

## **How Does Perceived Convenience Retailer Innovativeness Create Value for the Customer?**

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### **Abstract**

This research aims to present a value-based, consumer-centric view of convenience retailer innovativeness. It draws on focus groups undertaken with convenience store consumers in Taiwan. The results show that consumers evaluate the innovativeness of a convenience retailer through not only novel products but also creative services, communications, and store atmosphere. The research concludes that perceived convenience retailer innovativeness (PCRI) can enhance customer loyalty by increasing 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 consumer processing model.

*Key words:* perceived convenience retailer innovativeness; perceived value; qualitative research

*JEL classification:* M3; L1

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### **1. Introduction**

Enhancing consumers' perceived convenience retailer innovativeness (PCRI) is important for convenience retailers to ensure competitiveness since it can result in the acquisition of new customers and the retention of existing ones. Retailers who have been able to innovate, to create new value, and to respond to changes in consumer demand are those who have been successful in the market. Evidence in Asian countries suggests that the major convenience retailers are currently pursuing

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marketing strategies of enhanced quality and developing an image for innovativeness. For example, Chang and Dawson (2007) observe 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 cannot create new value or satisfy consumers' needs since it is consumers who ultimately determine the success of an innovation. Consumers may not be concerned about the company's new business model and/or advanced technology but may be responsive to how these new technologies can create new experiences for them and, more importantly, create new value for them. For example, Dawson and Larke (2005) show that some medium-sized Japanese retailers, such as Yaoko and Belk, have been able to grow in a recession through changing managerial practices and using sophisticated retail branding, merchandising, and process innovations including customer services in stores. All these innovations create new value for their customers. Therefore, 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 innovations, a better understanding of this topic is needed. Knowledge of how retail innovation contributes to retailer competitiveness, however, 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 PCRI affects consumers' purchase behavior. Thus, this paper aims to conceptualize PCRI and reports results of empirical research on how PCRI affects customer loyalty through enhancing perceived value.

## **2. PCRI, Perceived Value, and Consumer Loyalty**

Studies of retail innovation often utilise the theory of the wheel of retailing to explain how retailing institutions evolve over time from low-price/service to higher-price/service operations (McNair, 1958; Brown, 1990). Considering that the theory does not address how retailers generate innovative activities, Dawson (2001) proposes 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, are based on a retailer-centric view, focusing primarily on what drives the retailers to develop innovative products and/or services. To ensure that retail innovations will be successful in the marketplace, a value-based, consumer-centric perspective focusing primarily on consumers' perceptions of retailer innovativeness is essential.

According to the well-known taxonomy of Pavitt (1984) where the main focus is on the innovative mode adopted by different sectoral groups and related

inter-sectoral knowledge flows, a retailer is classified as a “supplier-dominated firm.” This definition implies that retailers mostly acquire advanced knowledge from other sectors rather than internally creating them. Trott (2008) defines innovation as the application of knowledge and identifies seven types of industry/firm innovation: product, process, organizational, management, production, marketing, and service innovation. Trott’s work shows that product, service, and marketing innovations contribute to consumers’ perception of firm innovativeness. Moreover, prior research suggests that store layout is important to the customer’s perceptions and evaluation of retail stores. For example, Dabholkar et al. (1996) find that customers are most concerned about store layout as it pertains to walking around the store. Consistent with this finding, if a retailer creates an innovative physical environment, customers might be predicted to evaluate this retailer 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) regard consumer choice as a function of multiple consumption value dimensions including quality, price, emotional, and social value. Grewal et al. (2004) use both the benefit (i.e., quality and service) and cost (i.e., time and price) aspects of value to describe how consumers perceive value from the retailer. Consumers perceived higher value if the retailer can offer more benefits, such as offering better quality products, or reduced the costs, such as offering products at lower price. This perceived personal value then translates to satisfaction, word-of-mouth, purchase intention, and purchase behavior dimensions of customer loyalty. This model offers a foundation for extending PCRI-value-loyalty constructs as the store image-value-loyalty model has been validated through investigation in multiple fields.

