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**A STUDY ON THE EFFECT OF RETAIL SERVICE
QUALITY ON CUSTOMER SATISFACTION**

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A Study on the Effect of Retail Service Quality on Customer Satisfaction

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Abstract – The current market place has become more competitive as customers continually expect retailers to match or exceed their expectations (Wong and Sohal, 2003). With a rising degree of homogeneity between merchandise offerings, supermarkets are increasingly turning to the delivery of effective customer services to render a competitive advantage (Ellram et al, 2009). Maintaining customer satisfaction is crucial for such retailers as they transact in a highly competitive world (Fonseca, 2009).

INTRODUCTION

Store loyalty is an extremely important financial consideration for all supermarkets (Knox and Denison, 2000), as acquiring new customers is expensive due to advertising, promotional, and start-up operating expenses. Likewise, loyal customers exhibit increased repurchase intentions, a decrease in price sensitivity, and positive word of mouth communications (Varela-Neira et al, 2010). It is therefore more economical to serve current customers (Tepeci, 2009). Saturation in the grocery sector has meant that the competition for customers is particularly fierce. As room for organic growth dissipates, these retailers are being forced to turn their attention sharply towards fostering goodwill and customer loyalty (Martinez-Ruiz et al, 2010).

The retail sector has grown exponentially. This is partly due to an increase in real mean per capita income, facilitated by a burgeoning middle class. However, acquiring and maintaining loyal customers is argued to be fundamental to ensuring profitability. This study aims to investigate the antecedents of customer satisfaction in the supermarket sector, as well as their ultimate influence on store loyalty. In this respect, the research aims to establish the drivers of customer satisfaction, through a consideration of retail service quality dimensions and the follow through effect on store loyalty in retail sector. This should empower retailers to make the necessary trade-offs to ensure that their businesses are geared towards capitalizing on the attributes of consumer behavior which lead to elevated levels of affinity towards the chain.

LITERATURE REVIEW

Early customer satisfaction research typically defined satisfaction as a post-choice evaluative judgment

concerning a specific purchase decision (Homburg and Giering, 2001). Additional research into customer satisfaction claims that satisfaction should be viewed as a judgment based on cumulative experience with a particular product or service rather than a transaction specific encounter (Anderson et al., 2004).

Tse and Wilton (2008) suggested that satisfaction is a general psychological phenomenon, describing the emotional state resulting from an evaluation of the perceived discrepancy between prior expectations and actual performance of the product or service.

Many individual companies, industries and even countries monitor customer satisfaction on a continual basis (Fornell, 2002). Customer satisfaction is an important construct as satisfaction is a critical measure of a firm's success (Fonseca, 2009).

The level of customer satisfaction has been shown to influence attitude and word of mouth communication (Sivadas and Baker-Prewitt, 2000); to be a good predictor of future purchase behaviour (Garbarino and Johnson, 2009; Kasper, 2008); to influence profit (Anderson et al., 2004); and, in the long run, to lead to store loyalty (Oliver, 2010). Furthermore, Huber et al. (2001) found satisfied customers are willing to pay premium prices.

There appears to be perpetual interest in customer satisfaction as a means of evaluating performance. According to Kotler and Keller (2011), high customer satisfaction ratings are widely believed to be a leading indicator of a company's financial health. Many firms use customer satisfaction as a criterion for diagnosing product or service performance and even tie customer satisfaction ratings to executive and employee compensation (Anderson and Sullivan,

2003). Retailers therefore recognise that customer satisfaction plays a key role in a successful business strategy (Gomez *et al*, 2004) and it is therefore crucial for managers to understand what drives customer satisfaction (Martinez-Ruiz *et al*, 2010).

CUSTOMER SATISFACTION VERSUS PERCEIVED SERVICE QUALITY

Researchers often use the terms service quality and customer satisfaction interchangeably (Caruana, 2002). A number of distinctions can be made between customer satisfaction and perceived service quality. These include that satisfaction is a post-decision customer experience, while service quality is not (Caruana, 2002; Oliver, 2003). Expectations are also defined differently for satisfaction and perceived service quality. According to Boulding *et al* (2003), expectations reflect anticipated performance in satisfaction literature, while in service quality literature, expectations are conceptualised as a normative standard of future wants. Zeithaml and Bitner (2006) believe that service quality and customer satisfaction have certain things in common, but satisfaction is generally influenced by service quality.

