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Editor

Service Management

The New Paradigm in Retailing

Springer

Contents

Chapter 1
Service as the New Paradigm in Retailing

Jay Kandampully

Learning Objectives

The aim of this chapter is to introduce the reader to the basic premise of this book. Thus, this chapter will:

1. Introduce the concept of service as the new paradigm of management thinking in the retail industry.
2. Illustrate the need for a service-focused management approach to meet the growing demands of retail customers and to gain a competitive advantage in the market.
3. Explain the importance of both service and technology as two key strategic factors required to provide customers with a positive retailing experience.

The Challenge of a Changing Retail Environment

The increasingly competitive global marketplace of the twenty-first century, together with fundamental changes in the lifestyles of many consumers, has compelled retail organizations to transform their perceptions of themselves and the way in which they need to conduct business if they are to meet the changing needs of their customers. In particular, the increasing consumer demand for superior service and rapid developments in information technology, the Internet, and telecommunications have forced retail firms to operate within a new business environment that bears little resemblance to that of only a decade ago. At the same time, profound changes in consumer lifestyles and buying behavior have meant that previously successful

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retail business models and practices are no longer capable of providing an adequate framework to sustain effective and efficient retail operations. The critical success factors that guaranteed business prosperity in the past are, thus, no longer applicable, as retail managers have realized that they require a new paradigm for the retail industry of the twenty-first century. The two key strategic factors (or "pillars") of this new paradigm are (1) service and (2) technology.

Service as the First Pillar in the New Paradigm of Retailing

In developing such a new paradigm of retailing, there is a growing awareness of the importance of the role of *services* in retail business. As Gummesson (1995, pp. 250–251) observed: "customers buy neither goods nor services, [rather] they buy offerings, which render services, which creates value." This shift in focus represents a paradigm shift for retailers, who have traditionally operated on the basis that value resides in the manufactured goods that they sell. Lusch and Vargo (2006, p. 4) described this paradigm shift in the following terms: "This shift in focus to services is a shift from the means and the producer perspective to the utilization and the customer perspective."

Vargo and Lusch (2004, p. 2) defined service as: "... the application of specialized competencies (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself." The same authors went on to argue that *all* enterprises are actually in the business of providing services; indeed, even those that primarily provide manufactured goods do so only as a means of transmitting their services to the customer. Moreover, the value of any offering of goods and services is actually defined by (and co-created with) the active participation of the customer (Lusch and Vargo 2006).

In developing these ideas, Lusch and Vargo 2006) proposed a new framework, which they called the "service-dominant logic" (S-D logic) of marketing. According to such S-D logic, the exchange of *service* (rather than goods and money) is the fundamental form of exchange in any business transaction. Although various criticisms have been directed at the new S-D logic, the ideas advanced by these authors have suggested numerous interesting and challenging directions for both scholars and practitioners of marketing. For example, given that most (if not all) services are co-created with the customer (Bendapudi and Leone 2003), the customer not only plays a role in the co-creation of value, but the customer and the producer share the service experience through which that value is created. Nevertheless, the value of the service experience is best understood by the customer and, therefore, is best marketed to the customer during the consumption stage of the service (Kandampully 2002).

Applying these ideas to the retail context, it is through the service processes of retail sales that the co-creation of value is accomplished; moreover, the co-creation of value and the co-consumption of the service represent the most significant aspects of the customer's experience. It is, therefore, imperative that retailers pre-design their service processes (through so-called "service blueprinting") to ensure that the customer has a positive service experience. The retailing context, thus, necessarily entails customer involvement in numerous service processes, in which the customer's role is the main determining factor in the co-creation of value and the overall retail experience.

