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How does perceived retailer innovativeness create value to the customer?

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Abstract

Retailer innovativeness considered as the key to long-term competitiveness because it can result in the acquisition of new customers and the retention of existing ones. Despite the importance of retailer innovativeness, little academic research has addressed how consumers perceive innovative activities and how perceived retailer innovativeness (PRI) creates value to customers. This research aims to present a value-based, consumer-centric view of retailer innovativeness. It draws on focus groups undertaken with convenience store consumers in Taiwan. The results show that consumers evaluate the innovativeness of a focal retailer through not only novel products but also creative service, communications and store atmosphere. Interestingly, the research concludes that PRI can enhance consumer loyalty via increase customers' perceived value in four distinct value dimensions: convenience, emotion, quality, and price. Summarizing the findings from the focus group interviews and previous literature, this research proposes a PRI-Value-Loyalty consumer processing model. Finally, implications for retail managers and researchers are provided.

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How does perceived retailer innovativeness create value to the customer?

1. **Introduction.** Enhancing consumers' perceived innovativeness is important for retailers to ensure competitiveness since it can result in the acquisition of new customers and the retention of existing ones. Especially for retailers positioned in a hyper competitive market, enhancing consumers' perceived retailer innovativeness (from now on PRI) is of great importance. Many retail managers realize that in general, retailers who have been able to innovate, to create new value and to respond to the changes in consumer demand are those who have been successful in the market. Evidence in Asian countries suggests that the major retailers are currently pursuing marketing strategies of enhanced quality and developing an image for innovativeness. For example, Chang and Dawson (2007) observed that 7-Eleven in Taiwan successfully increased its sales through retail innovation, utilising managerial know-how and technology, leading to improvements in productivity.

Retail innovations, however, might fail if these activities can not create new value or satisfy consumers' need since it is consumers that ultimately determine the success of an innovation. Consumers, may not be concerned about the company's new business model and/or really advanced technology but may be interested in how these new technologies can create new experiences for them and, perhaps more importantly, create value for them. For example, Dawson and Larke (2005) showed that many medium-sized Japanese retailers, such as Yaoko and Belk, have been able to grow in a recession through changing managerial practice and using sophisticated retail branding, merchandising and processes innovation including customer services in stores. New value was created for their customers. To ensure that retail innovations will be more successful in the marketplace, a consumer-centric perspective is essential (Kunz et al., 2011).

Given the importance of retail innovation, a better understanding of this topic is needed. But our knowledge of how retail innovation contributes to retailer competitiveness is still limited to how retail innovation enhances retail productivity (e.g. Chang and Dawson, 2007; Richard et al., 2011), growth (e.g. Dawson and Larke, 2005; Anselmsson and Johansson, 2009) and performance (Susan et al., 2010). Few studies have provided a consumer-centric view of this process, focusing primarily on consumers' perceptions of new products (e.g. Hoeffler, 2003) or of firm innovativeness (e.g. Kunz et al., 2011). So far, surprisingly, almost no academic research focuses on how consumers evaluate retailer innovativeness and how PRI affects consumers' purchase behaviour. This paper aims to conceptualize PRI and discuss how PRI affects customer loyalty through enhancing perceived value.

2. PRI, Perceived Value and Consumer Loyalty. Past studies of retail innovation often utilised the theory of the wheel of retailing explaining how retailing institutions evolve over time from low-price/ service to higher-price/service operations. The theory, however, did not address how retailers generate innovative activities. Thus, Dawson (2001) proposed a generalised model depicting the main driver of the new retail format development to be

innovation, including new technologies and managerial ideas. These propositions, however, were based on a retailer-centric view, focusing primarily on what drives the retailers to innovative products and/or service. To ensure that retail innovations will be more successful in the marketplace, a value-based, consumer-centric perspective focusing primarily on consumers' perceptions of retailer innovativeness is essential.

Because of the weak theoretical support for a factor structure provided by the literature, a review of perceived industrial and firm innovativeness was conducted to suggest possible factors for PRI. First, Trott (2008) defines innovation as the application of knowledge and identifies seven types of industry/firm innovation. They are product, process, organizational, management, production, marketing, and service innovation. Though Trott's typology of innovation focused on industry/firm activities, his work still sheds some light into the sources of PRI. Product, service and marketing innovation might contribute to consumers' perception of PRI. Moreover, previous research has suggested that store layout is important to the customer's perception and evaluation of retail store. For example, Dabholkar et al. (1996) found that customers were most concerned about store layout as it pertained to walking around the store. Thus it is reasonable to predict that if a retailer could create an innovative physical environment, their customers might evaluate it as an innovative retailer.