### **3. Methods**

This research focused on the convenience store retail format since this is considered the most innovative retail format and plays an important role in retail modernisation (Chang and Dawson, 2007). The leading convenience store in Taiwan, 7-Eleven, has 4,780 stores and is followed by Family-Mart (2,797 stores), Hi-Life (1240 stores), and OK-Mart (850 stores).

The researchers conducted qualitative semi-structured focus group interviews to find out the characteristics associated consumers’ perceptions of retailer innovativeness (see Appendix A). Though the purpose of qualitative research is usually not to offer a generalizable model, a conclusive logistic research framework will be offered based on the conclusions of a literature review and findings of focus group interviews.

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 including students and workers as key segments using convenience stores (Levy and Weitz, 2009). Students at a traditional university in Taiwan comprised the first six focus groups (group 1). To increase the diversity of respondents, one group was drawn from a range of worker occupations (group 2)

and another was conducted with senior managers and retired consumers (group 3). All respondents were recruited on the basis of purchase experience. Selection criteria included using two or more convenience stores and making purchases between 2 and 13 times per week.

#### **4. Findings**

The results of the focus groups showed that PCRI 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 brands (PB), which are developed and marketed by a retailer and exclusive to 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, 2011). For example, a senior female interviewee in group 3 said: "Recently, I noticed that 7-Eleven offers a new functional heat-creating fiber sweatshirt, and it is very novel and specific to 7-Eleven."

Also, in the area of food products, PB products are closely evaluated by consumers. Most previous studies of PB conclude that the perceived PB food quality is one of the critical factors correlated to consumers' loyalty behaviors, such as purchase intention (e.g., Lin et al., 2009), purchasing behavior, and satisfaction. For example, a female student in group 1 said: "I bought almost everything that 7-Eleven sold in the store because it offers more innovative and fresher products than other competitive convenience stores."

**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 factor, particularly in a highly competitive sector (Sweeney et al., 1999). Retailers continuously seek ways to improve their service quality by saving their consumers' time and effort. For example, Wen et al. (2010) report 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 also 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. A male student in group 1 said:

"Precisely because many services such as laundry delivery and bill payment service are first offered by 7-Eleven and then followed by other convenience stores, I agree that 7-Eleven has higher innovativeness than other competitors."

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 behavioral intentions. This is reflected in some of the comments from the interviewees. For example, a male interviewee in group 1 said: "I think that 7-Eleven has a lot of service innovations. For example, 7-Eleven was the first convenience store to offer the I-Bon system, which allows customers to collect prepaid concert tickets or high speed train tickets in the store. The I-Bon system saves me lots of time to collect 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 emotion value on consumer's willingness to buy in the durable products category. Emotion 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' perceptions 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 said: "Recently, 7-Eleven offers a Wi-Fi environment and has tables for laptop users. For office workers, it is very convenient and comfortable to take a rest and get free internet access in the store. 7-Eleven is the first convenience store offering creative shopping environment, and other retailers are just followers."

