Customer interaction with controlled retail mix elements and their relationships with customer loyalty in diverse retail environments

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Key words
Customer interaction, retail mix, loyalty, diverse retailers

Abstract
Customer loyalty as an outcome holds various advantages for a retailer. It is therefore important that a retailer provides the type and level of retail mix elements for interaction that customers’ desire and which results in customer loyalty. In this study four elements of the retail mix offered by three diverse retailers and their relationships with customer loyalty were investigated. The findings clearly indicate that retail mix elements desired by customers vary by type of retailer. Supermarket customers’ interactions with merchandise value leads to loyalty whilst loyalty of customers of a health, beauty and lifestyle retailer (HBL), is the outcomes of positive relationships between their interaction with merchandise value and frontline staff.

1. Introduction
Recent search related to the patronage of retail stores by customers accentuates the role of in-store interactions between customers, products or representatives of retailers and the outcomes of such interactions (Brocato, Voorhees & and Baker 2012; Brodie, Hollebeek, Juric & and Ihc 2011; Verhoef, Lemon, Parasuraman, Roggeveen, Tsiros & and Schlesinger 2009). In the service literature the service encounter has always been regarded as the locus of interaction between a customer and an employee (Bitner, Booms & and Mohr 1994). Interactions also form the basis of customer experiences (Gentile, Noci and Spiller, 2007; Meyer & and Schwager 2007). Interactions can be unplanned and triggered by the in-store environment or initiated by the customer. For instance, in the latter case a customer may experience a particular retailing mix as difficult to use because of particular features of certain merchandise or that a product is linked to “complementary products or related services” (Shockley, Roth and Fredenall 2011: 624). A similar difficulty for customers also arise when a complex product mix compound their competence to judge and compare alternative product offerings (Fitzsimmons and Fitzsimmons 2007). The shopping task to be undertaken by the customer also determine the need for interaction as customers try to transfer the perceived risk of the transaction to the store (Van Waterschoot, Sinha, Van Kenhowe and De Wulf 2008). A retailer has the conventional retailing mix at its disposal to address customers’ in-store interaction needs and broadening customers 'horizons. Interactions have the ability to create trust, lead to emotional commitment, enhance customer cooperation, value perceptions, relationship formation, positive word-of-mouth and customer loyalty (Moore, Moore & and Capella2005; Reynolds & and Beatty 1999).The focus of this research is the role of the physical environment, merchandise and frontline staff to address the contribution of the retail mix elements wanted by customers in their in-store interactions and the relationship between the retail mix elements and customer loyalty.

2. Nature of interactions
The nature of the interaction between customers and elements of the product/service required by the customer is determined by the nature of the product/service required. For instance a low involvement product such as milk only require the identification thereof on the shelves and placing it a shopping basket whereas a dress requires fitting and input from sales staff about the
choice of colour and style. Customers may desire particular interactions and try and at the same try to avoid other types of interaction. There is a relationship between an element or elements of a retail mix offered by a particular type of retailer and this relationship has relationship with customer loyalty. Patterson, Yu and de Ruyter (2006) view interaction as one of the four components necessary for customer engagement and regard interaction as the two-way communications between a focal engagement subject and object. Interaction thus has an important role to play in the formation of customer engagement.

3. Objectives of the study

The focus of this study is on the in-store retail mix elements a retailer provides to address the interaction needs of its customers in a manner that could enhance loyalty amongst their customers. Retail mix elements are not equally important to customers in assisting them to address the levels of interaction desired in diverse retail environments. In particular the differences in in-store retail mix elements that customers expect and that can assist them in their in-store shopping decision-making, in respect of different products/services, are investigated. The primary objective of this study is to ascertain which in-store retail mix elements must be in place to satisfy customer interaction needs in three diverse retailing environments namely a supermarket, clothing store and a HBL retailer. The secondary purpose is to identify those in-store retail mix elements that influence customer loyalty in the aforementioned three retail environments.