In fact, consumers use various types and sources of information provided by retailers to form their assessments of value. Sweeney and Soutar (2001), for example, based on Sheth's research framework, regarded consumer choice as a function of multiple "consumption value" dimensions including quality, price, emotional and social value. Later research, Grewal et al. (2004) used both the benefit (i.e. quality and service) and cost side of the value (i.e. time and price) to describe how consumers perceive value from retailer. Consumer perceived higher value if the retailer can offer more benefit, such as offering better quality products, or reduce the cost dimension of value, such as offering products with lower price. These perceived personal values then links to customer loyalty including satisfaction, world-of-mouth, purchase intention, and purchase behaviour (See Appendix A). Their work provides foundation for extending PRI-value-loyalty constructs as it was validated through an investigation of the variety of fields in which value has been discussed.

3. Methodology. This research conducted qualitative semi-structured focus group interviews to determine how consumers view retailer innovativeness and what characteristics they associate with it (See Appendix B). This research focused on convenience stores as a retail format since the convenience store plays an important role in retail modernisation. More importantly, this is the most innovative retail format in Taiwan (Chang and Dawson, 2007). The leading retailer, 7-Eleven, has 4,780 stores and is followed by Family-Mart (2,797), Hi-Life (1240) and OK-Mart (850).

Eight focus groups were carried out, ranging from 50 to 90 minutes in length. Respondents, including both males and females, constituted a purposive sample of convenience store customers. This research intends to represent buyers at convenience stores. It has been recognized that students and workers are the main consumer segments using convenience stores (Levy and Weitz, 2009). This research conducted six student groups at a traditional

university in Taiwan (Group 1). To increase the range of respondents, one groups were drawn from different occupations such as blue and white collar workers (Group 2) and one groups were conducted with senior managers and retired consumers (Group 3). All respondents have purchase experience in two or more convenience stores retailers and buy items frequently, ranging from 2 to 13 times per week, in the same or different convenience store.

4. Findings. The results of the focus groups showed that PRI is an overall evaluative judgment. Consumers perceive retailer innovativeness through not only novel products but also creative services, new communication programs and an interesting environment. All these facets create various values for consumers that can be related to customer loyalty.

Products-Quality-Loyalty. Providing innovative and high quality private brand (PB) products, which are developed and marketed by a retailer and available only from that retailer, has become a major competitive tactic for retailers (Burt, 2000). Today, frequent retailer-manufacture cooperation, intense competition and abundant offshore sourcing activities enable retailers to introduce more new products (Chen, 2009). Customers also may perceive innovative products as more durable, because they represent the most recent functional and/or technological developments (Stock, 2010). For example, a senior female interviewee in group 3 says: *Recently, I notice that 7-Eleven offers a new "functional hot-creating fibre sweatshirt" and it is very novel and specific to 7-Eleven*. Also, in the area of food products, PB products are highly evaluated by consumers.

Most previous studies of PB concluded that the perceived PB quality is one of the critical factors correlated to consumers' loyalty behaviours such as purchase intention (e.g., Lin et al., 2009), behaviour and satisfaction. For example, an female student in group 1 says: *I buy almost everything that 7-Eleven has in the store because it offers more innovative and fresher products than other convenience store retailers*.

Services-Convenience-Loyalty. A retailer can build an innovative image by offering creative customer service. Service quality has long been recognized as an important strategic retailing weapon, particularly in a highly competitive sector. Retailers continuously seek ways to improve their service quality by saving their consumers' time and effort. For example, Wen et al. (2010) reported that 7-Eleven in Taiwan enables distribution centers (or logistics providers) to integrate more than 1,000 manufacturers and vendors and to deliver the right product at the right place at the right time for the right customer. Sweeney et al. (1999) has found that retail service quality plays a significant role in the creation of value for money in a service encounter. More specifically, the value is saving time and effort for customers. To increase convenience, retailers are not only opening stores close to where customers shop and work, but adding new services such as financial service kiosks that give customers the opportunity to cash checks, pay bills, and buy prepaid telephone minutes, theatre tickets, and gift cards (Levy and Weitz, 2009). This is reflected in some of the comments from the interviewees. As a male student in group 1 says: *Precisely, because many services such as laundry delivery, bill payment service are firstly offered by 7-Eleven and then followed by other convenience stores, we all agree that it has higher innovativeness than others*.

