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# Service Quality-Customer Satisfaction Liaison in a Typical Retail Store Environment: An Empirical Investigation

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## *Abstract*

*India has recently witnessed big established MNC brands & big Indian Corporate like Reliance, Bharati, Future Group, Aditya Birla Group, Godrej venturing into retail business. The BMI India Retail Report for the first-quarter of 2011 forecasts that total retail sales will grow from US\$ 392.63 billion in 2011 to US\$ 674.37 billion by 2014. Strong underlying economic growth, population expansion, increasing wealth of individuals and the rapid construction of organised retail infrastructure are key factors behind the forecast growth. With the expanding middle and upper class consumer base, there will also be opportunities in Organised Retail Sector of India's tier II and III cities. The performance of organized retail primarily depends upon service delivery & its quality. In all service firms, customers' perceived service quality is taken as an important element of business success. The primary purpose of this paper was to examine the impact of service quality on satisfaction of customers of organised retail. The study shows that service quality has a significant impact on organised retail customers' satisfaction. The paper adds to the existing service quality-customer satisfaction liaison knowledge through RSQS (Retail Service Quality Scale) which can help a retailer to deliver a better value to the customer.*

*Key Words: Service Quality, Customer Satisfaction, Organised Retailing*

## **Introduction: Retail in India - Market Dynamics**

According to Booz and Co (India) Pvt. Ltd the Rs 18,673 billion (US\$ 401 billion) Indian retail market has only 6 per cent organised retail segment as of 2010. Hence, there is a great potential to be explored by domestic and international players. India Retail Report for the fourth-quarter of 2011 by the Business Monitor International (BMI) forecasts that the total retail sales will grow from US\$ 411.28 billion in 2011 to US\$ 804.06 billion by 2015. The report has underlined factors like economic growth, population expansion, increasing wealth of individuals and rapid construction of organised retail infrastructure as major drivers for

the optimistic forecast figures. According to a research report named 'Retail Sector in India' by Research and Markets, Indian retail sector accounts for 22 per cent of the country's gross domestic

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product (GDP) and contributes to 8 per cent of the total employment. The report further highlighted that hypermarkets (currently accounting for 14 per cent of mall space) will witness immense progress in the Indian landscape (IBEF, 2011).

### **Retail: Key Developments & Major Investments**

According to the report by research firm CB Richard Ellis India, over 6 million square feet of retail mall space was added across India in the first six months of 2011; primarily due to aggressive expansion by organised retailers. For instance, Kishore Biyani-controlled Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal year 2011 and booked over 9 million sq. ft of retail space for its expansion plans in future. Cumulative foreign direct investment (FDI) inflows in single-brand retail trading during April 2000 to June 2011 stood at US\$ 69.26 million, according to the Department of Industrial Policy and Promotion (DIPP).

Along with the metros, the retailers are betting big on tier-II and tier-III cities as well.

- Of the Aditya Birla Group firm, Madura Fashion & Lifestyle, is aiming at a turnover of Rs 1,100 crore (US\$ 236 million) for FY13, on the back of its pan-India expansion spree, including small cities and towns.
- In a bid to triple its turnover from retail segment, Shree Ganesh Jewellery has formed an alliance with Bharti Retail's 'Easy Day' market format to promote its Gaja Lites range of jewellerys. The company plans to launch 250 outlets in tier II and tier III cities under its flagship brand 'Gaja'.
- Japanese imaging technology major Nikon Corporation's subsidiary Nikon India is focusing on tier-II and tier-III cities to fuel its growth. The company was planning to extend its presence to 2,400 channel partners by March 2012 from the current 2,000 (IBEF, 2011).

### **Service Quality is the Key**

The quality of products offered by the retailer has two aspects, the perceived quality and the actual quality. Perceived quality or point of sale quality refers to the image that the customer has about the product while buying it. The actual quality of product is the quality of the product that the consumer experiences while using it. The retailer plays a very important role in building up perceived quality with the use of attractive display. The retailer is in direct contact with the customers and so he can play a significant part in helping the manufacturer reduce the gap between actual and perceived quality. The retailer should also ensure quality at the various stages of the supply chain so that the quality of the product is not affected.

