

# A new paradigm for indian supermarket retailers based on customer-centric strategic approach

- ~ Research scholar **Seema S. Shenoy** (NITK, Surathkal, & Faculty, India)
- ~ Professor Dr. **A.H. Sequeira** (NITK, Surathkal, & Faculty, India)
- ~ Dr. **Devaraj K.** (SDM PG centre for management studies & research, India)

**Abstract:** Supermarket retailers in India amidst fierce competition and the only way out is through the attainment of competitive advantage. Strategy is the route to attain competitive advantage that could facilitate firms attain superior performance. The objective of this paper is to develop a conceptual framework on customer-centric retail strategy, to facilitate supermarket retailers in India attain competitive advantage. The paper draws heavily from existing literature on retail strategies and competitive advantage in order to ascertain the most effective customer-centric strategies. Adding strength to the research is the result derived from interviews of supermarket managers and customers; and also the results of pilot study. The work involves identification of constructs and research hypothesis for the proposed framework. The framework 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. Supermarket retailers in India can be certain of attaining competitive advantage by riding on the proposed strategies.

**Key words:** supermarket retailers, competitive advantage, customer-centric strategy, competition, superior performance.

## Introduction

Retailing has today become the new buzzword and a way of life for people in

India. With 15 million retail outlets from small street-cart hawkers to more sophisticated retail stores, the last 20 years have definitely been a dream run for modern Indian

retailers. India's retail sector has also acquired greater momentum, dynamism and charisma with international players making their array into the market. However, KPMG survey(2007) identifies supermarkets as the most preferred retail format in India and have termed it as the "mother of all retail formats", growing at a rate of 45 per cent in our country and contributing to 30 per cent of all food and grocery sales. With both Indian and foreign players adopting this format, the competition among supermarket retailers has intensified. The markets have slowly started getting saturated and there has risen a need to ascertain competitive advantage among the players. This research is initiated to devise an appropriate conceptual framework for enabling supermarket retailers in India attain competitive advantage in the increasingly competitive retail markets, by riding on customer-centric retail strategy .

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.

### **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 customer-centric 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 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.

### 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. Considering the characteristics of the retail Industry Wortzel (1987) and Walters and Knee (1989) recognized that strategies that are significantly more attractive to consumers than their competitors will enable retail firms to attain superior performance.

Levy, weitz and Pundit (2006) opine that establishing a competitive Advantage means that the retailer, in effect, builds a wall around its position in the retail market. When the wall is high, it will be hard for competitors outside the wall to enter the market and compete for the retailers target customer. This articulates the importance of customer-centric strategy that in effect would result in future growth and profitability.

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.

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:

