SERVICE QUALITY: THE CORNERSTONE OF CUSTOMER-CENTRIC RETAIL STRATEGY FOR SUPERMARKET RETAILERS IN INDIA

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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.*

Area of interest in the conference: *Innovative strategies in retailing*

Introduction:

The retail markets in India offer tremendous potential and is growing fast. Over the past few years, retail has become one of the fastest growing sectors in the Indian economy. Organized retail is on an inflection point and is expected to grow at a robust speed in the coming years. In the overall retail pie, food and grocery segment alone comprises of 62 percent of the $270 billion Indian Retail market and the supermarkets have taken an increased share in the food and grocery trade over the last two decades. Intense competition, consolidation, and multinationalisation in the supermarket sector have also accelerated the spread of supermarket chains seeking to improve their competitive positioning. Sameer Kumar (2008) opines that with intense competition among supermarket retailers the markets are getting saturated and there arises a need to ascertaining the competitive advantage among the players. 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.

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

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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.

Rationale for the study:

The newly emerged scenario in the retail sector has generated certain challenges for the retailers to combat. Competition has become the order of the day and developing strategies to beat competition has become very crucial for supermarket retailers in India. The goal of this research is to evaluate the effectiveness of service quality as a customer-centric retail strategy and develop a conceptual framework for combating the current competition in the retail industry and facilitating supermarket retailers attain competitive advantage.

Methodology:

This paper draws heavily from existing literature on competitive advantage and service quality available on retailers, in order to identify the most appropriate strategy for enabling supermarket retailers in India attain competitive advantage. The study of literature also draws light on the need for evolving a new India specific service quality model that could be capitalized as a customer-centric strategy as well. In order to do the same managers and customers of supermarket outlets in Karnataka were interviewed using a structured questionnaire composing of the various service quality parameters. The questionnaire was tested for its validity and reliability using Cronchbach's alpha. Having analyzed the questionnaire the researchers arrived at the service quality dimensions that have been detailed in the conceptual framework. 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 focusing on service quality and link it with competitive advantage and superior performance. The construct is further being subject to factor analysis for test of its applicability in Indian context.

Review of related literature:

The rationale for doing this research in the area of supermarket retailers has risen from the works of different researchers whose contributions been quoted below-Porter (1985) identified that Competitive advantage is at the heart of a firm's performance in competitive market. Strategy is the route to attain competitive advantage that will determine a firm's performance. 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. Adding new dimension to the concept of competitive advantage, Walters and Knee (1989) opined that it be attained by those firms who make themselves more attractive to the customers than the competitors and establish a strategic position in the market place. All these contributions made in the area of competitive advantage have been the foundation for this research.

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. The applicability of the same was discovered in Indian retail sector by Shah and Mehta (2007)who identified that with the retail sector clocking impressive growth and catching up the world's imagination, the Indian retailers were striving hard to attain some kind of competitive advantage. Sameer Kumar (2008) opines that with intense competition among supermarket retailers the markets are getting saturated and there arises a need to ascertaining the competitive advantage among the players.

Porter (1985) competitive advantage framework proposes two distinct strategies – low cost and differentiation. Based on the same postulates, Day and Wensley (1988) suggested two approaches for distinguishing competitive advantages: customer-focused and competitor centered. In the light of these strategies Ellis and Kelly (2001) assessed the competitive advantage of retailers using the competitor- centered approach and suggested the use of customer-focused approach as an area for further research. While it is commonly accepted that the concept of competitive advantage and strategy are applicable across different industries, researchers

like Miller and knee (1993) have criticized Porter's concept in several aspects including the allegedly oversimplified dichotomy of cost leadership V/s differentiation. Ellis and Kelly (1992) have also added to this by identifying that Porter's concept are oversimplified in the context of retailers and that there is need for future researchers to consider the customer-centric view in assessing the competitive advantage of retailers. The main reason for the competitor-centric retail strategy getting outdated in retail markets is the robust growth of technology .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. In recognition of these facts Walter and Knee (1989) state that companies need to be significantly more attractive to consumers than their competitors and develop strategic positions in the market.

Hao Ma (1999) defined customer-centric strategy of attaining competitive advantage as the asymmetry or differential in any firm attribute or factor that allows one firm to better serve the customers than the others and hence create better customer value and achieve superior performance. Many researchers including Reicheld and Sasser (1990) have recognized that profits enhance when strategies focus on retaining current customers. Bendapudi and Berry (1997) also state that there is sufficient evidence to show that strategies directed towards developing dedicated- based relationship contributes to enhanced profits for an firm. Retail businesses in India also need to focus on nurturing the customer base to enhance the profitability of a retail firms and contribute to its superior performance Economic times (2010).

