

# SERVICE QUALITY ORIENTED CUSTOMER-CENTRIC RETAIL STRATEGY FOR INDIAN SUPERMARKET RETAILERS

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**Abstract** *The Supermarket Retailers in India are on a rollercoaster ride with competition intensifying in the industry and a plethora of retail strategies making their roads to success even more complicated. In this day and age of increasing retail competition, though competitive advantage seems to be the only way out, choice of appropriate retail strategy has become a daunting task. The objective of this paper is to develop a conceptual framework on various strategic alternatives available to supermarket retailers in India and facilitate them to choose the best strategies to ride on. This paper draws heavily from existing literature on retail strategies and competitive advantage. Having analyzed the non-applicability of the competitor-centric retail strategy in Indian supermarkets, the research proposes the application of customer-centric retail strategy for enabling supermarket retailers in India attain competitive advantage. Adding strength to the research is the result derived from interviews of supermarket managers and customers; and also of a pilot study. The work involves identification of research constructs and hypothesis for the proposed framework. The framework also contributes heavily to literature on competitive advantage by emphasizing on effective customer-centric strategies and specific performance outcomes that supermarket retailers could be enjoying riding on these strategies.*

**Key Words** *Supermarket Retailers, Competitive Advantage, Customer-centric Strategy, Competition, Superior Performance.*

## INTRODUCTION

Service quality has become a significant research topic in the past decade due to its apparent relationship with competitive advantage of firms Riecheld & Sasser (1990). The competitive advantage of successful service providers and retailers is often explained with a logic wherein service quality contributes to customer value, resulting in increased satisfaction and behavioral intentions, eventually creating loyalty that manifests itself in enhanced profitability Kuusela & Mitronen (2007). In today's competitive retail environment, the delivery of high service quality has long been treated as the basic retail strategy Siu & Cheung (2001). Service Quality refers to the identifiable, but sometimes intangible activities undertaken by a retailer in conjunction with the basic goods and services he sells Berry L. L. (1986). In India, with greater choices and consumer awareness, the consumers are becoming more demanding of service quality and supermarket retailers cannot afford to neglect service quality in the course of devising retailing strategy. This has resulted in placing service quality at the heart of strategy devised, for enabling supermarket retailers in India attain competitive advantage.

Competitive advantage has always been at the heart of firms operating in a competitive environment and strategy has been the route to attain competitive advantage Porter (1985). It has also been at the core of success or failure of

firms, especially in competitive markets. In India, currently the retail sector is growing at an astronomical phase and creating certain challenges for retailers to survive in this new paradigm shift Raju (2000). As the competition in the Indian retail sector has been increasing for years, the importance of developing an effective strategy appears to be increasing constantly Harris and Ogbanna (2000). However, researchers like Ellis and Kelly (1992) have identified that Porter's concepts are oversimplified in the context of retailers and that there is need for future researchers to consider the customer-centric strategy in assessing the competitive advantage of retailers. Other researchers have also added strength to this argument by stating that retail companies need to be significantly more attractive to consumers than their competitors and should develop strategic positions in the market place Wortel (1987); Walter and Knee (1989). A totality of all these factors make it imperative for retailers to focus on the right kind of customer-centric strategies to attain superior performance and thereby achieve competitive advantage in the market place. It is however surprising to find limited academic research on this subject. According to Seema, Sequeira and Devaraj (2011), earlier efforts have been directed towards analyzing competitive advantage of retail firms from a competitive-centric perspective, while customer-centric view has not gained much attention. Hence, the importance of the study arises from its orientation towards customer-centric strategy to enable supermarket retailers attain competitive advantage.

