

A Conceptual Framework For Customer - Centric Strategic Approach For Competitive Advantage With Specific Reference To Supermarket Retailers In India

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INTRODUCTION

The Indian retailing landscape has become increasingly competitive and one means of ensuring the long-term survival of a retail firm is through the attainment of competitive advantage. Competitive advantage is at the heart of a firm's performance in the competitive market. It grows fundamentally out of the value a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price (Porter, 1985). Strategy is the route to attain a competitive advantage that will determine a firm's performance (Porter, 1985). Retailing in India is growing at a feverish pace and with the consolidation and multinationalization, the count of supermarkets is going up at an astronomical phase. KPMG survey reflects an astounding 45% of the annual growth in the supermarket format in India and coins it as the "*mother of all retail formats*" (KPMG, 2007). However, with intense competition among the supermarket retailers, the markets are getting saturated and there arises the need to ascertain the competitive advantage among the players.

REVIEW OF RELATED LITERATURE

Porter (1985) identified that Competitive advantage is at the heart of a firm's performance in the competitive market. Strategy is the route to attain a 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. However, Walters and Knee (1989) are of the opinion that competitive advantage can 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 the 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. Carlos Perstana Barros (2006) surveyed that supermarket and hypermarket retail formats had higher efficiency as compared to other retail formats. However, India's KPMG survey (2007) identified supermarkets as major high-growth format and have termed it as the "*mother of all retail formats*", growing at a rate of 45% in our country and contributing to 30% of all food and grocery sales. Sameer Kumar (2008) opines that with intense competition among supermarket retailers, the markets are getting saturated and there arises a need to ascertain the competitive advantage among the players. Porter's (1985) competitive advantage framework proposes two distinct strategies - low-cost and differentiation. A company that decides to adopt a cost leadership strategy strives to perform important value chain activities at a lower cost than the competitors, while a company following differentiation strategy strives to create and market unique products for varied customer groups. Based on the same postulates, Day and Wensley (1988) suggested two approaches for distinguishing competitive advantages: customer-focused and competitor centered. A competitor-centered assessment is based on direct management comparison with a few target competitors and identifies those activities that a firm performs better or worse than its competitors. Customer- focused

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assessment starts with the detailed analysis of customer benefits within end use segments and works backward from the customer to the company to identify the actions needed to improve the performance. 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) also added to this by identifying that Porter's concepts are oversimplified in the context of retailers and that there is a need for future researchers to consider the customer-centric view in assessing the competitive advantage of retailers. Quoting on the same lines are Walter and Knee (1989), who 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 a 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, creates better customer value and achieves 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 relationships contribute to enhanced profits for a firm. Retail businesses in India also need to focus on nurturing the customer base to enhance the profitability of the retail firms and contribute to its superior performance (Economic Times, 2010).

RATIONALE FOR THE STUDY

The goal of this research is to evaluate the effectiveness of customer-centric strategy for combating the current competition in the retail industry and facilitating supermarket retailers' to attain a competitive advantage.

CONCEPT OF COMPETITIVE ADVANTAGE

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 competitive strategy. To date, several theoretical frameworks and perspectives have been evolved to explain the concept of Competitive Advantage. Among them, Porter's framework of low-cost and differentiation seems to be more prominently applicable in many Industries. However, research by Ellis and Kelly (1992) strongly indicates the excessive simplicity of Porter's concepts in the context of retailers. 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 retailer's target customer. This articulates the importance of customer-centric strategy that, in effect, would result in future growth and profitability.

A. STRATEGIC APPROACHES

✿ **CUSTOMER CENTRIC 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. Gone are the days when retailers could think of luring customers based on low prices or differentiated products. Every retail firm today is on its toes to beat the competitor by matching up his price or product. Reicheld and Schefter (2000) identify that organized retailers are developing aggressive customer-centric strategies for being profitable. In the Indian context, Govil, Balram and Nair (2007) observe that every retailer is trying to understand and serve his customer better in the race for attaining a competitive advantage. In the pursuit for competitive advantage, Day and Wensley (1988) emphasize continuous customer satisfaction and loyalty as being more meaningful than market share. Levy and Weitz (2000) stress on retail location, merchandise assortment, store design and display (store appearance) and customer service as the major retail mix

elements of a customer-centric strategy. Quoting on the same lines are Govil, Balram and Vinod (2007), who identify non-price attributes important to a retail customer as being product assortment, convenience, customer service and experience. In summary, it seems evident that customer-centric retail strategies concentrating on location, service quality, product assortment and store ambience will certainly enable future growth and profitability for the retail firms. 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 the 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, and facilitates attainment of competitive advantage.

✿ **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, politeness of the employees, 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. With service quality as the cornerstone of a retail strategy, five popular measures of SERVQUAL developed by Parasuraman, Zeithmal and Berry (1988) including tangibles, reliability, responsiveness, assurance and empathy have now become important for every retailer in our country.

✿ **Retail Environment** 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, colour, 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 the retail environment, which revealed that customers' attitude towards the store appearance had a direct effect on loyalty towards the store. Infact, Lokan and Walter (1990); Kumar and Karande (2000) conducted studies to show that customers build up perceptions about a retail outlet based on the store appearance, which is why it becomes an important component of the customer- centric strategy.

✿ **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 '*one-stop-shops*' 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.

✿ **COMPETITOR - CENTRIC RETAIL STRATEGY** : The notion that superior performance requires a business to gain and hold an advantage over competitors is central to contemporary strategic thinking. The strategies of value-chain and Industry analysis have been popular tools for assessment of competitive advantage of firms in a competitive environment. However, research by Ellis and Kelly (1992) strongly indicates that the dichotomous concept of differentiation v/s price leadership is excessively oversimplified in the context of retailers. Day and Wensley (1988) demonstrate that C.A. could be attained in two ways: customer-centric and competitor - centric approach. The competitor - centric approach seems to be quite inappropriate for application in the Indian retail sector. An earnest attempt is made to gauge the effect of customer- centric approach for the attainment of competitive advantage.