Concept of competitive advantage and strategic approaches:

Competitive advantage has been considered as the key to attaining superior performance in any highly competitive Industry. Several researchers including Harris and Ogabonna (2001) and Shah and Mehta (2006) have identified that with the Indian retail sector getting increasingly competitive, there appears to be an urgent need for developing an effective retail strategy. Kotler (1997) identifies that in an increasingly competitive environment companies must become customer-centric. Kuusela, T. and Mitronen,L.,(2007) are of the opinion that for supermarket retailers, decisions on what to sell and at what price have lost much of their strategic resonance, because the same or similar products and services can be obtained from competitors at prices that leave little or no room for adjustments. Hence, the decision of how to sell – what kind of customer experience is offered – becomes a relevant strategic question from the competitive advantage point of view.

Competitor – centric retail strategy : The strategies of value-chain and Industry analysis have been popular tools for assessment of competitive advantage of firms. However research by Ellis and Kelly (1992) strongly indicate that the dichotomous concept of differentiation V/S price leadership is excessively oversimplified in the context of retailers. The decision on what to sell and at what price have lost much of resonance for retailers because, the same or similar product and services can be obtained from competitors at prices that leave little or no room for adjustments. Hence, the decision of how to sell –what kind of customer experience is offered –becomes a relevant strategic question from the competitive advantage point of view. This is why competitor-centric strategies are considered to be less relevant for supermarket retailers in India.

Customer-centric retail strategy: Supermarket retailers in India are growing at a robust speed and with the entry of foreign players into this retail format competition has become even fiercer among the players. The Only means of survival is through attainment of competitive Advantage. The golden adage in retail is that 80 per cent of the profits come from 20 per cent of the customers. It is therefore critical to focus on the core customer base of the business Economic times (2010).In Indian Govil, Balram and Nair (2007) observe that every retailer is trying to understand and serve his 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.

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. Despite its strategic importance, Indian retailers do not have an appropriate instrument to measure service quality. With service quality as the cornerstone of a retail strategy, Parasuraman, Zeithmal and Berry (1988) developed SERVQUAL model which including tangibles, reliability, responsiveness, assurance and empathy as the measures of service quality. However, it is evident from the review of literature that SERVQUAL fails to provide an accurate and effective measure of service quality in Indian retail settings. Realizing the need for investigating the dimensions of service quality in retail stores and developing a scale to measure retail service quality, Dabholkar et al. (1996) developed the RSQS-Retail service Quality Scale based on five new dimensions of Physical aspects, Reliability, Personal interaction, Problem solving and Policy. Though Mehta, Lalwani and Han (2000) opined that it was a better scale for measuring service quality of supermarket retailers in India; Kaur (2005) tested the scale and found it as being invalid in Indian context and opined that future research should be directed towards reexamining structure of service quality. Hence, this research has been initiated in order to identify India specific constructs for the concept of service quality.

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.

Retail environment refers to the physical appearance of the retail store which is divided into two parts - external environment, that part of the store visible prior to entry into retail sales and service area (parking lot, facade, entrance, etc) and the internal environment, that part visible from retail selling space (including decor, color, lighting, layout, background music, product arrangement, billing counters, etc,). 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. Hence the strategies of store appearance and store layout have been regarded as strategic alternatives for supermarket retailers in India.

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. It is in consideration of these facts that product assortment has been included as strategic alternative for the purpose of this research.

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. Since the research is based on evaluating the effectiveness of customer-centric retail strategy , customer-service as a strategic alternative cannot be ignored.

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 be pressing on

supermarket retailers need to attain competitive advantage. Intervening factors like increase in income, entry of women into workforce, increased availability of credit, FDI policy of the government are considered as being paramount in enhancing the need for attaining competitive advantage among supermarket retailers in India. These intervening variables have been responsible for the consistent growth of our economy and also for the flooding of supermarkets in our country.(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

