

Store Image, Service Quality And Store Loyalty In Indian Food Grocery Retailing - A Comparison Of Department Stores And Discount Stores

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Abstract

Food and groceries represent 45% of what Indian consumers spend their money on. According to IBEF report 2016, the food industry, which is currently valued at US\$ 39.71 billion is expected to grow at a Compounded Annual Growth Rate (CAGR) of 11 per cent to US\$65.4 billion by 2018. Food and grocery account for around 31 per cent of India's consumption basket. The Indian Food Report 2016 shows that over the next six years the food market is expected to register an average growth rate of 5.3 per cent per annum. The pace of growth is expected to be at 5.7 per cent per annum between 2020-21 and 2025-26. Both urban and rural growths are likely to be register considerably higher growth during the next decade as compared to the decade ending 2014-15. Rapid economic growth ,rising household incomes, increasing urbanization, and changing lifestyles are some of the factors that are expected to contribute to the continued growth in the food grocery retailing in India . However, this segment is largely controlled by the unorganized small outlet sector – penetration of organized retail is about 1 percent in this segment. The sector is defined by low margins, but there is tremendous growth potential in the organized food grocery sector in the forms of hypermarkets, supermarkets and hard discount stores. The present study attempts to investigate the relationship between store image, service quality and store loyalty across Department Stores and Discount Stores in Indian Food Grocery Retailing. Understanding of the relationship between these variables would enable various companies to design, develop and practice marketing strategies so as to obtain long term competitive advantage in this industry. Also, it will help companies to redefine their corporate image to one that is customer-focused and driven by service quality.

Introduction

With a population of more than 1.1 billion, India is one of the largest consumer markets in the world. The food consumption in India is expected to grow to Rs.22.5 trillion by 2030 from Rs.11 trillion in 2010. Indian **food grocery** retail industry has emerged as India's most promising sector and is established as a destination of choice among global players. According to estimates by Morgan and Stanley, 95% of the organized retail market consists of food and grocery, apparel and general merchandise including furniture and furnishings. According to the Indian Food Report 2016 , India's Food Retail sector comprising Food & Grocery and Food Service is valued at Rs 25,12,962 crore (2014) and holds a 65 per cent share in the country's total retail market. Out of this, Food & Grocery Retail is Valued at Rs 23,03,496 crore and food service market is valued at Rs 2,09,466 crore. The average rate of growth during the past four years in Food & Grocery has been estimated at 15 per cent per annum and in food service it has been 22 per cent per annum.

The respective growth rates are expected to make these retail markets to Rs 54,20,789 crore and Rs 6,90,672 crore by 2020. A research by AC Nielsen, in 2005, there was a net increase of over 12,000 stores which was driven by 19% in hypermarkets and 15% growth in convenience store. However, the Indian organized retail industry is in its infancy and according to industry estimates, is expected to grow at approximately 32% CAGR over the period from FY2005 to FY 2015 to become a \$64 billion industry by 2015. The major players in the fray include Big Bazaar, Tata group's Star India Bazaar, Reliance Industries, Rainbow Retail, Godrej, Adani, Trinethra, Dairy Farm, Jubilant Group and Landmark group in association with Shoprite. However, this segment is largely controlled by the unorganized small outlet sector—penetration of organized retail is about 1 percent in this segment. The sector is defined by low margins, but there is tremendous growth potential in the organized food grocery sector in the forms of hypermarkets, supermarkets and hard discount stores. The study is an attempt to investigate the relationship between store image, service quality and store loyalty across Department Stores and Discount Stores in Indian Food Grocery Retailing.

Organised Retail Penetration and Key Trends Across Categories				
Retail category	Category share as a % of total market 2014-15	ORP (%)	Approx. gross MARGIN (%)	Key trends
Food & beverage	69-70	2-3	3-14	Large market and low ORP presents robust opportunities
Clothing & textile	11-13	17-20	35-50	High margins, increased preference for branded apparel
Consumer durables	4-5	15-20	10-20	Wide range of price points and good – after sales service are key differentiators
Home décor & furnishing	3	5-6	40-50	Housing boom and increasing aspiration levels are driving demand
Beauty, personal care	8-11	6-10	20-40	Growth driven by new product launches, consumers' aspirations and expansion plans of organised players
Footwear	2	16-17	25-35	Lifestyle brands are increasing their product offerings and formats
Others	3-4	9-30	10-15	Pharmacy retail, stationery retailers, etc
Source : Ministry of Statistics and Programme Implementation , A Report on 'Retail reforms in India' by PwC, TechSci Research				

Conceptual Framework

Store Loyalty can be defined as "the biased (i.e. nonrandom) behavioral response (i.e. revisit), day in which the store expressed over time, by some decision-making unit with respect to one store out of a set of stores, which is a function of psychological (decision making and evaluative) processes resulting in brand commitment" (Bloemer and Ruyter, 1998). Store loyalty implies more than merely re-patronizing a store but also suggests some degree of preference and dedication. Past research shows links between store loyalty and organization profitability, implying that any organization with loyal customers has considerable competitive advantage. Acquiring loyal customers is important for all companies because of the future income it provides to have from the customers that will not change suppliers (Grönroos, 2000; Rust,

Zeithaml and Lemon, 2000). Loyal customers build businesses by buying more, paying premium prices and providing new referrals through positive word of mouth over time (Ganesh et al., 2000).