4. A brief literature review of the in-store retail mix

This study focus on the in-store retail mix elements under the retailer’s control and which enable customers to address their interaction requirements. The retail mix can be defined in many ways but usually it represents the so-called 6 P’s of retailing namely a retailer’s products, promotion efforts, personnel, presentation, place and price. In this study the focus is on the in-store retail mix elements that are under the control of the retailer. Essentially the retail mix is combined to address customer needs, formulate strategy, coordinate operations and respond to competition (Koening 2016). Some products fulfil a role as status symbols or is important to address the physical or psychological welfare of a customer and as such serve as a motivation to spend more time in a shop, demand more information and require the advice of sales staff. Store environments, such as those in clothing stores should be pleasant and beneficial to browsing as well as providing convenient access to customers with different mobility needs. The aforementioned demands of customers are of importance to retail stores that sell high involvement products. On the other hand, supermarket shoppers demand simple layouts to enhance the speed and efficiency of grocery shopping. A retail store’s provision of facilities, staff and merchandise to address the interaction expectations of their customers could, if appropriately provided, enhance a customer’s shopping experience and satisfaction which in turn should lead to an increase in customer loyalty. An earlier study identified the four in-store retail mix elements below to be of importance for the in-store experience of customers (Terblanche and Boshoff 2006). These four in-store retail mix elements are also suitable to capture the essential elements of customer-based store interaction as they address the psychological, physical and situational dimensions of interaction.

- Frontline staff – this element includes all the face-to-face interactions between customers and frontline retail employees such as staff providing personal attention, staff’s readiness to help, staff being polite, staff’s provision of punctual service and where the staff is always ready to assist customers.
- Merchandise value – this is a combination of the interplay between the quality of products, prices that offer value for money, products that functions properly and products that are free from defects.
- Internal store environment – this element relates to all the elements that play a part in an acceptable shopping atmosphere such as eye-catching decor, attractive physical facilities (check-
out counters, shelves, well-spaced product and promotional displays) and appealing materials associated with the retailer’s service (shopping bags and catalogues).

- Merchandise variety – this element deals with customers’ selection with regard to various brand names as well as a choice of eminent brands and the collection of brand names that are offered in many different sizes, shapes and colours.

These elements measure customer interaction for different types of retailers and act as independent variables in predicting customer loyalty in this study.

5. The typical behaviour and expectations of shoppers in respect of different retail store types

This section contains a short overview of the typical behaviour and expectations of shoppers in three distinct types of retail stores, namely a supermarket, a clothing store and a HBL store. The products and services mix offered by these three stores differ substantially amongst retail types as well as the expected level of customer interaction which could range from limited to extensive interaction. The intent here is to emphasise distinctive behaviour and expectations that are typically to a particular group of shoppers and which determines each group’s distinctive in-store retail mix requirements to meet their needs for a particular level of interaction.

5.1 Supermarket shoppers

George (2005) found that customers rated accurate check out, shopper friendly store layout, speedy check out and uncluttered aisles as the four most important attributes of a supermarket. In the past decade supermarkets also had to deal with diverse and innovative retailing formats that have emerged as competitors as well as more informed and demanding customers (Gadema and Oglethorpe 2011; Levy and Weitz 2012). Many supermarkets have responded by trying to offer in-store shopping experiences for their customers by blending retail mix elements such as trained frontline staff with extended merchandise offerings in a store environment that appeals to their customers and their senses. Supermarkets typically use the gridiron layout pattern to augment the image of an efficient store layout and atmosphere which makes shopping and self-service easy. The simplicity of shopping in a gridiron layout combine with price to appeal to supermarket shoppers (Davies, Goode, Moutinho and Ogbonna 2001). Supermarket shoppers use price as an extrinsic cue to justify the time and effort required to evaluate intrinsic cues as important (Sirohi, McLaughlin and Wittink 1998). Supermarkets offer a multiplicity of extrinsic cues (e.g. hygienic floor areas, assortment and variety), price and quality perceptions that could co-vary and that consumers "get what they pay for" (Kerin, Jain, and Howard, 1991). Sirohi, McLaughlin and Wittink (1998) found that customers use service quality as an extrinsic cue in the formation of overall merchandise quality. Based on the discussion above, the following hypothesis is suggested:

H1: The interaction with merchandise value will have a positive relationship with customer loyalty in a supermarket environment.