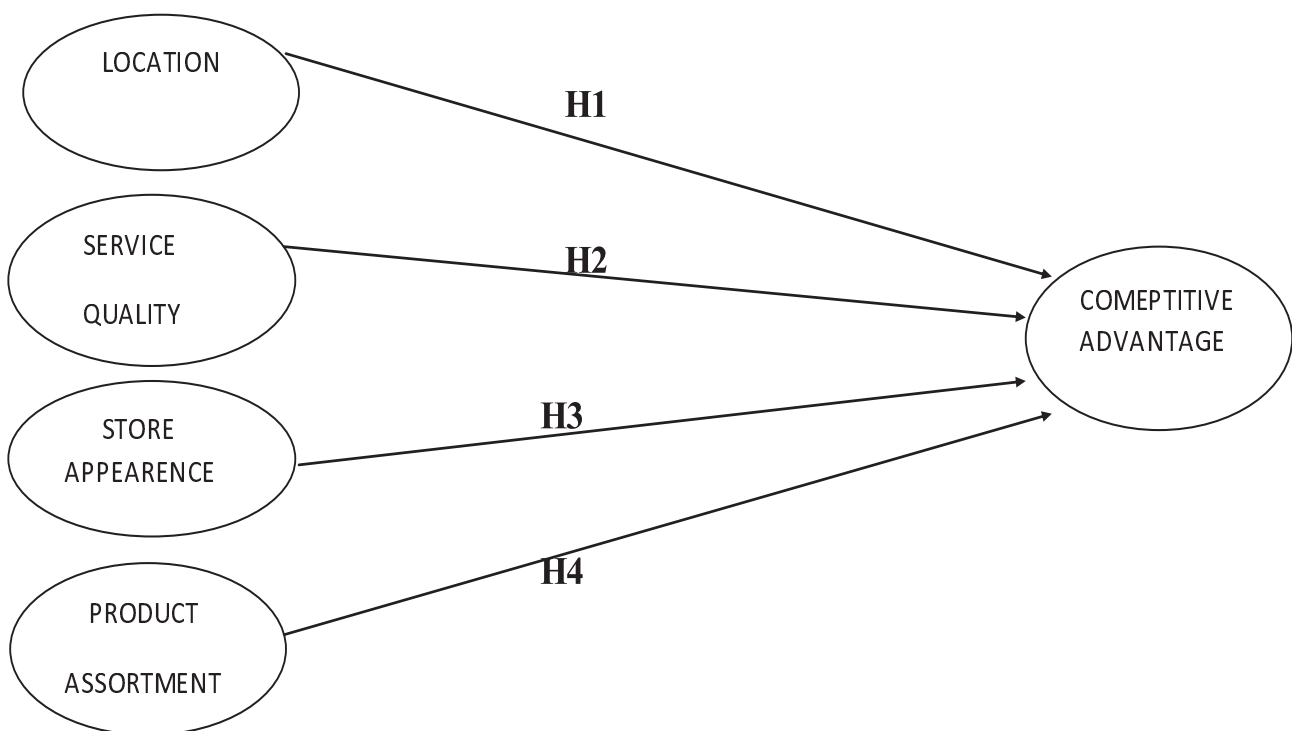
1. Construct on customer-centric retail strategy and its relation with competitive advantage.
2. Construct on competitive advantage

and superior performance.

3. Construct on performance indicators and its relationship with superior performance.

**1. Construct on customer-centric retail strategy and its relation with competitive advantage (Fig1):** customer-centric retail strategies include location, service quality, store appearance and product assortment. Their relationship with competitive advantage is detailed below:

*Fig 1-Construct on customer-centric retail strategy and competitive advantage*



**a. Hypothesis on location-**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 the hypothesis: *H1: Location as a customer-centric strategy has a positive effect on attainment of competitive advantage.*

**b. Hypothesis on service quality-**Service Quality refers to the identifiable, but sometimes intangible activities undertaken by a retailer in conjunction with the basic goods and services he sells. It includes factors like store hours, parking access, shopper-friendliness, Credit acceptance, level and Caliber of sales people employee politeness, delivery policies customer follow-ups etc. Parasuraman, Zeithamal and Berry (1988) have identified that Service quality is increasingly being offered as a strategy by marketers to position themselves more effectively in the marketplace. Experts like Berry (1986) and Dotson and Patton (1992) opine that service quality has invariably been a critical aspect for achieving differential advantage. Thus we derive: *H2: Service quality as a customer-centric strategy positively influences attainment of competitive advantage.*

**c. Hypothesis on store appearance-**Store appearance refers to the physical appearance of the retail store which is divided into two parts - the 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.). While Donovan and Rossiter (1987) emphasize the importance of retail environment in attaining competitive advantage, several studies were also done based on the literature of retail environment which revealed that customers attitude towards the store appearance had a direct effect on loyalty towards the store. In fact Lokan and Walter (1990); Kumar and Karande (2000) conducted studies to show that customers build up perceptions about an retail outlet based on the store appearance, which is why it becomes an important component of customer-centric strategy and leads to the following hypothesis: *H3: Store appearance as a customer-centric strategy has a positive effect on attainment of competitive advantage.*

**d. Hypothesis on product assortment-**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). Product assortment refers to the number of different items in a merchandise category. The increase in product assortment is related to two main factors- affordability of retail space and feasibility of investing in additional inventory. For supermarkets in India, space is not a constraint and investment in wide product assortment becomes feasible 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 present trend in the retail sector appears to have taken this factor into account and most retailers have been making arrangements for increased product assortment and thus: *H4: Product assortment as a customer-centric strategy positively influences attainment of competitive advantage.*