Another important factor for successful retailing is the quality of the services provided to the customer. Today the customer wants a unique shopping experience. Retailers are striving to help customers enjoy their shopping expedition as much as possible. The difference between shopping in India and shopping abroad is reducing gradually, particularly with several large malls coming up all over India. Customer mentality is different in different countries. Particularly in India, there are huge cultural differences among the people of different states which in turn affect their buying behavior. In this scenario, it becomes necessary for the retailer to survey the customer's culture and expectations so that retail staff could be trained to meet the expectations of the customer.

### **Literature Review**

Considering the competitive environment, there is a need for retailers to plan their strategies that will differentiate their outlets from their competitors. This can be achieved through the delivery of high service quality. The study on the practice of excellent service quality has been proven that the customer satisfaction will significantly lead to customer loyalty (Caruana et al., 2000; Caruana, 2002). The present research employs SERVQUAL scale (Parasuraman et al., 1988) to measure the customers' loyalty. The Service Quality is defined as the result of the comparison that customers make between their level of expectations for service and their perception of the way the service

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has been provided. Thus, the service quality is the degree of discrepancy between customers' normative expectation for service and their perceptions of service performance (Parasuraman et al., 1985). The definition of service quality was further developed as "the overall evaluation of a specific service firm that results from comparing the firm's performance with the customer's general expectations of how the firm in that industry should perform (Parasuraman et al., 1988). The perceived value has its root in equity theory which considers the ratio of the consumer's outcome/input to that of the service provider's outcome/input (Oliver & DeSarbo, 1988). The service quality has been seen as critical for service firms to position themselves strongly in a competitive environment (Parasuraman, et al., 1985, Mehta et al., 2000) and also as indicators of business performance (Hurley & Estelami, 1998). When faced with larger, powerful retail competitors, smaller stores could compete by improving service instead of competing on price (Klemz & Boshoff, 1999). Concentrating on the service quality is seen as critical in markets that offer similar products in the store (Berry, 1995) commonly seen in grocery retail stores. However, improvement of the quality of services requires identification of the service quality attributes - the so-called dimensions- that are important to retail customers. Siu and Cheung (2001) have applied RSQS to explore its usefulness in a departmental store chain in Hong Kong and concluded that six service quality dimensions were identified viz., personal interaction, physical appearance, promises, policy, convenience and problem solving. Kim and Jin(2002) tried to validate RSQS in the context of discount stores for US and Korean customers. RSQS was found to provide a good fit by using only three dimensions of retail service quality namely, physical aspects, reliability and personal attention on the basis of data from both US and Korean samples. Kim and Jim (2001) have studied the five dimensions of RSQS and point out that problem solving and policy are the only two new dimensions proposed by Dabholkar et al (1996) and the rest are similar to SERVQUAL. Researchers suggest that service quality offered by retail stores is a significant determinant for the customer satisfaction (Berry et al., 1988; Boulding et al., 1993; Duffy and Ketchand, 1998; Fornell et al., Sivadas and Baker-Prewitt, 2000; Taylor and Baker, 1994) and customer retention (Bennett and Higgins, 1988; Dabholkar