This increased emphasis on service (as opposed to goods) is especially important in retailing because, as opposed to "pure" services (such as legal services, medical services, and consulting services), products play a particularly prominent role in retailing; indeed, they usually constitute the essential raison d'être of the interaction between the retailer and the customer. However, as the globally competitive market has made it increasingly difficult for retailers to differentiate their offerings on the basis of the goods that they sell, the service that they offer has become the crucial factor in establishing a competitive advantage, enhancing the firm's image, sustaining customer loyalty, and boosting profitability. This is why "service superiority" has become the "number one item" on the boardroom agenda of retail firms that wish to achieve and sustain a competitive advantage within the new paradigm of retailing. Modern retailers are increasingly recognizing that short-term economic and marketing goals might provide a temporary boost to revenue, but they are unlikely to provide a sustainable advantage. Given the new paradigm in which service is recognized as the fundamental form of exchange in retailing, a customer-centric and service-focused orientation (Sheth et al. 2000) provides the modern retail firm with the best opportunity to enhance the service experience, establish meaningful relationships with customers, gain customer loyalty, and achieve market leadership.

However, despite the increasingly impressive evidence that service is the key to success, some retail firms continue to operate within the old paradigm – spending time and resources on advertising goods and constructing an impressive physical presence in an effort to enhance their image. In the past, this was the accepted way of influencing customer perceptions and experience in the retail industry. However, in today's changed retailing environment, in which the emphasis is on the co-creation of value through service, successful retailers are increasingly adopting service-oriented approaches to ensure that they consistently outperform their competition.

Technology as the Second Pillar of the New Paradigm

As noted above, services and technology constitute the two crucial strategic factors (or "pillars") of the new paradigm in retailing. Just as technological advances have facilitated the convenience and experience of people in virtually every aspect of modern life, technology is transforming both the way in which retail business is conducted and the service experience of the retail consumer.

The changing needs and expectations of technology "savvy" customers with considerable spending power (especially "Generation Y" consumers and their "Baby boomer" parents) have had a significant impact on the growing service focus in retailing. In particular, many traditional retailers have recognized the importance of offering an on-line retailing channel to complement their "bricks-and-mortar" retail stores.

As noted above, the modern retailers' value proposition places great emphasis on establishing relationships with customers, providing superior service, and ensuring a positive customer experience. The challenges in this regard are, of course, greater in the off-line retail context, where the customer assumes an equal (or even pre-eminent role) in the co-creation of value through a positive service experience. However, successful on-line retailers (or "e-tailers" as they are often called) innovatively adapt services to provide numerous opportunities for customers to interact positively with the electronic retail interface and, thus, establish a form of "relationship" with the customer. For example, the "Lands' End" company, which has been cited as one of the most successful e-tailers (Berbee 2000), is continuously developing new on-line attributes for its customers – such as timely and accurate email responses to customers' enquiries and live on-line chat forums (Kim et al. 2007). The aim of these (and other) innovative web attributes is to communicate the firm's distinctive value propositions to its customers, enhance their e-tail experience, and nurture the all-important relationships between the firm and its on-line customers.

Kim et al. (2007) identified the five factors in the buying environment that are most valued by on-line retail customers. What is interesting is that none of these five factors was related to price and/or goods; rather, on-line customers attached greater importance to convenience, customization, information, communication, and website esthetics. Technology-supported services can, thus, offer many conveniences in the retailing context, but it would seem that the absence of direct human contact does not invalidate the importance of the generic concept of the co-creation of customer value in the on-line retailing context. As co-creator of the retail experience, the customer continues to demand that retail firms think creatively and proactively to implement service features that enhance his/her on-line retail experience. Thus, although the insurgence of technology has profoundly changed how retail companies interact with their customers, the essential desire for quality service has not changed (Bitner, 2001). However, what has changed is that firms that fail to meet customer expectations can now anticipate reviews of these adverse experiences being posted on the firm's website – which was certainly not a hazard in traditional "bricks-and-mortar" retailing!