Supermarket retailers in India are on a rollercoaster ride, with competition intensifying in the industry and a plethora of retail strategies making their roads to success even more complicated. In this day and age of increasing retail competition, though competitive advantage seems to be the only way out, choice of appropriate retail strategy has become a daunting task. With competitor-centric retail strategy being considered as oversimplified in the context of retailer Ellis & Kelly, 1992; there has risen a need to evolve new strategic alternatives for enabling supermarket retailers in India attain competitive advantage. The key impact of technology has been provision of greater information to the customer. Hence, a big challenge for the retailer in the information savvy world of today is that the opportunities for price differentiation have nearly vanished. With the wealth of information which the customer has, it becomes imperative for the retailer to differentiate itself qualitatively by superior customer services or better value for money to the customer Walter and Knee (1989).

Many researchers including, Reicheld and Sasser (1990) have recognized that profits enhance when strategies focus on retaining current customers. On the same lines Bendapudi and Berry (1997) have also state that there is sufficient evidence to show that strategies directed towards developing dedicated- based relationship contributes to enhanced profits for an firm. It is also reported by the Economic Times (2010), that for retail businesses in India, there is an need to focus on nurturing the customer base to enhance the profitability of a retail firms and contribute to its superior performance.

## OBJECTIVE OF THE STUDY

With the newly emerged competitive scenario in the supermarket retail sector in India, there has risen a need for the retailers to evolve effective strategic alternatives, in order to combat competition and attain competitive advantage in the market place. The goal of this research is to facilitate supermarket retailers in India identify the right kind of customer-centric strategies that are not just customer-focused in nature but also, driven by service quality. The strategic alternatives so chosen are said to enable supermarket retailers in India attain competitive advantage and superior performance in the market palce. The objective of this paper is to bring out the relationship between customer-centric retail strategy, competitive advantage and superior performance through an conceptual framework that has been evolved through extensive review of literature.

## Methodology

This paper draws heavily from existing literature on competitive advantage and strategic alternatives available to retailers, in order to identify customer-centric retail strategies

and associated performance outcomes. Managers and customers of supermarket outlets in India were interviewed and the results of a pilot study undertaken in the state of Karnataka (south Indian state) have also been considered in order to identify the components of effective customer-centric strategy. The performance outcomes were also identified in the course of the study. In the due course, an attempt is made to evolve a conceptual framework on customer-centric retail strategy and link it with competitive advantage and superior performance. Research constructs and hypothesis have been evolved in the course of formulating the conceptual framework.

## Concept of competitive advantage and strategic approaches:

While, Competitive advantage has been considered as the key to attaining superior performance in any highly competitive Industry; strategy, has at all times been the means for attaining competitive advantage. In the Indian context, researchers like Harris and Ogabonna (2001) and Shah and Mehta (2006) have opined that with the supermarket retail sector getting increasingly competitive, there appears to be an urgent need for identifying the most effective retail strategies.

Earlier research in the area of competitive advantage indicated the presence of two broad strategic alternatives for attainment of competitive advantage namely: the Competitor – centric retail strategy and the customer-centric retail strategy. However research by Ellis and Kelly (1992) strongly indicate that the competitor –centric retail strategy focusing on the dichotomous concept of differentiation V/S price leadership is excessively oversimplified in the context of retailers. This is why competitor-centric strategies are considered to be less relevant for supermarket retailers in India. However, with supermarket retailers in India growing at a robust speed and competition among the players intensifying, the only means of survival is through attainment of competitive Advantage. For Indian context, Govil, Balram and Nair (2007) observe that every retailer needs to try and understand the customer better in the race for attaining competitive advantage. In facilitating the same, this research proposes a customer-centric strategy which is modeled as in fig1.

It is believed that in service industries, globally, the subject of service quality remains a critical one as businesses strive to maintain competitive advantage in the marketplace Stafford (1996). It is indeed true that delivery of high-service quality to customers offers firms an opportunity to differentiate themselves in competitive markets Karatepe et al. (2005). In contrast, high quality of service leads to customer satisfaction and loyalty and greater willingness to suggest and or recommend to someone else, reduction in

customer complaints, and improved customer retention rates to a great extent Bitner (1990); Headley and Miller (1993); Zeithaml et al. (1996); Danaher (1997). *Service Quality* refers to the identifiable, but sometimes intangible activities undertaken by a retailer in conjunction with the basic goods and services he sells. Experts like Berry (1986) and Dotson and Patton (1992) opine that service quality has invariably been a critical aspect for achieving differential advantage. Hence, this research has proposed the use of customer-centric strategic alternative, focusing on service quality for enabling supermarket retailers in India attain competitive advantage.

