

# Retail Service Quality and its Effects on Consumer Preferences for Retail Format Stores

Dhanashree Nagar

Assistant Professor-Marketing | Shri Vaishnav Institute of Management | Indore-452009 |  
Email: hi.dhanashree@gmail.com

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## Abstract

Consumer's store preferences are associated with the quality of services delivered by the retailer. The present study is carried out to measure the preferences of consumers based on quality of services delivered by retail stores. To measure the service quality of grocery retail stores, traditional scale SERVQUAL, developed by Parasuraman, Zeithaml, & Berry (1985) is used. Variables associated with delivering service quality are grouped on RATER model. The data has been collected through questionnaire and the results have been concluded using ANOVA on SPSS 17. The study confirms that retail service quality parameters play vital role in determining consumer preferences for a specific format. Customer satisfaction is also based on the efficacy of services delivered by the retailers which results into developing their preferences for a specific retail format in grocery.

*Keywords: Retail formats, Retail service quality, Service delivery, Store preferences*

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## INTRODUCTION

Retail sector is one of fastest growing sectors of India. The grocery and FMCGs, sector has grown in terms of shopping malls and hypermarkets in past few years. The retail sector in India has been categorized into two parts. The unorganized retail has captured a major portion of a pie with 95% of total share. The organized retail sector with mere 5% share consists of super markets, departmental stores, shopping malls and hyper markets. The existing formats primarily deal in grocery items, FMCGs and personal care products.

India's grocery retail segment is the most attractive segment in the world. India's strong growth fundamentals along with

increased urbanization and consumerism opened immense scope for retail expansion for foreign players. (IBEF Retail 2013). Availability of retail services and consistency in their delivery process is an important element for consumers' choice of a retail store. Traditional retail stores on one hand are focusing on personalized services where as modern retailers are focusing on delivering 'Shopping Experience' by improving the quality of services provided by them.

## SERVICE QUALITY SCALE

A Retail Service Quality Scale was designed by Zeithaml, Parasuraman, and Berry in mid 1980s to measure five

dimensions of service quality: Reliability, Assurance, Tangibility, Empathy and Responsiveness. This scale was later known as RATER scale and has been used as a basis of measuring service quality by many researchers. (Parasuraman et. al. 1994 Dabholkar et. al. 1996). With the rapid change in the industry structure, the retail sector is facing competition from domestic and foreign players. Customers have become more selective when it comes to shopping experience and value for money. Retailers need to differentiate themselves by meeting the needs of customers better than their competitors. Delivering high quality of services is must for creating competitive advantage. (Berry, 1986; Hummel and Savitt, 1988; Reichheld and Sasser, 1990). Thus, quality of services provided by a retail store does develop store preferences leading to customer satisfaction.

## **REVIEW OF LITERATURE**

Increasing competition and rising expectations of the customers from a retail store are one of the key challenges for retail service providers (Hossain & Leo, 2009). Due to this, retailers need to change their strategies from the conventional approach, to adopt aggressive strategies that will drive them to obtain the lead in the market (Kandampully, 1998) Level of customer satisfaction plays a considerable role for measuring the level of service quality in retail sector and used as a capable competitive instrument by many retail service providers. (Ali et. al. 2012)

According to Bhaskar & Shekhar (2011) on retail service quality in apparel

sector, the retailing sector consists of both tangible and intangible factors. One of the fastest growing apparel sectors has several service deficiencies like waits for billing, improper customer treatment and handling of customer complaints. The critical factors drawn by the authors affecting service quality are personal interaction and reliability of the store in order to enhance their service which significantly effects customer satisfaction. The other factors contributing to customer satisfaction are policy of the store, personal interaction, reliability, physical aspects and problem solving approach.

The success of any business activity lies in understanding and timely meeting customers' needs, whether they are small or large. (Timm, 2008). There exists a positive relationship between 'Physical Appearance of Store' and 'Personal Interaction with Customers' while measuring the quality of retail services and associated customer satisfaction. 'Problem Solving Attitude' and 'Policy' were significant influencers of customer satisfaction. Retailers who fail to comply with the fundamental needs of the target market are unlikely to experience repeat patronage. (Justin et. al. 2012) Convenient location, friendly services and long business hours are the important benefits offered to the customers, while stock shortages and poor customer services were seen as major disadvantages. (Ligthelm 2003).