The direct relationship between perceived service quality and customer satisfaction was first identified by Churchill and Suprenant (2002). Modelling perceived service performance as a direct predictor of satisfaction follows directly from the idea of a value-percept diversity (Szymanski and Henard, 2005). A multitude of studies have explored this relationship, with many (e.g. Tse and Wilton, 2008 and Halstead *et al*, 2004) arriving at the conclusion that the direct relationship between perceived service quality and satisfaction is not necessarily strong.

METHODOLOGY

Survey

Due to this being an independent study and in order to cast the net as wide as possible, the researchers were not able to obtain a specific list of supermarket shoppers. Hence, a non-probability technique using convenience sampling was used to collect the data in both face-to-face and online environments. In terms of the former, researchers visited regional shopping malls and other high traffic locations in a major metro pole. In terms of the latter, a web site was set up to allow respondents to complete the questionnaire at their leisure. The data was then stored on the server and retrieved at the end of the survey period. This dual approach was beneficial in that less affluent customers were typically surveyed at malls, whilst the online component encapsulated many medium to high end shoppers.

A pre-test was conducted in order to ensure that the questionnaire was clear, understandable and free of errors. Face validity was confirmed and the questionnaire was thereafter distributed to a small

sample of 57 people to complete. Once the feedback had been analysed and minor problems addressed, the questionnaire was deemed ready for final distribution. In total, 307 responses were collected, with 160 of these being obtained through the online survey.

Path Modeling

The hypothesized direct and mediated relationships specified in the conceptual model were tested using Partial Least Squares (PLS) analysis through SmartPLS 2.0. PLS has become a popular alternative to using Structural Equation Modeling (SEM) for latent variable modeling due to its acclaimed predictive power in exploratory research (Henseler *et al*, 2010). Furthermore, it is conducive to application in emerging markets, which tend to exhibit higher degrees of heterogeneity, due to less onerous assumptions about the data (Hair *et al*, 2010).

RETAIL SERVICE QUALITY DIMENSIONS

Retail stores have evolved from providing only physical products that address consumers' needs (Pan and Zinkhan, 2006) to offering a solution centre that integrates the sale of both physical products and value-added services to attain competitive advantages (Davies *et al*, 2006). Cracking this code can lead to higher levels of customer retention, increased sales and, in turn, improved profits (Parasuraman, 2008).

Several studies, such as Long and McMellon (2004), Kim & Jin (2002), Siu and Cheung (2001), Sweeney *et al* (2007) and Dabholkar *et al* (2006), have explored important dimensions of service quality within the retail sector. Specifically, within the supermarket sector, Vázquez *et al* (2001) and Huang (2009) found Physical Aspects, Reliability, Personal Interaction, Problem Solving and Policy to be prominent. These dimensions are discussed below and have been adopted for the purpose of this study.

Physical Aspects: The concept of physical aspects is defined as the retail store appearance and store layout (Huang, 2009 and Vázquez *et al*, 2001). The store environment, facilities and even imagery thereof have become factors which retailers can use to gain the competitive edge and influence customer satisfaction (Dabholkar *et al*, 2006). Physical environment plays a particularly important role in the service encounter of the grocery sector (Keillor *et al*, 2004) and exemplary retailers insist on store cleanliness, as well as a layout that enables customer orientation and product identification (Vázquez *et al*, 2001).

According to Abu (2004), a well configured store layout that is easy to navigate will reduce a shopper's search time. Furthermore, Fisher *et al*. (2006) suggest that customers often do not find the products they seek, even if these products are within

the store, due to poor store layout and that this leads to poor perceptions and the consumer turning to a competitor for solutions.