5.2 Clothing store shoppers

Clothing, especially fashion clothing, is used by consumers to express status and personal meaning (Solomon and Rabolt, 2004; O’Cass and Frost, 2002). Goldsmith, Flynn and Clark (2012: 106) see customers “involvement with clothing is an enduring interest in displaying the self to the world.” Because clothing is consumed publicly, it follows that it carries a great deal of social risk with it. For customers to address their social risk concerns, they interact extensively with frontline staff. Torres, Summers and Belleau (2001) found that the key clothing store attributes (in order of importance) are the following:

- Price of merchandise
- Quality of merchandise
- Selection of merchandise
- Brands carried in the store
Friendly personnel

The typical in-store stimuli in a clothing store are the number of staff, music, colours used, flooring, temperature within the store and layout of the store. In the case of single-brand apparel clothing stores such as Zara or H&M the aforementioned atmospheric stimuli, as well as the exclusive merchandise offered, is the major reason why customers visit such stores as the merchandise is unavailable at other clothing retailers (Kumar and Kim 2014). Females rated clothing store characteristics such as physical facilities, sales people service, merchandise requests and store layout as the most essential store characteristics (Kleinhans, Visser, Van Aardt, and Du Preez, 1998).

The aforementioned studies offer some insight as to why middle and higher-priced clothing shops, in their endeavours to persuade shoppers to browse and spend time in the shop, use a free-flowing or boutique layout pattern. Such a layout creates a friendly atmosphere in which the possibility of unplanned or impulse purchases is enhanced. Based on the discussion above, the following hypothesis is suggested:

H₂: The interaction with frontline staff and merchandise variety will have a positive relationship with customer loyalty in a clothing-store.

5.3 HBL product shoppers

The wide variety and assortment of products demanded by customers require HBL-retailers to offer a wide and deep assortment of products. Nowadays these retailers are also required to offer, apart from everyday over-the-counter medicines, a wide range of alternative medicines for holistic health care and wellness and traditional medicines as well those typically prescribed by homeopaths. Over time consumers’ desire to uphold their own individuality as well as financial considerations led to advice been sought with regard to the product to take has become as vital as price (Rossi, 2003). The resultant changes in customer behaviour have led to changes in the level and nature of advice seeking of customers in BLH-stores. According to Cramer, Shaw, Wye and Weiss (2010) the interactions and advice wanted by customers from staff can be categorised into six categories based on the level and type of assistance customers require from HBL-staff. These categories are (Cramer et al. 2010: 45)

- help with diagnosis;
- help finding a general remedy;
- help with a specific product;
- free advice;
- pastoral care; and
- ‘just buying’.

In an earlier study Maline (1995) found that American drug store shoppers deem the following factors (apart from convenient accessible location) as the most important when they decide to patronise a particular store: knowledgeable staff, competitive pricing, fast check out times, store layout that enhances shopping convenience and speed and one-stop shopping. The reading and comparison of health and nutrition information on labels is a typical in-store behaviour of HBL-shoppers (Nayga, Lipinski and Savur, 1998). Given the potential amount of information collected by customers before making a BLH buying-decision and particularly the interaction possibilities with knowledgeable staff one can expect that the elements Frontline staff and Merchandise variety will be a particularly important dimension in influencing consumers’ long term loyalty to a BPH-retailer. Based on the discussion above, the following hypothesis is suggested:

H₃: The interaction with frontline staff and merchandise variety will have a positive relationship with customer loyalty in a HBL-store environment.

6. Customer loyalty and interaction
Customer loyalty definitions have descriptions such as a probability of repurchase to a proportion of purchase (Sivadas and Baker-Prewitt 2000). East, Hammond, Harris and Lomax (2000) state that, in general terms, customer loyalty is a positive propensity toward a store or brand. The overall conclusion from studies reported in the nineties is that loyalty is both a cognitive construct (attitude) and a shopping behaviour (East, Harris, Wilson and Lomax 1995; Dick and Basu 1994; Mellens, Dekimpe and Steenkamp 1996). Bloemer and de Ruyter (1998: 500), in keeping with the relationship marketing focus, define store loyalty as “biased (i.e. non-random) behavioural response (i.e. revisit), expressed over time, by some decision-making unit with respect to one store out of a set of competing stores, which is a function of psychological (decision-making and evaluative) processes resulting in store commitment”. Customer loyalty is a valuable intangible asset for a retailer. Customer loyalty, in terms of both its attitudinal and behavioural dimensions, offers considerable potential for differentiation and as a source of competitive advantage (Cossío-Silva, Revilla-Camacho, Vega-Vázquez and Palacios-Florencio 2016). The significance of customer loyalty is widely acknowledged in the marketing literature (El-Manstrly 2016). A small increase in customer loyalty has a large impact on a firm’s value and loyal customers tend to buy more (Roos and Gustafsson, 2007; Lam and Burton 2006). Furthermore, loyal customers generate more profit, are more forgiving when service failure takes place, are resistant to competitors’ offerings and requires less to keep (Reichheld, 1996; Yi and La, 2004; Narayandas, 2005; Ganesh, Arnold, and Reynolds 2000). Personal interaction between customers and frontline staff has a positive effect on customer loyalty (Medler-Liraz and Yagil 2013; Chen, Chen and Lee 2013). Chen, Chen and Lee (2013) found that the effect of personal interaction on customer loyalty was greater than the influence of the physical environment and as such indicates the importance of personal interaction in the process of creating customer loyalty. Frontline staff are likely to interact with many customers per day and to continuously deliver service with a positive attitude and emotional display.