Several studies report a positive relationship between service innovativeness and customer

satisfaction (Luo and Bhattacharya, 2006) or customer loyalty (Wallenburg, 2009). Cronin et al. (2000) concluded that high quality of service not only affects perceptions of value and satisfaction but also influences behavioural intentions. This is reflected in some of the comments from the interviewees. For example, a male interviewee in group 1 says: *I think that 7-Eleven has a lot of innovations in terms of services. For example, it is the first convenience store that offers I-Bon system that you can collect prepaid concert tickets or high speed train tickets in their store. This saves me lots of time to collect the tickets.*

Environment-Emotion-Loyalty. Physical environment innovativeness including new store atmosphere and store design is an important signal to customers that a company is able to fulfil their needs and expectations. Sweeney and Soutar (2001) found the importance of emotional value on consumer's willingness to buy in the durable products category. Emotional value refers to the mental or psychological needs of consumers and the utility they derive from the feelings, or affective states that a retailer generates. Indeed, the layout of the store including physical service environment as well as atmospherics plays a key role in shaping the consumers' perception of retailer innovativeness and enhancing consumer satisfaction. Though a new design of a grid layout does not provide emotional value, the design of an environment through visual communications, lighting, colours, music, and scent that stimulate consumers' perceptual and emotional responses does generate positive feeling for customers (Levy and Weitz, 2009). This is reflected in some of the comments from the interviewees. As a male participant in group 2 says: *Recently, 7-Eleven offers a Wi-Fi environment and has a table for laptops. For office workers, it is very convenient and comfortable to take a rest and get internet access in the store. It is the first one that has this kind of environment, and other retailers are just followers.*

Most retail managers know that they can generate positive returns by creating an exciting shopping environment (Kaltcheva and Weitz, 2006). Therefore, major conveniences store retailers such as 7-Eleven and Family-Mart are willing to invest millions of dollars in the design of novel environments to create affection and indulgence within consumers and which can increase the expected emotional utility of their shopping. As a male student in group 1 says: *I notice that recently, Family-Mart became more innovative than before. Because the new shop front decorates with shiny green color and the open store space make me feel like LOHAS and very comfortable. This make me like to shop at Family-Mart.*

Communication-Price-Loyalty. Marketing innovations can be seen in not only in product development but also in promotion (Chang and Dawson, 2007) and other communication programs. Retailers use a variety of new techniques to communicate with their customers. For example, 7-Eleven has a specific web site to promote its own brand products (see http://www.7-11.com.tw) and consumers can register online to receive relevant deals and coupons. Even if the promotion techniques are not new, a new product mix for discount or new design of gift or present gives consumers a fresh perspective on the retailer. For example, a female student in group 1 says: *I think OK-Mart is an innovative convenience store because it offers different promotion mix, for example you can buy specific biscuit and soft drinks to have discount and it changes the promotion mix regularly.*

Innovations in promotion provide considerable opportunities to target customers effectively

(Grewal et al., 2011). Both price and non-price promotional tactics have been mentioned when interviewees in group 1 answered the question on how one retailer seems to be more innovative than other competitors, for example, a male in group 1 says: *I thought if a convenience store could offer various sales promotion activities, I will treat it as an innovative retailer. For example, 7-Eleven offers coupon collecting in trade of cute dolls or puppets activity on an irregularly scheduled. This makes me like to buy and to collect coupon.*

----------------- Insert   **Figure 1. PRI-Value-Loyalty Model**   here -----------

5. Conclusion. Summarizing the findings from the focus group interviews, Figure 1 represents a simple three-step model of the value delivering process. In the first step, driven by the real retail innovation and guided by the retailer's marketing strategy, the retailer designs a level of innovativeness through new products/brands, novel services, environment design and creative promotion activities. These innovative factors then create consumers' perceived value including better perceived quality, comfortable emotion, saving time/effort and, of course, price saving. Consequentially, consumers, who perceived better value from a retailer' contributions, will have more loyal behaviour than other consumers. Finally, the increase in sales reinforces retailers to invest in new retail innovations.