Perceptions of store appearance provide tangible clues about service quality (Yan *et al*, 2011; Dholakia & Zhao, 2010; Bitner, 2000) and it has been noted that the appearance of the store is widely acknowledged as an essential determinant of the shopping experience (Dabholkar *et al*, 2006).

We hypothesise that:

H1: Physical aspects have a direct effect on customer satisfaction within the supermarket sector.

Reliability: The construct of reliability measures the store's ability to deliver the service that has been promised to customers accurately, and without error (Huang, 2009 & Vázquez *et al*, 2001). This implies that the store must practice a philosophy of getting it right first time, all the time. It must be able to keep its promises, meet deadlines and provide timely and accurate information to customers (Newman, 2001). Accurate information includes clear product pricing, as well as correct and precise information regarding the product (Vázquez *et al*, 2001). Furthermore, reliability also refers to the store being able to have merchandise available when required. Interviews conducted by Dabholkar *et al* (2006) revealed that customers view reliability as a combination of keeping promises and 'doing it right'.

In the supermarket environment, limited availability of stock or long queues for the cash register refers to a lack of reliability on behalf of the retailer. It has been proved that lengthy waits for the cash register can result in consumers developing negative perceptions and decreased customer satisfaction (Rigopoulou *et al*, 2008; Grewal, 2003).

According to Zinn and Liu (2001), a stock outage can result in the consumer leaving the store and forgoing the purchase to search for the item elsewhere. Furthermore, in the long run, continuous stock outages could have a negative impact on future patronage, and result in detrimental perceptions and negative word of mouth (Grant & Fernie, 2008).

We hypothesise that:

H2: Reliability has a direct effect on customer satisfaction within the supermarket sector.

Personal Interaction: Sales assistants play a pivotal role in a customer service situation, with the most important attributes being store clerk attitude and treatment of customers (Gounaris, 2008; Gagliano, 2004). The customer service offered by sales personnel is perhaps the most highly visible attribute

of the service encounter. Darian *et al*. (2001) noted the importance of sales staffs' knowledge regarding new products, prices, and other variations of store offerings, as well as commenting on the importance of treating the customer with respect.

Employees are often viewed as facilitators of the sales process, as they play a crucial role in improving the conversion ratio. Furthermore, employees also provide customers with assistance in navigating store aisles and selecting complementary items (in effect, cross-selling) when required (Jamal and Adelowore, 2008; Hennig-Thurau, 2004; Sweeney *et al*, 2007).

We hypothesise that:

H3: Personal interaction has a direct effect on customer satisfaction within the supermarket sector.

Problem Solving: Problem solving refers to the store's capability of handling returns and exchanges, as well as processing customers' problems and complaints. It includes the store's ability to express a sincere and genuine interest in solving the customer's problem and extends to the ability of staff to handle complaints directly and immediately (Swanson and Kelley, 2001; Vázquez *et al*, 2001). Unless dealt with effectively, service failures have been shown to arouse dissatisfaction and anger, leading to disastrous consequences for the store (Chang *et al*, 2008).

There is evidence to support that customers have more favourable perceptions of stores that have effective problem solving processes in place (Huang, 2009). According to Lewis and Spyropoulos (2001), a good problem solving system will detect and solve problems, prevent dissatisfaction, and even encourage complaints.

Here, Michel (2001), Halstead and Page (2002) and Singh and Widing (2001) found that dissatisfied customers were more likely to repurchase when their complaints were dealt with satisfactorily. It is therefore in the best interest of the store to ensure that adequate and effective measures are implemented in order to facilitate problem solving for the consumer. These measures can take the form of customer care lines, customer service desks, helpful staff or even a website. Moreover, it has also been found that the post-transaction service offered by the store builds credibility and influences the favourable perception of consumers in the long term (Lindquist, 2004).

We hypothesise that:

H4: Problem solving has a direct effect on customer satisfaction within the supermarket sector.

Policy: Store policy refers to a store's decisions ('policy') concerning the depth and breadth of their merchandise, their loyalty programs and credit facilities, operating hours, parking facilities and additional customer services offered. Here, it has been found that stores endowed with good facilities are more likely to secure a favourable consumer perception (Thang and Tan, 2003). Customers expect retailers to be supportive and thus any service mechanism that suggests empathy and understanding is likely to impact favourably on perceived service quality and satisfaction (Dabholkar et al, 2006).