The conceptual framework for this research evolved through extensive review of literature has been detailed in Fig-1 and the components of the strategic alternatives available to supermarket retailers in India have been depicted. The conceptual framework also recognizes the presence of intervening variables which have enhanced the need of supermarket retailers to attain competitive advantage.

In India, Supermarket retailers are large retail stores specializing in groceries, produce, meat, dairy products and a wide variety of non food products which operate on a self-service basis with a central checkout. They are located in or near residential high streets, where customers do their shopping more than once a week driven by a combination of good prices, overall shopping experience and convenience, product range and quality. Arnold (1997) states that *location* of a supermarket- is the most important attribute considered by a customer in choosing the shop where he would shop the most. Huff's (1964) gravity Model of retail attraction provides support for this argument. Further research also goes on to reveal that location of a Supermarket spells its success or failure and being at the right place at the right time facilitates attainment of competitive Advantage. Hence location as a measure of service quality has been considered in devising customer-centric retail strategy.

Several studies including Lokan and Walter (1990); Kumar and Karande (2000) were also done based on the literature of retail environment which revealed that customers attitude towards the outlet is closely related to both the *store appearance* and *store layout*, irrespective of the type of retail format and these factors had a direct effect on loyalty towards the store.

*Product assortment* was found to be the single most important driver for choice between retail formats as per the research done by Sologard and Hansun (2003). For supermarkets in India in wide product assortment is a must because most of the retail customers today look at supermarkets as on 'one-stop-shop' for all their requirements. In fact, customers get disappointed if the items that they are looking for are out of stock.

The Customer is the hub around which the business revolves and the knowledge of the services that the customer needs is vital category in relation to service quality Freeman Olivia(2001). *Customer services* in the context of supermarket retailers refers to offering timely and complete assistance to the customer in an organized manner. It also includes developing customer-friendly policies, training employees to provide excellent customer service skills, and learning to personalize the stores customer service.

**Intervening variables:** For the purpose of this research though customer-centric strategies are considered as paramount in enabling Indian Supermarket retailers attain Competitive advantage, the intervening factors associated with the retail customers are also said to have a bearing on the ability of a retail firm in attaining superior performance. Intervening factors like increase in income, entry of women into workforce, entry of foreign players and favorable government policies are all increasing the basis for competition among Supermarket retailers. Consideration of these variables are said to be important and influencing on the ability of retailers in attaining competitive advantage (see Fig1)

### Performance indicators

There is sufficient research evidence show to that the true essence of a customer-centric strategy lies in concentrating on continuing customer satisfaction and loyalty for enabling firms attain competitive advantage. Customer satisfaction not just acts as a double edged sword in confirming customer loyalty and profitability for a Supermarket retailer adopting customer-centric strategy, but also it is also said to have a positive impact on the firm's ability to acquire greater market share. However, the good news for Supermarket retailers in India is that, having chosen to ride on a customer-centric retail strategy, they could be certain of generating customer satisfaction and thereby customer loyalty, profitability and a greater market share. These indicators, as shown in *fig1* would certainly reflect on the superior performance.

### Conceptual framework

The conceptual framework constitutes of two main components-strategic approaches and performance indicators. The first component i.e strategic approaches is made up of two sub components. The researcher has taken cognizance of only one component-customer-centric retail strategy based on extensive review of literature and interview with retail managers and customers. The component of competitor-centric strategy though exists, seems to less relevant in the context of supermarket retailers in India. The second important component is performance outcomes,

which has four items namely- profits, customer satisfaction, customer loyalty and market share. These four components are not just inter-related (*see fig 1*) but also connected with the ability of retail firms in attaining competitive advantage based on their strategic approaches. The fact that intervening variables have enhanced the need for supermarket retailers to attain competitive advantage has also been considered in the formulation of the framework (*see fig 1*).tor-centric strategies are considered to be less relevant for supermarket retailers in India.