Jaykumar & Samad (2012) in their study have considered physical aspects, reliability, personal interaction and problem solving as the parameters of retail service quality. Study confirms that enhancement

of physical appearance; equipments and facilities would be required to improve the delivery of better service quality. Use of high-tech software and facilities will lead to speedy and error free transactions resulting into increased reliability of retail store services. Suitable training programmes for the employees will also improve personal interaction with the customers and develop a positive problem solving approach.

Wong and Sohal (2003) conducted a study to determine the influence of store staff on customers' loyalty towards retail stores in Melbourne-Australia. It was observed that empathy was the most significant predictor of customer loyalty in the city based retail stores. In retail services, tangibles such as the quality and variety of merchandise offered were the most important determinants, while empathy, responsiveness and assurance played a minor role.

Study by Martínéz-Ruiz et al. (2010) analyzed that customers always look for the convenience in retails business. Additional services play a role in determining customer satisfaction through creation of convenience. On the other hand, waiting time is one of the causes that results into customer dissatisfaction. (Katz et al, 1991), It can negatively affect the store patronage behavior of a customer. (Hui et. al. 1997) The stores which have lesser waiting time lead to provide greater customer satisfaction and store patronage.

Benek et.al. (2012) have found that physical aspects of stores and personal interaction are important for customer satisfaction. Customer wants to shop in

safe, clean and well structured environment where staff is knowledgeable, friendly and willing to assist.

Negi, (2009) points out that overall service quality is significantly associated with and contributes to the overall satisfaction of mobile subscribers. Quality of services is an indispensable competitive strategy to retain customers. (Kothadiya, 2012). Customer satisfaction is based on the level of service quality delivered by the service providers (Saravanan & Rao, 2007) which is determined by the consumer's cumulative experiences at all of the points of contact with company. Satisfaction according to Hokanson (1995) is affected by factors such as friendliness, courteousness, knowledge and helpfulness of employees, accuracy of billing, competitive pricing and quickness of services. This shows that there is some link between service quality and customer satisfaction. (Wicks & Roethlein, 2009).

## **OBJECTIVES**

1. To identify the elements of service quality delivered by grocery and FMCG retail.
2. To compare the service quality parameters among organized and traditional retail stores.
3. To assess the association of service quality dimensions with customer satisfaction and choice of retail store format.

**RESEARCH METHODOLOGY**

The present study is based on Survey Approach and has been conducted in Indore (M.P. India). Primary data has been collected through self administered structured questionnaire. It includes the variables measuring the quality of services at retail stores. The variables have been selected from literature review that is related to the above topic. The sampling technique used for the present study is Simple Random Sampling consisting of 100 respondents

from Indore (M.P. India). Five point Likert Scale was used to measure the opinion of the respondents for the given variables. The hypotheses have been tested by using One-Way ANOVA on SPSS 17.

**ANALYSIS AND FINDINGS**

Present study is conducted by using RATER scale designed by Parasuraman, Zeithaml and Berry (1985) has been used. The variables are listed in Table 1.

TABLE 1

Parameter	Variables
Reliability: (Ability to deliver services)	Variety of merchandize displayed, information related to product, offers, in-store promotions, ability to communicate timely and accurate information, management of queues
Assurance	Quality of product, price, discount, quality of stores brands, freshness of merchandize, safety in carrying cash and online transactions
Tangibility	Store layout, well spaced merchandize, product display, cleanliness, lighting scheme, store attractiveness, information display, equipments, parking, in-store facilities
Empathy	Staff behavior and willingness to help, store keep's efficiency to explain product details, demonstrations, support in product selection, competency and well dressed staff
Responsiveness	Response to queries, complaint handling, product exchange, time, store time, telephonic conversation, regular feedback to customers

**HYPOTHESIS TESTING**

H<sub>0</sub>1: There is no significant association of service quality of Organized retail store on customer satisfaction.

H<sub>1</sub>1a: There is a significant association

of Reliability of Organized Retail Store Services on customer satisfaction.

H<sub>1</sub>1b: There is a significant association of Assurance of Organized Retail Store Services on customer satisfaction.

H<sub>1</sub>c: There is a significant association of Tangibility of Organized Retail Store Services on customer satisfaction.

H<sub>1</sub>d: There is a significant association of Empathy of Organized Retail Store Services on customer satisfaction.

H<sub>1</sub>e: There is a significant association of Responsiveness of Organized Retail Store Services on customer satisfaction.