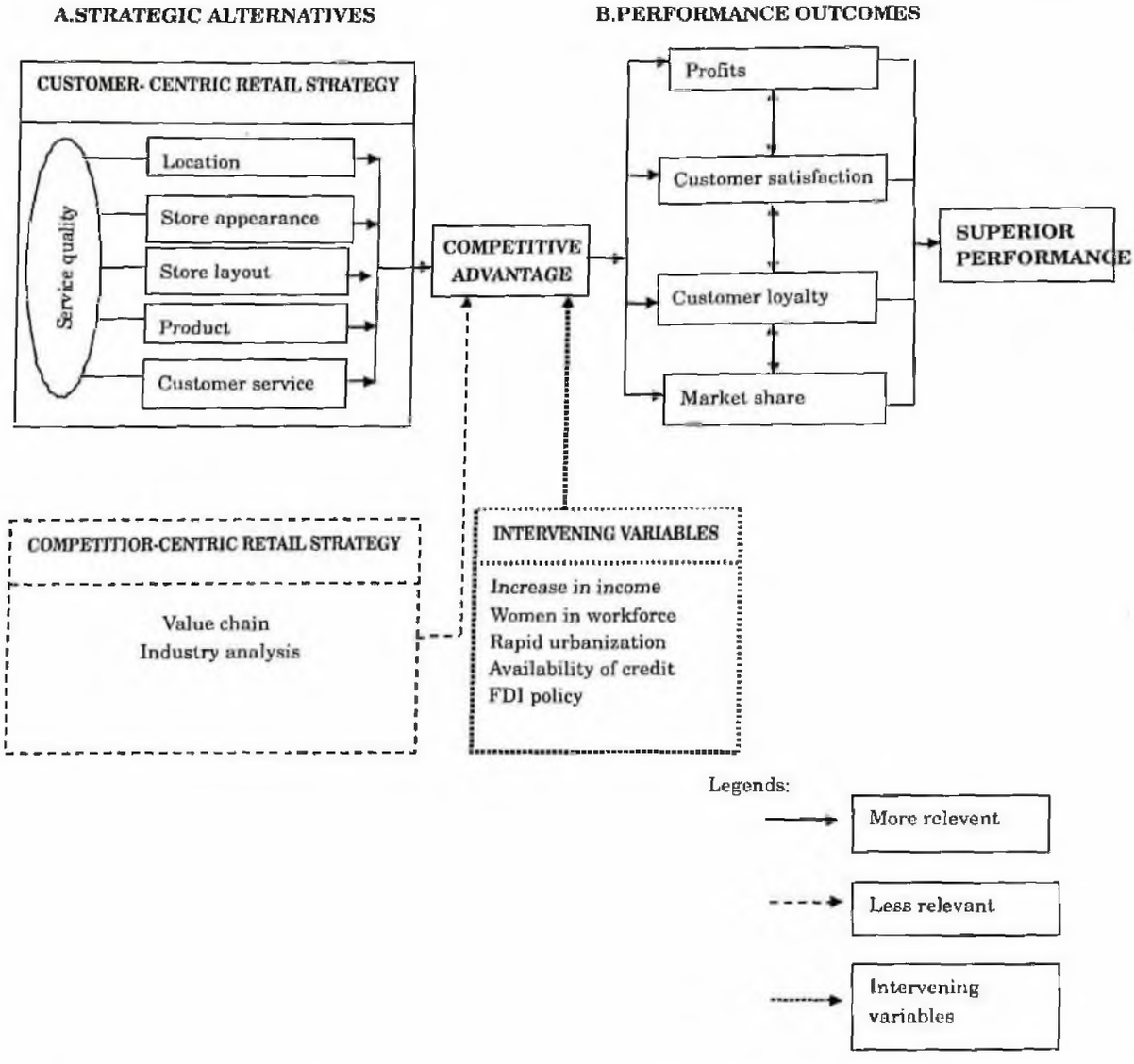


FIG 1: CONCEPTUAL FRAMEWORK FOR ASSESSING COMPETITIVE ADVANTAGE AMONG SUPERMARKET RETAILERS IN INDIA

customers. The component of competitor-centric strategy though exists, seems to less relevant in the context of supermarket retailers in India, as already proved by existing literature. At the heart of the customer-centric retail strategy for supermarket retailers in India is service quality and its associated constructs. These constructs have been chosen based on earlier literature available in the field and also based on interviews with supermarket managers and customers. The second important component in the conceptual framework is performance outcomes, which have 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). Competitor-centric strategies are considered to be less relevant for supermarket retailers in India.

Conclusion:

This conceptual paper is based on established 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 effective 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 items 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. Though there have been numerous models on service quality, there is hardly any relevance of the same in Indian context. Hence, an attempt has been made to bridge the gap and evolve a new model which fulfills the need for Indian supermarket retailers to be customer-centric. In addition to this the dimensions of service quality have also been modified to suit Indian context, so that the same will accrue benefits to supermarket retailers in India. It is believe that the orientation towards customer-centric retail strategy that is proposed in the conceptual framework discussed will not only enhance the service quality of supermarket retailers but also would prove to be effective in enabling supermarket retailers in India attain competitive advantage and thus contribute to superior performance.

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