et al., 1995;Yong,2000).Among consumer shopping behavior, customer satisfaction and loyalty behavior have become important issues in today's retailing market because a company's success in financial performance and market shares largely depends on the satisfied customer. When customers are satisfied, they are willing to purchase products or services repeatedly and recommend the company's products or services to other consumers (Raphel, 1999; Reichheld and Sasser, 1990; Srinivasan et al., 2002). Service quality in retailing is different from any other product/service environment (Finn, 2004). Since the nature of retail service is unique, improvements and measurements of quality in retailing cannot be approached in the same way as that of the services perspective. In retail service, it is necessary to look at quality from the perspective of services as well as goods and derive a set of items that accurately measure this construct (Mehta et al., 2000). For this reason, Dabholkar et al. (1996) developed and empirically validated the Retail Service Quality Scale (RSQS) to capture dimensions important to retail customers based on the triangulation qualitative research technique. They conducted qualitative research using three different methodologies phenomenological interviews, exploratory depth interviews and tracking the customer through the store. Combining these qualitative findings with the existing literature and SERVQUAL, Dabholkar et al. (1996) proposed that the retail service quality has a hierarchical factor structure comprising five basic dimensions, namely 'physical aspects', 'reliability', 'personal interaction', 'problem solving', and 'policy' with first three basic dimensions having two sub-dimensions each and overall service quality as a second order factor. Three SERVQUAL tangible items are used for measures of appearance. Studies assessing the applicability of the RSQS have reported encouraging results. Dabholkar et al. (1996) replicated their own study and found all the RSQS dimensions and sub-dimensions to be valid in the U.S. Mehta et al. (2000) found the RSQS scale was superior within the context of a 'more goods and less services' environment, i.e. a supermarket while SERVPERF was better for a retailing context where the service element becomes more important, i.e. an electronic goods retailer. Kim and Jin (2001) report the use of RSQS a useful scale for measuring service quality of discount stores across two different cultural

contexts of U.S. and South Korea though they did not find distinct personal interaction and problem solving dimensions or support for a distinct policy dimension. Boshoff and Terblanche (1997), in a replication of the Dabholkar et al., (1996) study, report highly encouraging results for the RSQS applicability in the context of department stores, specialty stores and hypermarkets in South Africa. However, the applicability of the RSQS or other scales has never been tested in the context of transition economies. The organizational requirements of customer satisfaction are the internally based processes, components, standards and criteria for which a business strives to achieve. These are the performance goals and benchmarks set forth by the business for the business. These are the elements of corporate culture (Hayes, 1998). Meeting or exceeding these is often an indicator of success or failure. At times, these indigenous components of customer satisfaction may overlap with those set forth by the customer; at other times they may be divergent. Those processes, components, and standards that are deemed important by the customer are another important source of information. In order for a business to meet the needs and desires of the customer, the business must know needs and desires of the customer. This information is vital not only for successful business, but also for understanding and improving customer satisfaction. This important component helps to set the standards and components of satisfaction from the perspective of the consumer (Hayes, 1998). Satisfaction dimensions are developed from the previously identified requirements. These are the specific components that make up the requirements. For example, if a customer and the organizational requirements are for the customer service, the satisfaction dimensions may include interactions, timeliness, and responsiveness. These

are the clusters that define the requirements (Hayes, 1998).

### Research Methodology

This study was undertaken in Ludhiana (Punjab) from May to July. Duration got extended to three months for completion of the questionnaires by a sample size of 300 from earlier planned one month. Out of 300, only 267 questionnaires were usable. Responses from customers of organised retailers (Two stores each of Big Bazar, Easy Day, and Reliance Fresh) were taken through a questionnaire. Five point Likert scale was used 1 as highly satisfied to 5 as least satisfied. The questionnaire was designed keeping in mind RSQS (Retail Service Quality Scale). Statistical tests like Chi Square, Cronbach's Alpha were used to test the data.

### Data Analysis and Hypothesis Testing

**Hypothesis:** Among all attributes of the customer satisfaction, the service quality provides maximum satisfaction to organised retail customers.

To check whether or not the retail service quality attributes have sufficient internal consistency & reliability, Cronbach's Alpha was used. Sub attributes were put to a reliability analysis & all sub attributes shown adequate level of reliability which was 0.7. All attributes were above 0.7. Except physical quality which had Cronbach's Alpha value of 0.71, all other attributes had values well above 0.7 (Refer to table 1). It shows the adequate reliability of data extracted out of the questionnaire.

**Table1: Internal Consistency among RSQ (Retail Service Quality) Attributes**

Retail Service Quality Attributes	Cronbach's Alpha Values
Physical Aspects	0.71
Reliability	0.85
Personal Interactions	0.78
Problem Solving	0.91
Policy	0.89

Next step was to evaluate the quality of service in these stores. On the basis of RSQS (Retail service quality scale) attributes (physical aspects,

reliability, personal interaction, problem solving and policy) were further bifurcated into sub attributes.