Service Quality: Though satisfaction is modeled as the only immediate antecedent of loyalty, other key drivers of loyalty include service quality (Hennig-Thurau *et al.*, 2002) and customer expectations. Melin (1999) also stresses that one of the most important product attributes that can be used is quality. Since the service is highly heterogeneous in its nature, keeping a persistent quality is considerably harder than in the case of products (Chernatony and Dall'Olmo 1998). Studies show that service quality has measurable impact on customer retention (Payne and Rickard, 1993). The perceived quality of the functional and the technical service dimensions, including tangible and intangible dimensions of the total offering, could influence the level of customer satisfaction (Nilsson *et al.*, 2001) and it seems that there is enough evidence to suggest that perceived quality leads to satisfaction (Andreassen and Lindestad, 1998). It is well known that evaluative judgments of service quality could significantly influence service loyalty (Hennig-Thurau *et al.*, 2002). Therefore, perceived quality can be used as a predictor of loyalty. Both satisfaction and service quality are opined as predictors of customer behaviours like purchase intentions and word of mouth advertising (Reichheld and Sasser, 1990) which are measures of loyalty. Although many retail companies have been measuring customer satisfaction and service quality to determine how well they meet customer needs and requirements, understanding the nature of relationship with customer loyalty is of significant value to managers in retail sector .

Store Image is defined as “the wis perceived by the shoppers.” Image formations result in predispositions that generally guide patronage (Darley and Lim 1993), including shopping trips, expenditure behavior and store loyalty (Arnold et al. 1983; Sirgy and Samli 1985). Empirical evidence suggests that image perceptions account for a very high proportion of the variance in retail patronage (Finn and Louviere 1996; Kasulis and Lusch 1981).

Objectives Of The Study

- a) To study the relationship between store image, service quality and store loyalty across Department Stores
- b) To study the relationship between store image, service quality and store loyalty across Discount Stores

Hypothesis

H1: Store image has a significant impact on store loyalty across Department Stores.

H2: Service quality has a significant impact on store loyalty across Department Stores.

H3: Store image has a significant impact on store loyalty across Discount Stores.

H4: Service quality has a significant impact on store loyalty across Discount Stores.

RESEARCH METHODOLOGY

Table 1: Distribution of Respondents

Distribution of Respondents		
	All (n=240)	
	n	p
Type of retail store		
Department store	120	50.0
Discount store	120	50.0
Total	240	100
Age (years)		
<25 years	102	42.5
25 -34 yrs	96	40.0
35yrs&above	42	17.5
Total	240	100
Gender		
Male	122	50.8
Female	118	49.2
Total	240	100
Education		
Graduation	122	50.8
Professional Course	28	11.6
Masters Degree	90	37.5
Total	240	100
Income (Monthly)		
Less than Rs.20,000	58	24.2
Rs.21,001-30,000	136	56.7
More than Rs.30,001	46	19.2
Total	240	100

The research design was a descriptive in nature utilizing survey method. Judgmental sampling technique was used to select 300 respondents. However, 240 respondents responded to the questionnaire. Multiple regression analysis was applied for data analysis. Table 1 presents the profile of the respondents who had participated in this research study. Around half of the participants were males (50.8 per cent). Almost 50.8 per cent of the respondents were graduate, 11.6 per cent have pursued professional course. 40.0 percent of the respondents were in the age group of 25 -34 years and 17.5 percent were 35 years & above.

RESULTS OF THE STUDY

- a) **Relationship between store image, service quality and store loyalty across Department Stores**

Correlation Results

The preliminary correlation analysis results in table 2 indicated the existence of a positive correlation between store image and store loyalty across department stores. Hypothesis 1 is, therefore, supported. Also, service quality is found to have significant positive relationship on store loyalty across department stores. Thus, hypothesis 2 is also supported.

Table 2: Measures of Correlation and Association

Variables	Store Loyalty	Store Image	Service Quality
Store Loyalty	1		
Store Image	0.756**	1	
Service Quality	0.684**	0.826**	1

Regression Results

The strength of association between store loyalty and the explanatory variables, i.e., service quality and store image was measured by using a linear regression. It was recognized that the use of all explanatory variables to predict store loyalty decision might give rise to some redundant variables and multicollinearity problems. A stepwise regression was, therefore, employed to remove a previously entered variable that became redundant. Thus, the following regression model was used to assess the effects of each of the explanatory variables on store loyalty.

$$S_{IV} = I_x = \alpha_0 + \beta_1 \text{ service quality} + \beta_2 \text{ store image} + \text{Error Term}$$

where, β_1, β_2 = coefficients of service quality, store image

Table 3: Overall multiple regression results

Regression Statistics	
Multiple R	0.679
R Square	0.461
Adjusted R Square	0.442
F	24.342 (p=.000**)