### Research Constructs and Hypothesis

Based on the extensive review of literature, interview of retail managers and customers; and pilot study results, the following constructs have been evolved:

- (i) Construct on customer-centric retail strategy and its relation with competitive advantage (*Fig1*)

**Figure 2.1** Conceptual Framework for Assessing Competitive Advantage among Supermarket Retailers in India

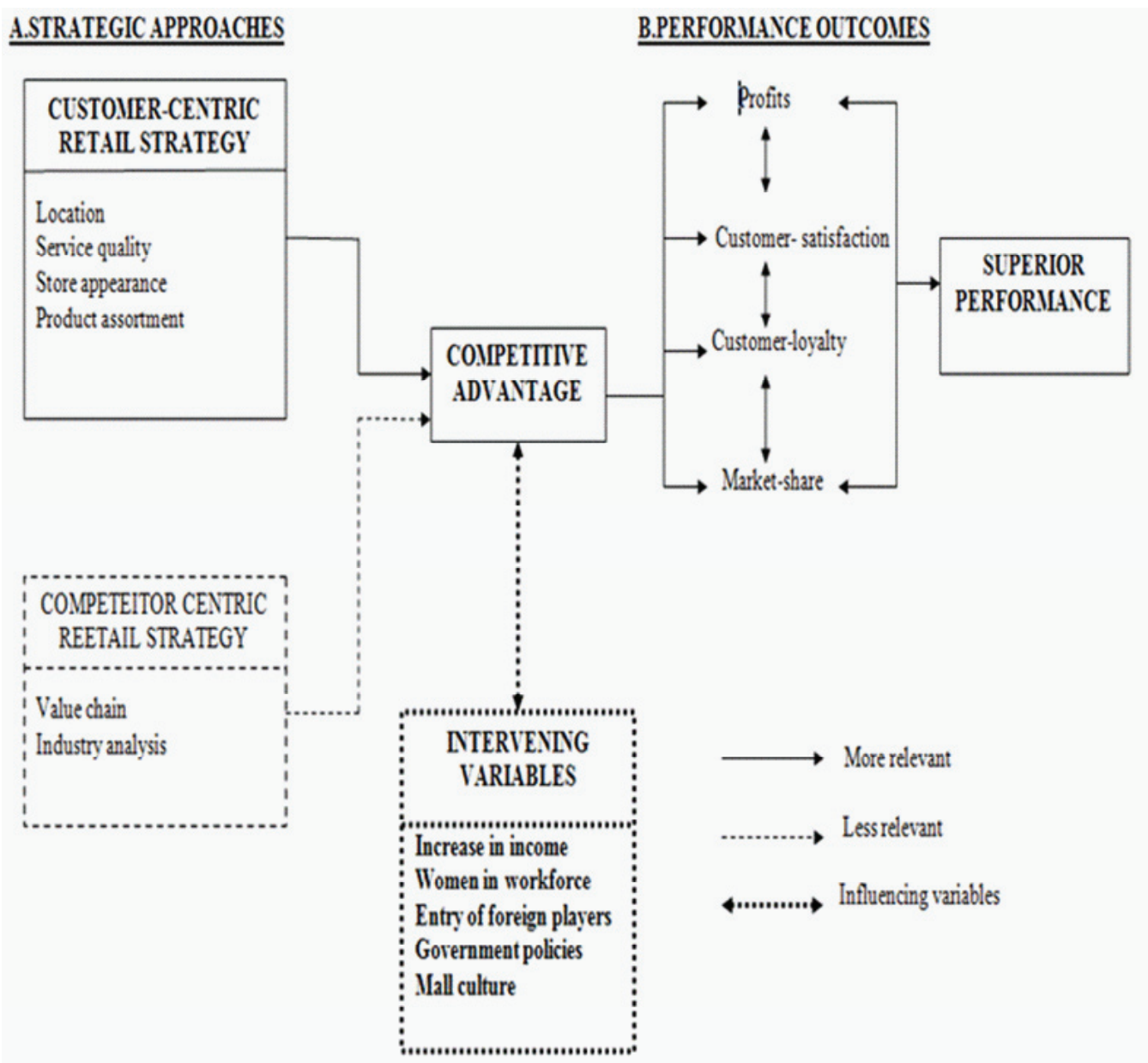
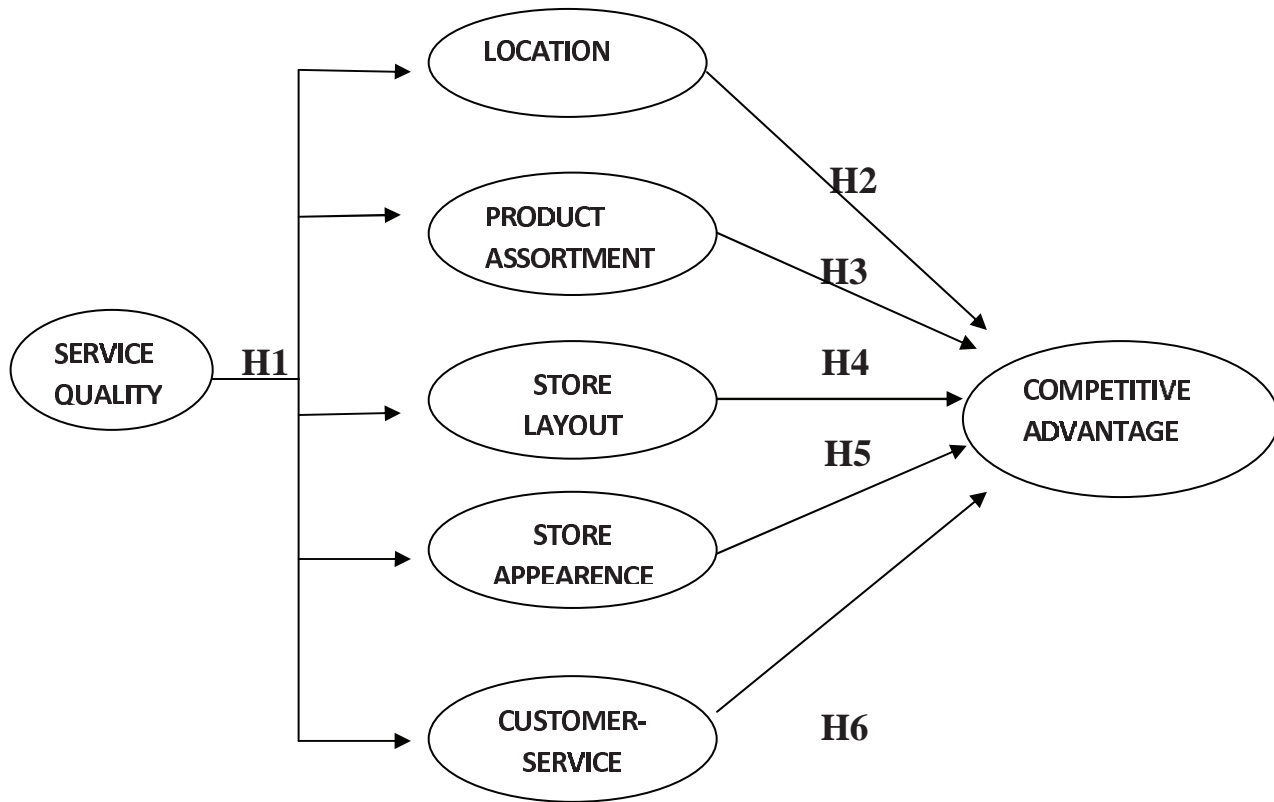


Figure 2.2 Construct on customer-centric retail strategy and competitive advantage.