7. Methodology
7.1 Sampling

A combination of convenience and random sampling were employed for data collection. The supermarket, clothing store and HBL-retailer operate countrywide and respondents that were representative of their national customer profile, were approached and asked to take part in the survey after they completed a shopping trip. The data collection was spread over two days. For each type of store 500 fully completed responses were obtained.

7.2 Data collection and measurement scale

Data was collected by means of personal interviews using a structured questionnaire. All the respondents were requested to register their level of interaction satisfaction with the in-store retail mix elements offered by the particular retailer on a 7-point Likert-type scale. The questionnaire used in the surveys consisted of 19 items, measuring the following four in-store retail mix elements: Frontline staff (5 items), Merchandise value (3 items), Merchandise variety (4 items), and Internal store environment (5 items). Loyalty was measured with 3 items. The sources of the items are indicated in Table 1. The Cronbach Alpha values for the scale used to measure the in-store retail mix (Table 1) were .927, .803 and .785 for the supermarket, clothing store and HBL-retailer respectively. These indices confirm that the instruments used in the study were reliable irrespective of the retail type under consideration. Although some of the Cronbach Alpha values for individual elements are below the accepted norm of .7, relatively low levels of criterion reliability do not seriously attenuate validity coefficients (Schmitt 1996).

<table>
<thead>
<tr>
<th>Supermarket</th>
<th>Clothingstore</th>
<th>HBL-retailer</th>
<th>No of items</th>
<th>Sources of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise = .714</td>
<td>.477</td>
<td>.522</td>
<td>3</td>
<td>Walsh, Shia, Hassan, Michaelidou</td>
</tr>
</tbody>
</table>
8. Findings and conclusions

The in-store retail mix measure was then subjected to a series of confirmatory factor analyses to test the measurement model as recommended by Gerbing and Anderson (1988). The results of the confirmatory factor analyses are set out in Table 2. The absolute fit measures reported in Table 2 meet or exceed the minimum levels normally regarded as cut-off points. Both the LISREL Goodness of Fit Index and the Adjusted Goodness of Fit Index exceeds the customary cut-off point of 0.90, providing additional support for the conclusion that the data fits the theoretical model reasonably well.

Table 1: Reliability analyses and sources of scale items

<table>
<thead>
<tr>
<th>Scale Items</th>
<th>Frontline staff</th>
<th>Merchandise variety</th>
<th>In-store environment</th>
<th>Retail mix scale</th>
<th>Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>.830</td>
<td>.643</td>
<td>.815</td>
<td>.827</td>
<td>.445</td>
</tr>
<tr>
<td>Merits</td>
<td>.748</td>
<td>.715</td>
<td>.764</td>
<td>.803</td>
<td>.785</td>
</tr>
</tbody>
</table>

Table 2: Model fit indices of the structural model

<table>
<thead>
<tr>
<th>Degrees of freedom</th>
<th>Supermarket</th>
<th>Clothing store</th>
<th>HBL-retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>142</td>
<td>142</td>
<td>142</td>
</tr>
<tr>
<td>Satorra Bentler Scaled Chi-square</td>
<td>310.011 (p=0.000)</td>
<td>244.216 (p=0.000)</td>
<td>199.218 (p=0.000)</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.0487</td>
<td>0.0380</td>
<td>0.0284</td>
</tr>
<tr>
<td>X²/df ratio</td>
<td>2.18</td>
<td>1.72</td>
<td>1.40</td>
</tr>
<tr>
<td>ECVI</td>
<td>0.814</td>
<td>0.682</td>
<td>0.592</td>
</tr>
<tr>
<td>NFI</td>
<td>0.984</td>
<td>0.944</td>
<td>0.971</td>
</tr>
<tr>
<td>NNFI</td>
<td>0.989</td>
<td>0.970</td>
<td>0.990</td>
</tr>
<tr>
<td>GFI</td>
<td>0.936</td>
<td>0.942</td>
<td>0.952</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.915</td>
<td>0.922</td>
<td>0.936</td>
</tr>
</tbody>
</table>