✿ **Intervening Variables:** For the purpose of this research, though customer-centric strategies are considered to be paramount in enabling Indian Supermarket retailers to 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.

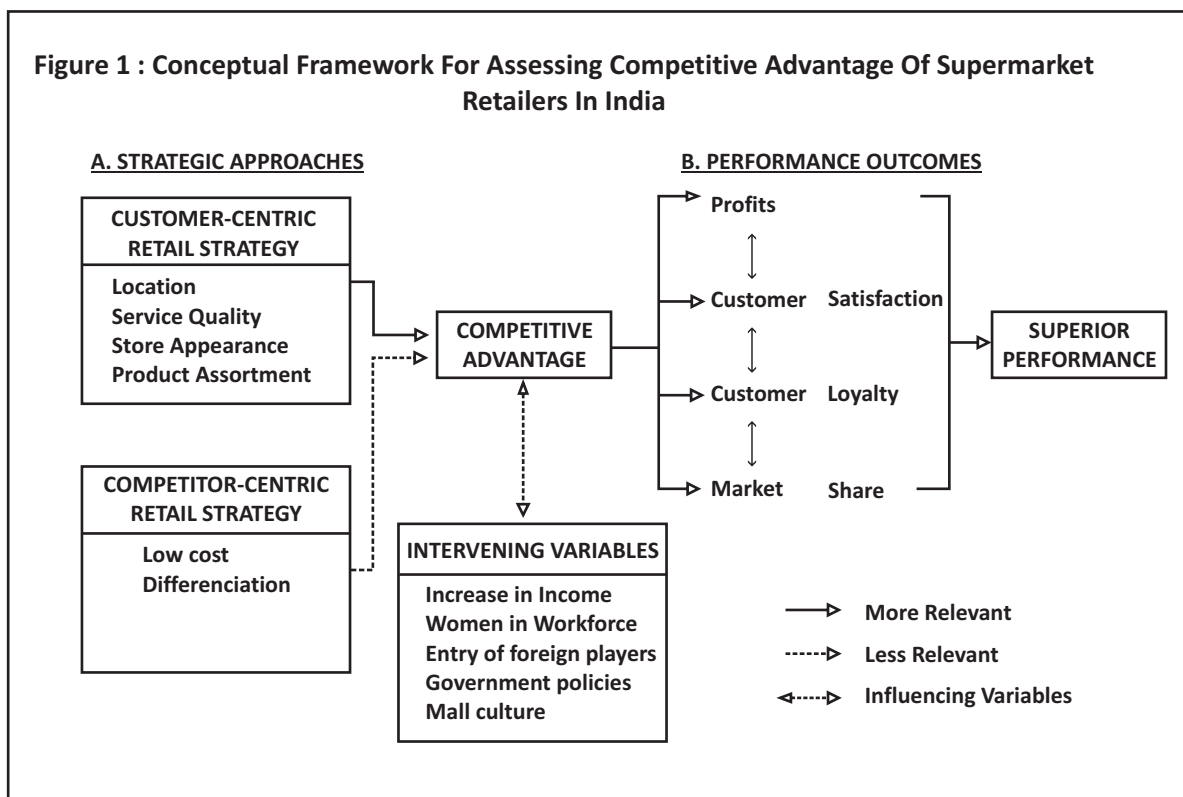
i) Increase in Income : Increased income, coupled with availability of credit cards, exposure to shopping culture of the west, desire to improve his/her standard of living is making the Indian Consumer spend like never before.

ii) Women In Workforce : With an increase in the number of women joining the workforce, there has been an increase in the number of double income families who have more disposable income, which is turn, is changing their buying habits and has contributed to greater scope for retailing in India.

iii) Entry Of Foreign Players : Wal-mart, Carrefour, UK- based Tesco, Gulf based-Emke group, Dubai based landmark group are a few names who have intensified the competition among retailers in India.

iv) Government Policies : With the Government of India relaxing the restrictions on FDI in retail, the roads to Indian retail sector has become even more easier to access.

v) Mall Culture : The evolution of the mall culture in India has created a battleground for Supermarket retailers. In total, all these intervening factors are increasing the basis for competition among Supermarket retailers, and are pressing them to attain the competitive advantage.



B. PERFORMANCE OUTCOMES

To attain superior performance, a business must develop and sustain competitive advantage. While a competitive advantage was earlier based on attainment of low-cost or differentiation position, today, firms are emphasizing on capabilities that will enable delivery of superior value of its customers. Slater and Narver (1994) affirmed that customer-centric strategies would contribute to customer satisfaction, customer value, customer loyalty and profitability. 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 will also 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. Most retailers try to achieve a competitive advantage by taking a count of satisfied customers, and 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. There is a sufficient research evidence that the true essence of a customer-centric strategy lies in concentrating on continuing customer satisfaction and loyalty for enabling firms to attain a competitive advantage. In addition to this, Fornell (1992) also identifies that there is a 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 a customer-centric strategy is also said to have a positive impact on the firm's ability to acquire a 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. 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 would certainly reflect on the superior performance.

CONCLUSION

Competitive advantage has always been at the heart of firms' operating in a highly competitive environment. With competition intensifying among supermarket retailers in India, identifying an effective strategy for facilitating them to attain a superior performance has become imperative. This research looks beyond the competitor-centric retail strategy, and provides a conceptual framework for investigating the applicability of customer-centric strategy in facilitating Supermarket retailers to attain Competitive Advantage. Supermarket retailers in India can be certain of attaining superior performance by riding on this strategy.

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