The related hypothesis have been:

H1: Service quality and its associated variables are positively correlated to competitive advantage.

H2: Location as a customer-centric strategy has a positive effect on attainment of competitive advantage.

H3: Service quality as a customer-centric strategy positively influences attainment of competitive advantage.

H4: Store appearance as a customer-centric strategy has a positive effect on attainment of competitive advantage.

H5: Product assortment as a customer-centric strategy positively influences attainment of competitive advantage.

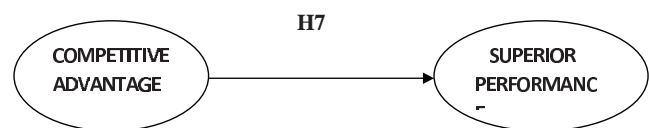
H6: Customer-service as a customer-centric retail strategy positively influences attainment of competitive advantage.

(ii) Construct on competitive advantage and superior performance: The relationship between competitive advantage and superior performance is depicted in the Fig2

a. Hypothesis on competitive advantage and superior performance: Porter (1985) identified that Competitive advantage is at the heart of a firm’s performance in competitive market. His claims

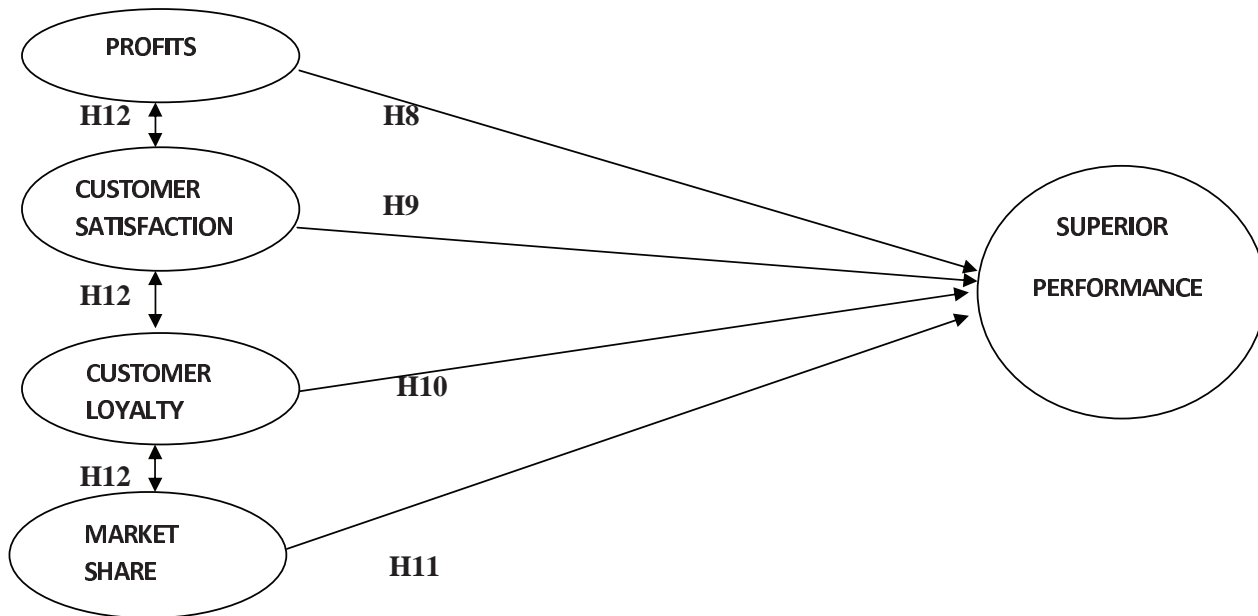
were supported by the works of Day and Wensley (1988), who also quoted that Competitive advantage also enables firms to attain superior performance. In the year 2001, Ellis and Kelly demonstrated that the concept of competitive advantage can be utilized to assist retailers in today’s volatile environment; and The applicability of the same was discovered in Indian retail sector by Shah and Mehta (2007). Thus, the following hypothesis is formulated for testing in the context of supermarket retailers:

Figure 2.3 construct on competitive advantage and superior performance



H7: Competitive advantage is significantly related to attainment of superior performance.