Brady and Cronin (2001) state that the evaluation of quality of service should include an evaluation on the performance of the physical goods offered to customers and they have therefore been introduced under policy. When shoppers perceive that the store offers a wide product assortment and that the products offer good value, they feel positive emotions like pleasure, excitement, contentment, pride and satisfaction (Yoo, 2008). Stores that are perceived as having superior merchandising are likely to be preferred by consumers (Thang and Tan, 2003).

The evaluation of the performance of the goods on offer also includes the store's ability to stock a wide range of products; the freshness of meat, fruit and vegetables; the assortment of fresh produce available as well as high quality of private label brands (Vázquez et al, 2001). Failing to meet the expectations of the consumer in any of the aforementioned areas could result in the consumer experiencing lower levels of satisfaction. It has been indicated that continuous complaints of inconsistent produce quality could result in negative perceptions regarding the store (Bruhn and Grebitus, 2007) and hence lead to reduced levels of satisfaction.

We hypothesize that:

H5: Store policy has a direct effect on customer satisfaction within the supermarket sector.

Store Loyalty: Store loyalty provides the foundation of a company's sustained competitive edge, and is a crucial component of a company's growth and performance (Lee and Cunningham, 2001; Reichheld, 2006). Researchers suggest that store loyalty is a key variable in explaining customer retention (Pritchard and Howard, 2007) and is determined by a combination of repeat purchase level and a general level of attachment (Bodet, 2008 & Dick and Basu, 2004).

The latter relates to an individual customer's attitude towards a product, service or organisation (Hallowell, 2006). Other researchers suggest that store loyalty is a behavioral construct. This includes customer retention, repeat purchases and positive word of mouth (Hallowell, 2006; Liu and Wu, 2007). As these differences are rather slight, store loyalty and retention

will be considered synonymous in the context of this study.

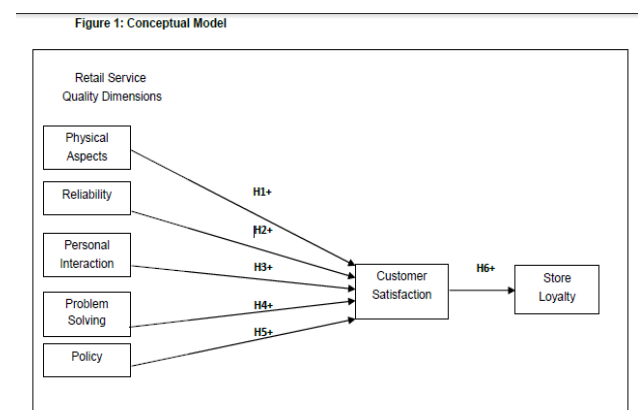
Whilst there is considerable evidence that customer satisfaction is correlated with loyalty, most scholars are of the view that not all satisfied customers will be loyal; neither will all dissatisfied customers abandon a retail chain due to dissatisfaction with a particular store (Vazquez-Carrasco and Foxall, 2006; Ellram et al, 2009).

Shankar et al (2003) suggest that if customers have a negative experience and become dissatisfied with a service provider, they might gain a higher level of satisfaction by switching to a new provider. However, in this instance, the customer risks incurring losses in the form of loyalty benefits, such as emotional investment and the benefits lost from a rewards program. In addition, he/she may face a potentially unfamiliar service encounter with the new company. These factors therefore act as a deterrent.

Yang and Zhu (2006) expand on the relationship between satisfaction and loyalty. The authors argue that the relationship is influenced by the competitive environment of the market. In markets where the competition is not intense, customers are likely to remain loyal despite their levels of satisfaction. On the contrary, in markets where competition is intense, a slight drop in satisfaction will cause a considerable drop in loyalty. This ultimately results in the customer switching stores or even retail chains (Gomez et al, 2004).

We hypothesize that:

H6: Customer satisfaction has a direct effect on store loyalty within the supermarket sector.



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