**Table 2 : Retail Service Quality (t Test)**

<b>Retail Service Quality Attributes (t Test)</b>		
<b>Aggregate</b>	<b>Mean</b>	<b>t Value</b>
I am satisfied with retail service quality	3.78	-0.58
<b>Physical Aspects</b>		
Retail store layout is good	3.72	1.41
Comfort level of the retail store is good	3.54	-0.82
Merchandise are easy to locate	3.75	3.18
Merchandise are categorically placed	3.68	0.29
Parking space is adequate	3.32	-0.45
<b>Reliability</b>		
Discount & other promises are kept by the store	4.18	0.65
Customer issues are handled objectively	3.45	0.19
Service is time bound	3.12	1.42
Product quality is good	3.91	-1.15
<b>Personal Interactions</b>		
Staff Inspires trust & confidence in customers	3.73	-0.32
Customer assistance is there & staff has an helpful attitude	3.50	0.76
Staff is competent & courteous	3.65	2.95
<b>Problem Solving</b>		
Customer complaints are handled properly	3.56	-0.57
Complaint resolution is time bound	3.02	-0.34
Customer feedback is always taken	3.12	-0.26
<b>Policy</b>		
High Quality Merchandise is always there	3.98	-2.27
Convenient Operating hours are there	3.76	-3.16
Standard Operating procedures are there	2.98	-3.08

Attributes like retail store layout is good (Mean=3.72, t=1.41), merchandise are easy to locate (Mean=3.75, t=3.18), merchandise are categorically placed (Mean=3.68, t=0.29), discount & other promises are kept by the store (Mean=4.18, t=0.65), product quality is good (Mean=3.91, t=-1.15), staff Inspires trust & confidence in customers (Mean=3.73, t=-0.32), staff is competent & courteous (Mean=3.65, t=2.95), customer

complaints are handled properly (Mean=3.56, t=0.57), high quality merchandise is always there (Mean=3.98, t=-2.27), convenient operating hours are there (Mean=3.76, t=-3.16) were the ones which contribute more in the customer satisfaction. If we would look at the overall customer satisfaction with service quality (Mean=3.78, t=-0.58) it shows a significant impact (refer to table 2).

**Table 3 : Impact of Retail Service Quality on Customer satisfaction**

Retail Service Quality Attributes						
Satisfaction	Physical Aspects	Reliability	Personal Interactions	Problem Solving	Policy	Total
High	69	60	22	21	24	196
Average	50	28	39	35	16	168
Low	6	12	14	19	10	61
<b>Total</b>	125	100	75	75	50	425

**Chi square=42.8 (Calculated), Chi square=14.9 (Table), p=0.05**

Impact of RSQ (Retail service quality) attributes on customer satisfaction was analysed with the help of Chi Square. Chi Square calculated value was greater than its table value at a significance level of 5% which signifies that retail service quality has a significant impact on customer satisfaction.

### Conclusion & Managerial Implication

Retailing in India is very lucrative as it attracted the entry of quite a few heavyweights of Indian industry & some international players like Wal-Mart & Metro cash & carry. India has witnessed the failures of some retail players like Subhiksha, Eight Ten, and Vishal Mega Mart etc.

This only calls for attention to customer satisfaction. This study though was executed on a micro level in Ludhiana (Punjab), results were as expected to be valid widely. Retail service quality attributes like physical aspects, reliability, personal interaction, problem solving, and policy contribute significantly to the customer satisfaction. Any school of thoughts resulting into not taking care of

these factors would deteriorate the position of a retail store or a company for that matter. A retail manager's job becomes even tougher to make sure that all these factors are simultaneously taken care of. A lesser emphasis on retail manager's part on even a single factor would in turn make the store or the company lesser competitive. Management should make strategies to effectively endorse these factors along with other marketing strategies to deliver to the customer what we call service quality.

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