(iii) Construct on performance outcomes and superior performance (Fig3):The performance outcomes include profits, customer satisfaction, customer loyalty and market share. All these items are said to reflect on superior performance of retail firm and the same is discussed below

**Figure 3.4** Construct on Performance Indicators and Superior Performance.

- a. Hypothesis on profits and superior performance: Profits are and have always been the bottom line for evaluating the superior performance of any firm. In a highly competitive retail market, profits will not only enable supermarket retailers to attain superior performance but also will inject fuel for growth and sustainable competitive advantage. Research by Reichheld and Sasser (1990); Fornell and Wernerfelt (1987) indicated the even a small increase in customer retention rates can dramatically increase profits, which brings us the following hypothesis:

H8: Profit as a construct is significantly related to superior performance.

- b. Hypothesis on customer satisfaction and superior performance : Most retailers try to achieve competitive advantage by taking a count of satisfied customers. The same is supported by the findings of Ganguli and Kumar (2008) who found that it is only the satisfied customers who are more likely to remain loyal in the long run. Customer satisfaction is hence considered as an important indicator for assessment of a retailer's performance and so the hypothesis-

H9: There is significant relationship between customer satisfaction and superior performance.

- c. Hypothesis on customer loyalty and superior performance-Customer loyalty constitutes an underlying objective for strategic marketing planning Kotler (1984); and represents an important basis for developing competitive advantage and attaining

superior performance Dick & Basu (1994). Hence the hypothesis:

H10: Customer loyalty and superior performance are positively related.

- d. Hypothesis on market share and superior performance :One of the most popular indicators of competitive advantage and superior performance is market share Day & Wensley (1988).The premise of this measure is that it is said to distinguish winners from losers by the market share they achieve. To the test the same the following hypothesis is formulated:

H11: Market share is significantly related to superior performance.

- e. Hypothesis on inter-relation between performance outcomes:

The competitive advantage of successful service provider and retailer is often explained with a logic wherein service quality contributes to customer value, resulting in increased satisfaction and behavioral intentions, eventually creating loyalty that manifests itself in enhanced profitability Cronin *et al* 2000; Slater and Naver (1994).Fornell (1992) identifies that there is positive correlation between customer satisfaction and customer loyalty for a retail firm. While customer satisfaction acts as a double edged sword in confirming customer loyalty and profitability for a Supermarket retailer adopting customer-centric strategy. It is also said to have a positive impact on the firm's ability to acquire greater market share. Fornell (1992) reports that

customer satisfaction translates into higher than normal market share growth for retail firms. The same phenomenon was observed by Grant (1988) in his study on American customer satisfaction Index. Hence, the hypothesis:

H12: The four performance indicator constructs profits, customer satisfaction, customer loyalty and market share are significantly related to one another.

## CONCLUSION

This research has evolved an conceptual framework that is based on analysis of earlier literature on retail strategy and competitive advantage. The value of the research is enhanced by the result derived from interviews of supermarket managers and customers ; and also the results of pilot study .The framework proposed in this paper contributes to literature by emphasizing on not just the effectiveness of service quality driven customer-centric strategies but also, on specific performance outcomes that supermarket retailers could be enjoying riding on these strategies. A new dimension to attainment of competitive advantage and superior performance has definitely been recognized by this research effort. Besides this , the strategic choices made and mentioned in the customer-centric retail strategy would be subject to testing of validity and reliability using Cronbach's alpha and further tested through use of factor analysis.

The growing intensity of retail competition due to the emergence of new competitors, formats, technologies as well as shifts in customer needs is forcing retailers to devote more and more attention to attainment of competitive advantage. It is believe that the orientation towards customer-centric retail strategy that is proposed in the conceptual framework discussed would prove to be effective in enabling supermarket retailers in India attain competitive advantage and thus contribute to superior performance.

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