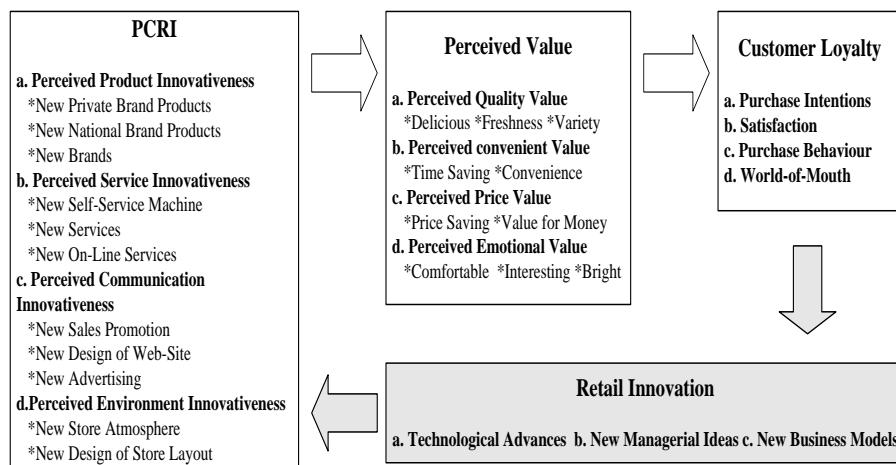
Most retail managers know that they can generate positive returns by creating an exciting shopping environment (Kaltcheva and Weitz, 2006). Therefore, major conveniences store retailers such as 7-Eleven and Family-Mart are willing to invest in the design of novel environments to create affection and indulgence in consumers and which can increase the expected emotion utility of their shopping (see <http://www.family.com.tw>). A male student in group 1 said: "I noticed that recently Family-Mart became more innovative than before. The new shop front was decorated shiny green and the open store space gives me a sense of a lifestyle of health and sustainability and makes me feel very comfortable. This makes me like to shop at Family-Mart."

**Communication-Price-Loyalty.** Marketing innovations can be seen not only in product development but also in promotions (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 of products (see <http://www.7-11.com.tw>), and consumers can register online to receive relevant deals and coupons. Even if the promotion techniques and products are not new, a new product mix for discounts or new designs for gifts gives consumers a fresh perspective on the retailer. For example, a female student in group 1 said: "I think OK-Mart is an innovative retailer because it offers different promotions. For example, now you can buy a bag of biscuits and a soft drink and receive a special discount, and OK-Mart changes its promotions regularly."

Innovations in promotion provide considerable opportunities to target customers effectively (Grewal et al., 2011). Both price and non-price promotional tactics were mentioned by interviewees; for example, a male in group 1 said: "I think if a retailer could offer various sales and promotion activities, I would treat it as an innovative retailer. For example, 7-Eleven offers deals where consumers collect coupons that they can trade in for cute dolls or puppets on an irregular schedule. This makes me like to shop and to collect coupons at 7-Eleven."

**Figure 1. PCRI-Value-Loyalty Model**



## 5. Conclusion

Summarizing the findings from the focus group interviews, Figure 1 shows a simple three-step model of the value delivery 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 innovations create consumers' perceived value, including perceptions of better quality, feelings of comfort, time/effort savings and, of course, price savings. Consequently, when consumers perceive better value from a retailer' efforts at innovation, they are more likely to become more loyal customers than others. Finally, the increase in sales

reinforces retailers' investment in new retail innovations.

As Figure 1 shows, retail innovations help enhance customers' perceived value, from which improved consumer loyalty further enables retailers to apply and introduce even more advanced retail innovations for the customer. Retail innovation 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, and creative communication programs and environment (Dawson, 2001).

In conclusion, retailers face dramatically increased pressure to differentiate themselves in the marketplace because of intense competition today. How can a retailer create the perception of retailer innovativeness and set themselves apart from competitors? As this research has shown, a retailer should focus on creative ideas that result in value creation for customers. For example, a retailer can offer novel private brand products that consumers perceive as providing value through quality. Also, a retail manager can create an interesting store environment to generate value for his or her customers. All of these activities can increase consumers' willingness to shop at and to recommend the store to other consumers.

## 6. Limitations and Future Research

This research represents a first step in the study of PCRI. Though students are the main convenience store customers in Taiwan, further research should include data from non-student subjects in order to investigate perceptual and behavioral differences between students and other types of convenience store customers related to PCRI. Future research should elucidate the differences and similarities between PCRI in convenience stores versus PCRI in other retail formats, such as department stores and hypermarkets. Finally, this qualitative research merely offers a conceptual framework for understanding the effect of PCRI. Future research could employ scale development to test the reliability and validity of the PCRI-Value-Loyalty model.

## Appendix A: Focus Group Questions

The interviewer asked three questions:

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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