative validation took place in the form of expert interviews, as many "expert interviews are regarded by their basic concept as obtaining oral opinions, statements or expert opinions" (Kruse, 2014). The expert interviews were conducted in the period from February 22 to March 6, 2023, via the Microsoft Teams collaboration software and audio-recorded in parallel. The experts consisted of two division managers from the e-food department of a major German and Austrian player in the food retail sector. On the other hand, an e-commerce expert from the EHI Retail Institute Köln was asked to validate the results independently.

#### 4. Results and Discussion

The following is a synthesis of the results of the qualitative customer survey and the expert validation.

First, the qualitative study made it clear that the lock-in strategy used in advanced European e-food markets, such as delivery subscriptions, cannot be effectively transferred to the German e-food market without further ado. Two fundamental characteristics of the German food market, which were confirmed in the qualitative study, are indicative of this. The urban inner-city area in Germany is characterized by a dense network of shops and thus a high supply density for food (HDE, 2018). Due to the primary concentration of e-food offerings in metropolitan areas, e-food offerings are often only seen by consumers as an occasional or occasion-related supplement to stationary grocery shopping, which makes customer loyalty more difficult. Another characteristic feature is the increased price sensitivity of consumers for food in Germany (Deloitte, 2023). The German online grocery customers surveyed stated that they had tried out the services of online grocery retailers due to monetary incentives and had occasionally placed further orders with online grocery retailers for additional incentives. Although convenience is an equally frequently cited reason for using online food retailers, it became clear that the subscriptions/delivery flat rates that are widespread in the international e-food market, where customers can order for a fixed period in return for paying a one-off or monthly amount without delivery charges, are relevant for only a few customers in the German-speaking e-food market, regardless of the actual

subscription amounts, and are not successful as an isolated lock-in strategy that positively influences customer loyalty. The (monetary) incentive systems identified as not significant for customer loyalty in e-commerce in the study by Blömeke et al. (2013) are therefore necessary for customer loyalty in online food retail and should be used beyond the acquisition of new customers.

The strongest customer loyalty factor for German-speaking online food retailers is personalization and individualized offers. All respondents stated that personalization would make them order more regularly from an e-food provider. Initial approaches exist in the German e-food market in the form of personalized product overviews and recipe suggestions, but the shopping experience and the benefits of online grocery retail in terms of time savings and convenience can be further enhanced by an intelligent shopping list or digital assistant that knows the customer's preferences and shopping behavior and uses artificial intelligence to suggest suitable products, thereby advising and inspiring the customer. In addition, a unique selling proposition can be established in comparison to bricks-and-mortar stores, because, unlike bricks-and-mortar food retailers, the data required to cater more closely to the individual needs of customers is available in online food retail. The advantage of data availability must be exploited to a greater extent. The database opens a wide range of opportunities for personalization and individualization. As Harrison et al. (2012) have shown, the lock-in effect arises from a combination of relationship benefits, switching barriers, and personal factors. At this point, switching barriers can result from psychological causes such as customer satisfaction or customer habit (Georgi, 2008). The results of the study by Blömeke et al. (2013) that convenience and personalization have a significant influence on customer loyalty in e-commerce were thus confirmed by the qualitative customer interviews and the expert validation for the e-food market.

## 5. Conclusion and Outlook

In summary, personalization and individualized offers were identified as relevant determinants for customer loyalty in the German e-food market from the customer's perspective. Various design levels can be implemented here, from individualization of the product overviews and selection for the customer's diet to personalized inspiration to strengthen customer loyalty. As most e-food players do not yet have a fully developed concept for personalizing their offers, a long-term unique selling proposition can be built up in comparison to monetary incentives, which should be aimed for given market dynamics described above and the intense competitive situation. Monetary incentives can also be more easily adapted by competitors and, due to the price sensitivity of German consumers, are more likely to be regarded as a basic factor for customer loyalty. To achieve a strong lock-in effect, it is advisable to combine different types of switching barriers. The use of personalization and individualized offers increases convenience compared to competing e-food and stationary food players. However, it

should also be borne in mind that a lock-in effect is dynamic, and the perception of the various switching barriers can increase and decrease throughout the lock-in cycle (Shapiro and Varian, 1999). It can be assumed that the determinants shaping customer loyalty in German online food retailing will change with increasing maturity, a changing competitive situation, and evolving customer requirements. In the expert discussions, it was emphasized that sustainability will develop into a further formative determinant. Despite this expected change, customer loyalty remains of central importance regarding the profitability of e-food players. Continuous analysis of customer loyalty determinants and the effectiveness of customer loyalty measures is therefore essential.

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