TABLE 2 Service Quality and Customer Satisfaction at Organized Retail Stores

Scale	F Value	Significance
Reliability	3.990	.000
Assurance	3.457	.000
Tangibility	2.356	.003
Empathy	2.814	.000
Responsiveness	4.854	.000

The hypotheses have been framed and tested to measure the association of SERVQUAL parameters in organized retail format and its association with customer satisfaction. From the above table it has been observed that the calculated value of F for all the parameters namely Reliability, Assurance, Tangibility, Empathy and Responsiveness is significant at 0.05 level. This indicates that these factors have a significant association with organized retail customer satisfaction. In light of this the null hypothesis namely H<sub>0</sub>1: There is no significant association of service quality dimensions of organized retail store on customer satisfaction is rejected. Service quality dimensions of organized retail stores have a significant association with customer satisfaction.

H<sub>0</sub>2: There is no significant association of service quality dimensions of Traditional retail store on customer satisfaction.

H<sub>1</sub>2a: There is a significant association of Reliability of Traditional Retail Store Services on customer satisfaction.

H<sub>1</sub>2b: There is a significant association of Assurance of Traditional Retail Store Services on customer satisfaction.

H<sub>1</sub>2c: There is a significant association of Tangibility of Traditional Retail Store Services on customer satisfaction.

H<sub>1</sub>2d: There is a significant association of Empathy of Traditional Retail Store Services on customer satisfaction.

H<sub>1</sub>2e: There is a significant association of Responsiveness of Traditional Retail Store Services on customer satisfaction.

TABLE 3 Service Quality and Customer Satisfaction at Traditional Retail Stores

Scale	F Value	Significance
Reliability	4.321	.000
Assurance	2.318	.003
Tangibility	1.477	.100
Empathy	1.698	.041
Responsiveness	3.048	.000

Similarly, in Table 3 it has been observed that the calculated value of F for the parameters namely Reliability, Assurance, Empathy and Responsiveness is significant at 0.05 level. This indicates that these factors have a significant association with organized retail customer satisfaction. In light of this the alternate hypotheses H<sub>1</sub>2a, H<sub>1</sub>2b, H<sub>1</sub>2d, and H<sub>1</sub>2e are not

rejected. There is a significant association of reliability, assurance, empathy and responsiveness of traditional retail store services on customer satisfaction.

In case of the parameter Tangibility, the F value 1.477 is not significant at 0.100 level. In light of this the alternate hypothesis namely H<sub>12c</sub>: There is a significant association of Tangibility of Traditional Retail Store Services on customer satisfaction is not rejected.

Thus we can conclude that the service quality parameters namely Reliability, Assurance, Empathy and Responsiveness of traditional retail store services are associated with customer satisfaction whereas tangibility of retail services does not have a significant association with customer satisfaction.

H<sub>03</sub>: There is no significant association of Reliability of Retail services and choice of retail store formats.

H<sub>13a</sub>: There is a significant association of Reliability of Retail services and choice of organized retail store formats.

H<sub>13b</sub>: There is a significant association of Reliability of Retail services and choice of traditional retail store formats.

TABLE 4 Reliability and retail format choice

Format	F Value	Significance
Organized Retail Store	19.864	.000
Traditional Retail Store	8.133	.000

Two way ANOVA has been used to calculate the association of each factor of retail service quality with choice of a retail store format. It has been observed that the

calculated F value 19.864 of Reliability factor for organized as well as traditional retail stores (8.133) is significant at 5% level. This indicates that there is a significant association of Reliability of retail store services with choice of a retail store format. In this case the null hypothesis namely H<sub>03</sub>: There is no significant association of Reliability of Retail services and choice of retail store formats is rejected. The ability of a format store to deliver variety of merchandize, display of product related information and promotion has a significant impact on choice of format store. A customer may prefer a specific format with respect to above parameters in grocery products. Thus, Reliability of retail services is significantly associated with a choice of retail format store.

H<sub>04</sub>: There is no significant association of Assurance of Retail services and retail store formats.

H<sub>14a</sub>: There is a significant association of Assurance of Retail services and choice of organized retail store formats.

H<sub>14b</sub>: There is a significant association of Assurance of Retail services and choice of traditional retail store formats.