**2. Construct on competitive advantage and superior performance**

The relationship between competitive advantage and superior performance is depicted in the Fig. 2

*Fig 2 -construct on competitive advantage and superior performance*



**a. Hypothesis on competitive advantage and superior performance:**

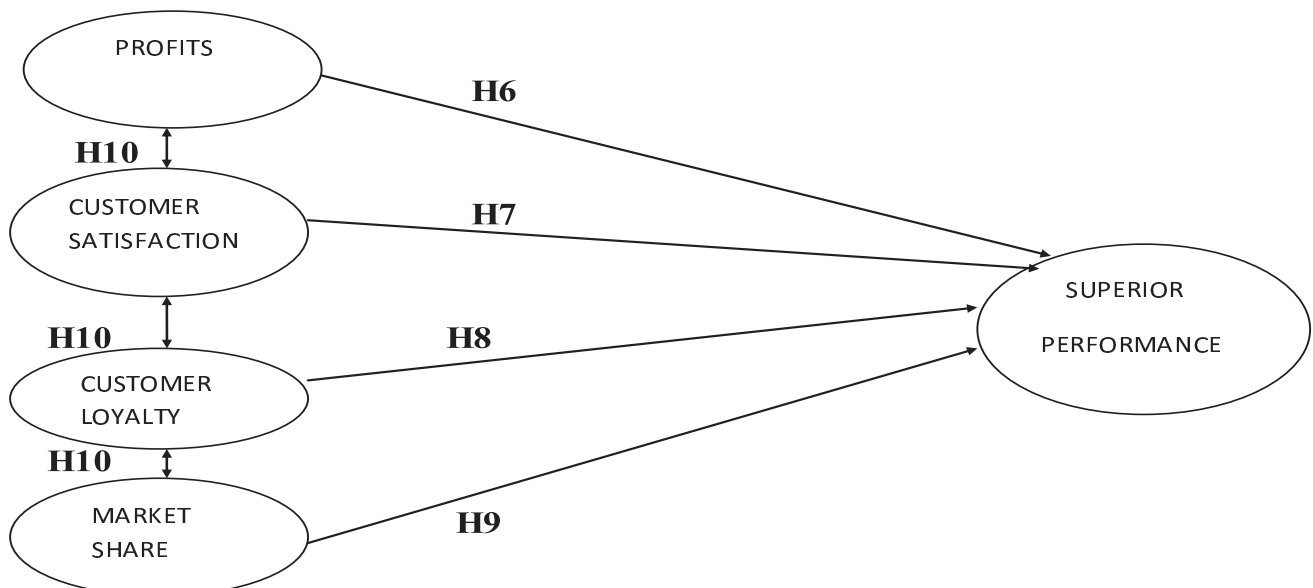
Porter (1985) identified that Competitive advantage is at the heart of a firm’s performance in competitive market. Strategy is the route to attain competitive advantage that will determine a firm’s performance. His claims were supported by the works of Day and Wensley (1988), who also quoted that Competitive advantage also enables firms to attain superior

performance. 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. Thus, the following hypothesis is formulated for testing in the context of supermarket retailers: *H5: Competitive advantage is significantly related to attainment of superior performance.*

**3. 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.

*Fig 3-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: *H6: 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- *H7: 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: *H8: 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- *H9: 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 an 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: *H10: The four performance indicator constructs profits, customer satisfaction, customer loyalty and market share are significantly related to one another.*

### Proposed conceptual framework

Based on the various research constructs and associated hypothesis, the conceptual framework for the research has been formulated. In doing so the indirect influence