	Coefficients	t statistics	P value
Intercept	1.678	4.453	.000**
Service quality	0.630	6.296	.000**
Store image	0.441	4.405	.000**

The shaded areas indicate values that are statistically significant at p<.05

The results of multivariate analysis suggests that the overall model demonstrates a strong predictive power R Square=0.461 in case of department stores. A closer scrutiny of the results in table 3 shows that the explanatory variables, namely, service quality (p=.000), store image

($p=.000$) are significant positive predictors of overall store loyalty across department stores. All of the coefficients were in the positive direction. The results point out the very close relationship of service quality, store image and store loyalty.

b) Relationship between store image, service quality and store loyalty across Discount Stores

Correlation Results

The preliminary correlation analysis results in table 4 indicated the existence of a positive correlation between store image and store loyalty across discount stores. Hypothesis 3 is, therefore, supported. Also, service quality is found to have significant positive relationship on store loyalty across discount stores. Thus, hypothesis 4 is also supported.

Table 4: Measures of Correlation and Association

Regression Statistics	
Multiple R	0.562
R Square	0.316
Adjusted R Square	0.304
F	26.803 ($p=.000^{**}$)

	Coefficients	t statistics	P value
Intercept	1.181	2.648	.010^{**}
Store image	0.562	5.177	.000^{**}

The shaded areas indicate values that are statistically significant at $p<.05$

The results of multivariate analysis suggests that the overall model demonstrates a moderate predictive power $R\text{ Square}=0.316$ in case of discount stores. A closer scrutiny of the results in table 5 shows that the explanatory variables, namely, store image ($p=.000$) is significant positive predictor of overall store loyalty across discount stores. The results point out the very close relationship of store image and store loyalty.

Implications of the Study

The fight for the customer is going to be fought in each individual catchment. Two hypermarkets in the same catchment are going to be fighting for customers and the only way for them to succeed, is to start segmenting. One needs to be clear who they want to address if they need to succeed. Segmentation should be done depending on the needs of the catchment and identifying existing gaps in the delivery. Another driving force to place more attention is the emergence of new breed of customers. Today's consumer is not only better educated, but also travel extensively and read widely. These characteristics influence their buying behavior and they are becoming more sophisticated, more discerning and have higher expectations. Thus, there is need to understand the consumer tastes, infrastructure limitations (lack of parking space, budget constraints) and consumer preferences (growing willingness to use consumer financing, credit

management with kirana store, etc.). Also, supply chain practices should be flexible and adaptive and need to be driven by customer requirements. As discussed earlier, it is difficult to introduce global sourcing and network models in India. There should be mix of global learning and Indian studies need to be applied while designing sourcing techniques and network models including manufacturing and distribution centre location. There is need to have strong focus on building processes in order to be able to scale rapidly and thus needs very strong IT backbone. New marketing concepts and strategies are paying greater attention to identifying customer needs and expectations and offering high service quality to customers. As argued in literature, it is probably the effective measurement, management and improvement of service quality which will enable retailers to achieve a differential advantage over their competitors. Service quality, therefore, has become a critical prerequisite for satisfying and retaining valued customers in banks. The interest is largely driven by the realization that high service quality results in customer satisfaction and loyalty with the product or service, greater willingness to recommend someone else, reduction in complaints and improved customer retention. Further, a satisfied customer is likely to be a loyal customer who will give repeating business. More importantly, the cost of retaining existing customers by improving product and services is perceived to be significantly lower than the cost of winning new customers. This is needed, at large scale, to support greater gross margins through larger volume buying. They also need to have reduced costs – without dissatisfying customers. The modern retailers need to offer merchandise mix to the level of the individual store, develop an ability to recognize and retain customers, offer home delivery as per convenience of the customer and to build a mechanism by introducing a Store Credit Programme and allow customers to purchase on credit and settling account only at the end of the month. It is difficult to offer “everything to everybody” in the food grocery sector because of the availability of wide range of products and product categories. Careful assortment, planning and ranging of the products is required. The retailers must acquire know how and manage effectively the stocking, fast movers, slow movers and new market developments. This can possibly be done by understanding the market and customers at local level. Lastly, for better managing of the products on shelf, the replenishment process, which starts with the procurement and ends with shelf replenishment within the stores, must be well executed. This would require real time inventory and stock monitoring, use of IT systems for planning and business rule based replenishment.

Conclusion

In recent years, retail outlets have been making great efforts to improve service quality to make customer return to the store. Rising expectations of service, quality, etc., is an economic and social phenomenon. Moreover, customers are becoming richer, more educated and better informed. Therefore, retail outlets must constantly monitor customer expectations and not merely the performance as commonly done. This can be conducted through customer surveys, depth interviews and other informal means of research. Retail outlets should try to develop strategies that would enhance positive responses and prohibit negative ones. Such strategies can include meeting the desired service levels, preventing service problems, dealing effectively with the unsatisfied customers and confronting customer complaints positively. The role of customer-contact personnel in the attainment of quality goals is of paramount importance. Therefore, in their efforts to deliver high quality service to customers' stores should not ignore the needs of

their customer-contact employees such as need for motivation, factors leading to satisfaction and commitment enhancing factors.

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