Self-service facilities are another important area in which technology has had a significant impact on the retail industry. Examples include automated teller machines (ATMs), online banking interfaces, self-service checkouts, and so on. Unlike a traditional service setting, in which interpersonal interactions play a major role, self-service facilities increase efficiency and productivity for service providers by placing customers in the role of a quasi-employee (Walker et al. 2002; Zeithaml and Gilly 1987). Given the rapid developments in technology and the demands of "time-poor" shoppers for efficiency, it can be expected that such facilities will play an increasingly important role in service delivery in the retail industry by providing rapid service delivery, greater control over the service-delivery process, and enhanced customization of services (Meuter et al. 2000; Dabholkar and Bagozzi 2002; Beatson et al. 2007; Amato-McCoy 2008).

The growth in information technology has also had a profound impact on the retail industry by changing the way in which retail businesses are organized, conducted, and linked to other organizations. In particular, the Internet has enhanced supply chain management (SCM) by facilitating the speed, ease, flexibility, and agility of real-time information exchange (Lancioni et al. 2003; Michelino et al. 2008). The Internet has, thus, provided numerous opportunities for cost reduction, coordination, and service improvement in supply chains (Malone et al. 1987; Ronchi 2003; Stores 2005). The Internet has also improved integrated forecasting, collaborative production planning, transportation management, customer relationship management, and new product development to meet the changing demands of consumers (Michelino et al. 2008; Radjou 2004). It is, therefore, not surprising that an increasing number of retailers now use the Internet for purchasing, transportation, inventory management, customer service, and supplier management (Lancioni et al. 2003).

Summary of the New Paradigm in Retailing

According to the new paradigm of retailing, service is no longer perceived as a value-adding component to the transactional sale of products; rather, service is now understood to be the *focus* of the exchange between the retailer and the buyer. Service is embedded in, and serves as the driving force for, *all* aspects of modern retail business – from procurement, through store operations, internal and external customer relationships, and networks of partner co-ordination.

If retailers are to survive and prosper in the dynamic environment of the twenty-first century, it is therefore imperative that they adjust their business philosophy from the traditional model in which retailers were essentially engaged in transactions of goods to a new way of thinking in which the strategic orientation of every activity within the retail firm is focused on customer service. This represents a *new paradigm* for the retail industry – that is, a radically new philosophy of services management to ensure success for retail businesses. In the chapters that follow, this book presents a selection of the more important aspects of services management that are of particular relevance to the ever-evolving retailing sector.

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Chapter 2
The Service Imperative in the Retailing Industry

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Learning Objectives

- To understand the emerging trends in the retail industry
- To recognize the significance of service management in the turbulent and competitive global retail environment
- To develop a knowledge of the transforming role of service in a multichannel retail environment
- To develop an understanding of the impact of technology and Internet on the retail industry
- To appreciate the role of service in successful supply chain management in the evolving retail industry
- To identify a new service paradigm in the evolving retail industry

Introduction

Services permeate our everyday lives. Within the past 24 h, you might have listened to the radio; watched television; gone to the cinema; taken a trip on a plane, cab or bus; made or received a phone call; consumed a restaurant meal; used a bank or ATM; visited a gym; attended a sporting event; visited a doctor, dentist, or lawyer; had

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dealings with an insurance agency; bought groceries; purchased a book, magazine, or newspaper; filled a car with gas; used electricity and water for personal needs; and so on. In all of these instances, services and products from various firms are consumed through a process of exchange (between the consumer and the provider) that is commonly referred to as 'retailing'.

The supply and management of such retail services in society is more than just a business issue dominated by concerns about market share and profit-and-loss. Because retail services pervade our lives, the standard of services is actually a quality-of-life issue: the better the quality of service of our doctors, lawyers, grocers, bankers, department stores, hotels, and other service providers, the better is the quality of life of the communities in which we live.

That said, it remains true that the economy of any society depends on the services it offers its citizens. In a deregulated and competitive global environment, the success of any firm is dependent on understanding the needs of customers, eliminating service and product failure, exceeding the expectations of customers, establishing and maintaining long-term relationships with loyal customers, innovating products and services on an ongoing basis to enhance their value to customers – and doing all these things better than the competition. All of this must be achieved in a competitive environment in which relentless advances in technology mean that products and services have ever-shortening life cycles (and hence, increasingly transient appeal to customers). Products and services that are deemed satisfactory by the customer today are likely to prove unsatisfactory to the same customer tomorrow. It is thus imperative that products and services are continuously improved to ensure the ongoing enhancement of customer-perceived value. In the turbulent and competitive global marketplace of today, it is the loyalty of satisfied customers, gained by the firm's commitment to value through the provision of service of a superior quality, which provides the vital competitive edge that ensures survival and success.