Table 2: Model fit indices of the structural model

<table>
<thead>
<tr>
<th>Path</th>
<th>Supermarket</th>
<th>Clothing store</th>
<th>HBL-retailer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandise value → Customer loyalty</td>
<td>2.24</td>
<td>2.71</td>
<td>3.88</td>
</tr>
<tr>
<td>Frontline staff → Customer</td>
<td>-0.45</td>
<td>2.01</td>
<td>5.67</td>
</tr>
</tbody>
</table>
Table 3: Empirical results of the structural model

<table>
<thead>
<tr>
<th></th>
<th>Customer loyalty</th>
<th>Merchandise variety</th>
<th>Customer loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-store environment</td>
<td>0.49 N.S.</td>
<td>-0.78 N.S.</td>
<td>0.67 N.S.</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>0.67 N.S.</td>
<td>0.41 N.S.</td>
<td>0.64 N.S.</td>
</tr>
</tbody>
</table>

Significance level: * : $p<0.05$  ** : $p<0.01$  *** : $p<0.001$; N.S.: Not significant

Merchandise value was the only element to have a significant relationship with loyalty in the supermarket study. Supermarket consumers tend to be price sensitive, time parsimonious and want the minimum interaction with staff - all of this are proven in this study. The insignificant relationships between interaction with the other retail mix elements and customer loyalty is as anticipated. Two of the interaction retail mix elements were found to have a significant relationships with customer loyalty in the clothing store study. These two are interaction with merchandise value and frontline staff. The merchandise value element displays the strongest relationship with customer loyalty. In the HBL shop loyalty is also driven by interaction with merchandise value as well as interaction with frontline staff. The large t-values, in comparison with that of the clothing store indicate how extremely important interactions with the aforementioned elements are for HBL-shoppers. The high involvement nature of many products offered by HBL retailers are most likely part of the explanation for the importance of interaction with merchandise value and frontline staff.

The major finding of this study is that the retail mix elements desired for interaction and which result in customer loyalty, vary by retailer type. The findings are largely in line with the extant literature on which the hypotheses were based. There is thus retail mix elements that should receive priority attention if a retailer wish to create loyalty with customers. It is also important to keep in mind that interactions by customers are one of the pillars of customer engagement. It is thus vital that those retail mix elements that address customers’ interaction needs are also a prerequisite for customer engagement.

9. Managerial implications

Retailers should ensure that all the retail mix elements within their control should at all times be in place. Customer loyalty, however, is the outcome of positive relationships between customers and interactions with specific retail mix elements. What generates loyalty are different for different types of retailers. Merchandise value is an important source for interaction in respect of all three retail types - essentially it is the combination of quality and price of merchandise that form value in the consumer’s mind and retailers should ensure that the components of value are in balance with one another. In a clothing store interaction with merchandise value is important but the added dimension of interaction with frontline staff also features - most likely to alleviate concerns stemming from the visibility and social risks that are inherent to clothes. To ensure loyalty amongst clothing store customers, retailers have to ensure that, apart from products that offer value for money their frontline staff should be knowledgeable, helpful, accessible to reduce the pressure and doubt that shoppers undergo when they make clothing decisions. The latter also applies to HBL retailers. To ensure effective interaction by HBL frontline staff, they should continuously undergo training and motivation to help customers; provide personal and individualised attention; being courteous all the time and respond promptly to requests.

Those retail mix elements that customers want for interaction and that have significant relationships with customer loyalty can maybe viewed as “satisfiers” based on the work of Herzberg (1968) and Naumann and Jackson (1999). Satisfiers address customers’ essential expectations and offer a retailer the opportunity to create a unique sustainable competitive advantage. Those retail mix elements that did not have significant relationships with customer loyalty can therefore be deemed as “hygiene” factors. The hygiene factors are those elements that customers expect to be part of a
retailer’s offering and their absence will lead to customer dissatisfaction. Their presence, however, would not automatically cause customer satisfaction. Should retailers’ underestimate the value of hygiene factors, they do it at their own peril.

10. References