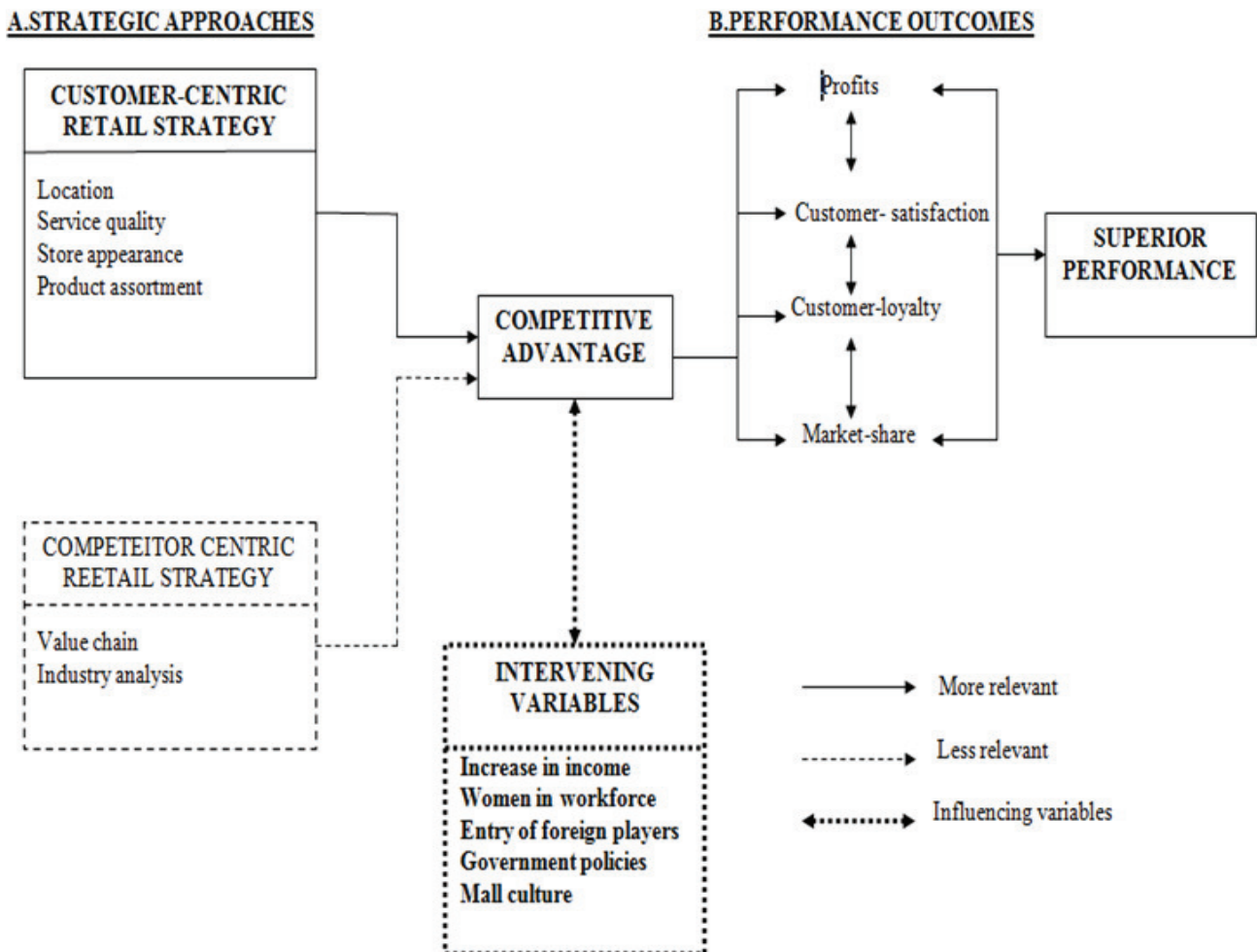


of intervening variables on the need for attaining competitive advantage is also considered. Intervening variables like increase in income, entry of women into workforce, entry of foreign players and favorable government policies are all increasing the basis for competition among supermarket retailers. Consideration of these variables are said to be important and influencing on the ability of retailers in attaining competitive advantage (see Fig4).

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 4) but also connected with the ability of retail firms in attaining competitive advantage based on their strategic approaches.

FIG 4-Conceptual Framework for Assessing Competitive Advantage Among Supermarket Retailers in India



## Conclusion

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 believed 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. On the basis of the framework developed, it may be concluded that:

- Customer-centric retail strategy is more relevant in enabling supermarket retailers in India attain competitive advantage than the competitor-centric retail strategy.