Retailing is one of the largest service sectors – not only in developed economies but also in emerging economies. Indeed, the prominence of retailing as a service has escalated in recent years with the burgeoning use of the Internet, which has enabled retailers to serve customers globally through multiple channels. Today, almost all retail firms offer both online and offline stores and services. As retailing has become more prominent, researchers have conducted numerous studies to examine a wide variety of management issues within the retail industry. However, despite this interest, it would seem that managers and students alike continue to have a relatively limited understanding of the significance of *service management* for success in what is now a globally competitive retail industry.

Against this background, the aim of this book is to provide a detailed account of the critical services-management concepts that have direct application in the retail industry. Using case examples, each chapter seeks to illustrate how these concepts can be used effectively to gain customer loyalty, achieve market leadership, and ensure profitability in the retail industry.

An Overview of the Retail Industry

Almost all of the products and services that we consume every day are provided through retailing. Although most people readily associate certain products (such as groceries or clothing) with the idea of 'retail', the reality is that almost all service sectors are engaged in retailing in one form or another.

US retail industry

As shown in Fig. 2.1, US consumers spend their income on a wide variety of products and services that are provided to customers on a daily basis by extensive networks.

The $4.43 trillion US retail industry is one of the largest and fastest-growing industries in the country, where it accounts for the employment of more than 24 million people (National Retail Federation 2006; US Census Bureau 2009a). However, the recent economic recession triggered by the financial crisis of September 2008 has caused retail sales to plummet as unemployment has risen, house values have dropped, and consumer confidence has dipped. Indeed, several well-known retailers, such as "Circuit City", "Sharper Image", "Eddie Bauer", "Filene's Basement", and

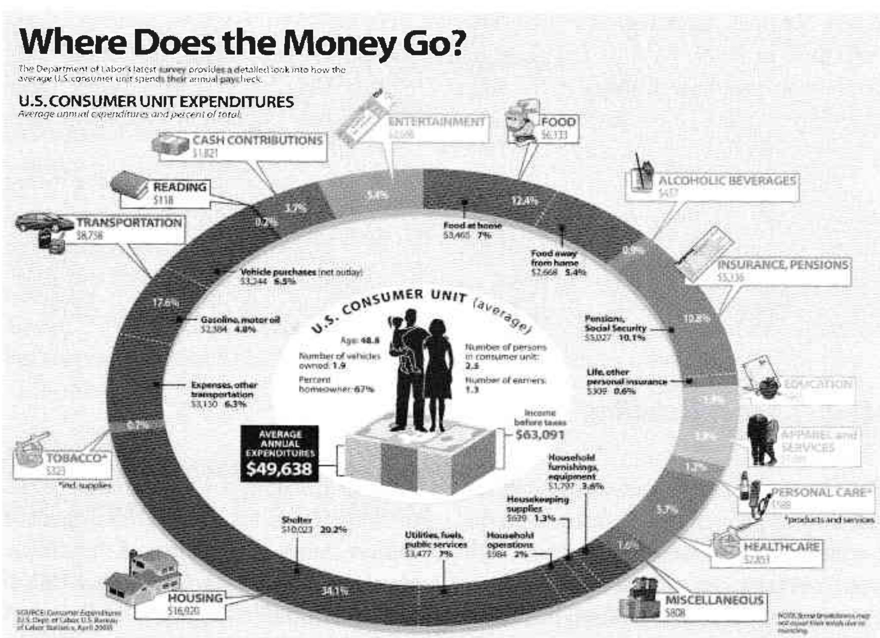

Fig. 2.1 Where does the money go? US retail spending 2009