TABLE 5 Assurance and retail format choice

Format	F Value	Significance
Organized Retail Store	4.693	.000
Traditional Retail Store	6.647	.000

Table 5 shows the association of Assurance of retail store services. The factor group includes the assured quality of products at retail outlet, price, freshness of merchandize and store brands, safety in

financial and credit transactions etc. The F value 4.693 for assurance of retail services for organized retail format and 6.647 of traditional retail format are significant at 5% level. In light of this the null hypothesis namely  $H_04$ : There is no significant association of Assurance of Retail services and retail store formats is rejected. Consumer may prefer a specific format of store when it comes to the quality of merchandize and financial safety. The more assured he is, preferred is a specific format store for grocery items. Thus, assurance about retail store services is significantly associated with a choice of retail store format.

$H_05$ : There is no significant association of Tangibility of Retail services and choice of retail store formats.

$H_15a$ : There is a significant association of Tangibility of Retail services and choice of organized retail store formats.

$H_15b$ : There is a significant association of Tangibility of Retail services and choice of traditional retail store formats.

TABLE 6 Tangibility and retail format choice

Format	F Value	Significance
Organized Retail Store	4.616	.000
Traditional Retail Store	2.955	.000

Table 6 shows the association of Tangibility of retail store services with choice of store format. Tangibility is all about how a retail store appears when one enters into it. The F value 4.616 for tangibility of retail services for organized retail format and 2.955 of traditional retail format are

significant at 5% level of significance. In light of this the null hypothesis  $H_05$ : There is no significant association of Tangibility of Retail services and choice of retail store formats is rejected. There is a possibility that a consumer prefers to shop from a specific store format due to its attractive merchandize display, convenience in moving and locating the product in store, cleanliness and hygiene, hazards free parking etc. Therefore, the availability of the above facilities are associated with choice of a retail format.

$H_06$ : There is no significant association of Empathy of Retail services and choice of retail store formats.

$H_16a$ : There is a significant association of Empathy of Retail services and choice of organized retail store formats.

$H_16b$ : There is a significant association of Empathy of Retail services and choice of traditional retail store formats.

TABLE 7 Empathy and retail format choice

Format	F Value	Significance
Organized Retail Store	6.843	.000
Traditional Retail Store	4.642	.000

In table 7, the association of Empathy of retail store services with choice of store format has been tested. Empathy of retail store is associated with in-store services and staff behavior. The F value 6.843 for tangibility of retail services for organized retail format and 4.642 of traditional retail format are significant at 5% level of significance. In light of this the null hypothesis  $H_06$ : There is no

significant association of Empathy of Retail services and choice of retail store formats is rejected. Empathy of retail store services is significantly associated with a choice of a specific retail store format.

H<sub>0</sub>7: There is no significant association of Responsiveness of Retail services and choice of retail store formats.

H<sub>1</sub>7a: There is a significant association of Responsiveness of Retail services and choice of organized retail store formats.

H<sub>1</sub>7b: There is a significant association of Responsiveness of Retail services and choice of traditional retail store formats.

TABLE 8 Responsiveness and retail format choice

Format	F Value	Significance
Organized Retail Store	10.109	.000
Traditional Retail Store	6.520	.000

In table 8, the association of Responsiveness towards store services with choice of store format has been tested. The F value 10.109 for Responsiveness of retail services for organized retail format and 6.520 of traditional retail format are significant at 5% level of significance. In light of this the null hypothesis H<sub>0</sub>7: There is no significant association of Responsiveness of Retail services and choice of retail store formats is rejected. Consumer preferences and satisfaction is also associated with the response time taken for handling queries by a retailer, the way the complaints, queries and suggestions are being handled etc. Thus the above study confirms that responsiveness towards retail

services is significantly associated with choice retail store format.

## CONCLUSION

The present study has been carried out to measure consumers' preferences towards organized and traditional retail formats based on retail service quality parameters. It has been observed that consumer preferences and satisfaction is positively associated with the services delivered by both the format stores. When consumer preferences are measured towards both the format stores, they have considered the parameters like availability of variety of merchandize, in-store promotions, information display, quality of national and private label brands, store atmosphere, cleanliness and hygiene, store sales person's attitude, response time, in-store facilities and services and so on.

## SCOPE OF FURTHER RESEARCH

Both the format stores need to focus on services delivered by them to increase store footfalls and manage store traffic at weekends. Training programmes can be conducted to enhance the ability of staff for customer and complaint handling. The study may be further carries out on either of the formats between metro and mini metros. Service quality can be measured for retail formats based on individual factors of RATER scale.



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