- Though a host of strategies are available to supermarket retailers in India, it is analyzed that strategies like location, product assortment, service quality and store environment are the most lucrative ones to beat the current competition.

- Profits, customer satisfaction, customer loyalty and market share are the likely outcomes that supermarket retailers adopting customer-centric retail strategy could attain in order to achieve competitive advantage.

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.

## Implications

The success of a strategy lies in its ability to facilitate a firm in achieving competitive

advantage. It is believed that the conceptual framework presented in this paper will enable supermarket retailers to:

- Identify, crystallize and implement competitive customer-centric strategies.
- Understand and respond to the uncontrollable factors (i.e. intervening variables) that are enhancing the need for attaining competitive advantage in the retail industry.
- Aligning the customer-centric strategies towards specific performance outcomes like profits, customer satisfaction, customer loyalty and market share that would enable firms in attaining superior performance.

## Future research

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 using empirical data to measure and model the conceptual relationship depicted in this framework there are other avenues for future research. The modeled framework could be tried and tested in the context of other emerging retail formats as well.

## REFERENCES:

1. **Berry L. L.** 'Retail businesses are service businesses.' *Journal of Retailing* Vol.62 (1986): 3-6.
2. **Bendapudi N, Berry.** 'Customer's motivation for maintaining relationships with service providers.' *Journal of retailing* Vol73 no1 (1997):15-37.
3. **Day G S, Wensley R.** 'Assessing advantage: a framework for diagnosing competitive superiority.' *Journal of marketing* 52(1984):1-20.
4. **Dharmesh.** 'Indian retail: changing trends in 2010.' *Economic times*, 24th march,2010.
5. **Ellis, Kelly.** 'Competitive advantage in retailing.' *International review of retailing, distribution and consumer research* 2(2) (2001) : 381-396.
6. **Ganguli S, Kumar V.B.** 'Drivers of customer satisfaction and loyalty in India retail supermarkets: An exploratory study.' *ICFAI Business Review* June (2008):61-66.
7. **Gran L.** (1988) 'Your customers are telling the truth', *Fortune*, 16 Feb, PP 164-6.
8. **Harris L, Ogbonna E.** 'Competitive advantage in UK food retailing sector: past, present and future.' *Journal of retailing and consumer services* 8(2001): 157-173.
9. **Huff D. L.** 'Defining and estimating trade area.' *Journal of marketing* 28(1964): 34- 38.
10. **KPMG.** "Indian retail : on fast track." Accessed date 26th april,2011 <http://www.kpmg.com/Ca/en/IssuesAndInsights/ArticlesPublications/Pages/Indian-Retail-On-the-fast-track.aspx>.
11. **Kumar V., Karand K.** 'The effect of retail store environment on retailer's performance.' *Journal of business research* 49(2000):167-181.
12. **Levy M., Weitz A., and Pundit.** *Retail Management*. McGraw Hill, 2006.
13. **Loken B., Walter J.** 'Alternative approaches to understanding the determinants of typicality.' *Journal of Consumer Research* (1990) : pp111-126.
14. **Parasuraman A., Zeithaml and Berry L.L.** 'SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality.' *Journal of Marketing* 49(1988):41-50.
15. **Porter M.E.** 'Competitive Advantage.' New York (1985): free press.
16. **Reicheld F.F, Schefter P.** 'E-loyalty.' *Harvard Business Review* Vol 78(2000):105-113.
17. **Sameer Kumar.** 'A study of supermarket industry and its growing logistics capabilities.' *International journal of retailing and distribution management* vol36(2008):192-211.
18. **Seema S. Shenoy, A. H. Sequeira and K. Devaraj.,'** *A Conceptual Framework For Customer-centric Strategic Approach For Sustainable Competitive Advantage With Specific Reference To Super Market Retailers In India.* Working Papers Series, AIMIT, 2011,Vol.1, Issue 2.
19. **Shah, Mehta.** 'Consolidation of the Indian retail industry.' Report-XLRI Jamshedpur,2006.