As Figure 1 shows, retail innovations help the enhancement of customers' perceived value, and then improved consumer loyalty further enables retailers to apply and introduce more advanced retail innovations to consumers. This development creates a cycle and is considered relevant to the competition among retailers. In fact, the retail sector has seen dramatic changes in technology in the past decade. Well-integrated new technology and managerial ideas are keys enabling the stores to provide customers with innovative products, new services, creative communication programs and existing environment.
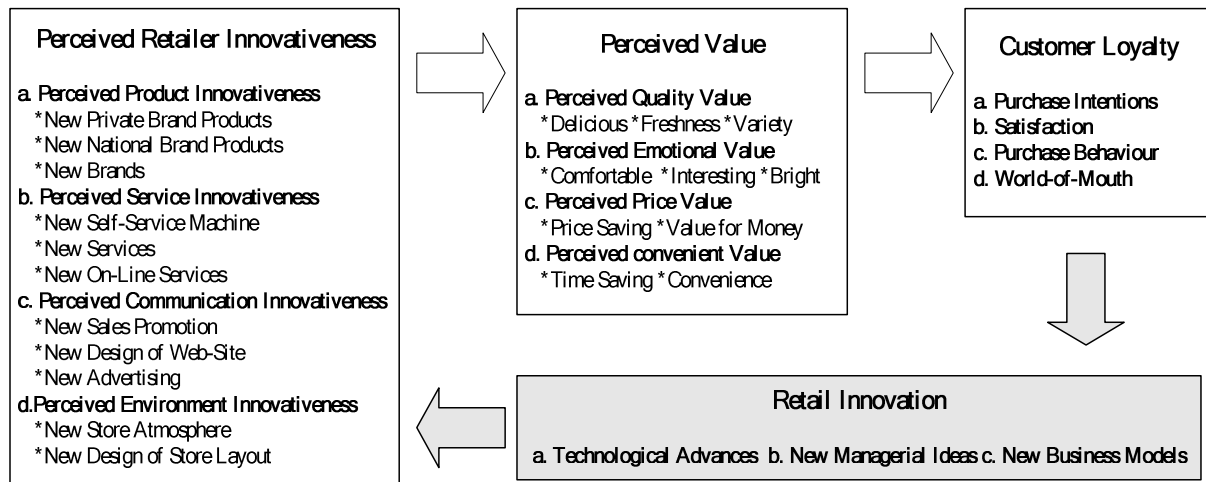
In conclusion, now retailers face dramatically increased pressure to differentiate themselves in the marketplace because of keen competition. How can a retailer create the perception of retailer innovativeness to be different from competitors? As the research has shown, a retailer should focus on creative ideas that result in value creation for customers. For example, a retailer can offer novel PB products to fulfil consumers' perceived quality value. Also, a retail manager can create an interesting store environment to generate emotional value for their customers. All these activities can increase consumers' willingness to buy and to recommend the store to other consumers.

6. Limitation and Future Research. This research represents a first step in the study of PRI, and most focus groups were conducted from students. Though students are main convenience store customers in Taiwan, further research should collect more data from non-student groups and investigate what differences were there between the students and the workers or more senior respondents. Second, the scope of this paper is confined to convenience stores. Future research should further elucidate the difference and similarity of PRI in other retail formats such as department store and hypermarket. Finally, this research only conducted qualitative research, future research should explore quantitative evidence to test the reliability of
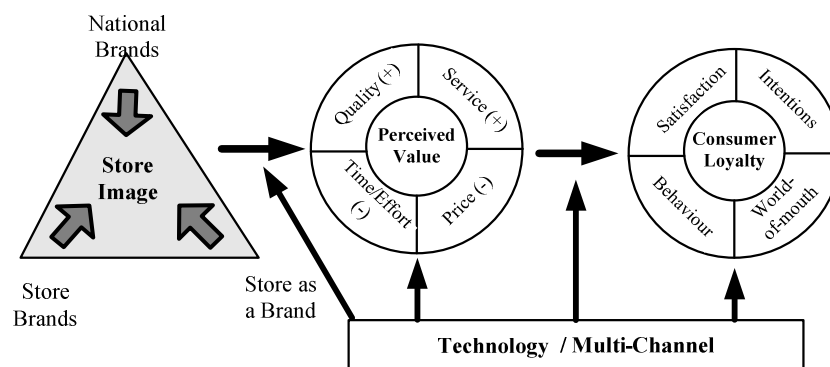
PRI-Value-Loyalty model.

Figure 1 PRI-Value-Loyalty Model

Perceived Retailer Innovativeness

a. Perceived Product Innovativeness
 * New Private Brand Products
 * New National Brand Products
 * New Brands
b. Perceived Service Innovativeness
 * New Self-Service Machine
 * New Services
 * New On-Line Services
c. Perceived Communication Innovativeness
 * New Sales Promotion
 * New Design of Web-Site
 * New Advertising
d. Perceived Environment Innovativeness
 * New Store Atmosphere
 * New Design of Store Layout

Perceived Value

a. Perceived Quality Value
 * Delicious * Freshness * Variety
b. Perceived Emotional Value
 * Comfortable * Interesting * Bright
c. Perceived Price Value
 * Price Saving * Value for Money
d. Perceived convenient Value
 * Time Saving * Convenience

Customer Loyalty

a. Purchase Intentions
b. Satisfaction
c. Purchase Behaviour
d. World-of-Mouth

Retail Innovation

a. Technological Advances b. New Managerial Ideas c. New Business Models

6. Appendix

Appendix A: Store image-value-loyalty model (Source: Grewal et al., 2004)

Appendix B: Focus group questions

The interviewer asked three questions as follows.

1. Among these convenience store retailers, in your opinion, which one is the most innovative retailer?

2. Could you give some examples to explain the reason why you think that the convenience store retailer has higher innovativeness than other competitors?

3. In your opinion, does whether or not the convenience store offer innovative service and products affect your decision to shop at the convenience store? If your answer is yes, could you give some examples? If your answer is no, what are the main reasons for you to select convenience store retailers?

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