

MIND THE GAP! ARE LOCAL RETAILERS MISINTERPRETING CUSTOMER EXPECTATIONS REGARDING DIGITAL SERVICES?

Lars Michael Bollweg

*South Westphalia University of Applied Sciences
Lübecker Ring 2, 59494 Soest, Germany*

Richard Lackes

*Technische Universität Dortmund
Otto-Hahn-Str. 12 44227 Dortmund, Germany*

Markus Siepermann

*Technische Universität Dortmund
Otto-Hahn-Str. 12 44227 Dortmund, Germany*

Peter Weber

*South Westphalia University of Applied Sciences
Lübecker Ring 2, 59494 Soest, Germany*

ABSTRACT

The owner-operated stationary retail industry is in a phase of intense transformation. Digitalization and e-commerce are questioning the traditional retail business models. A conducted survey in a German city points out that local retailers are aware of the importance of digitalization for their businesses in future, but nonetheless do not think that their customers actually expect sophisticated digital services by them. In contrast to these findings, another recent study for the same city just revealed that 45% of all asked customers have already changed their buying behavior towards online retail. In this context, this paper uses the SERVQUAL Gap-Model by Zeithaml et al. (1998) to classify and interpret these observations. Shopping-convenience (e.g. time saving) is a known key factor for the buying decision and for the channel choice of customers, but local retailers do not seem to be fully aware of the changing expectations of their customers in this regard. If so, they run the risk of losing sight of the continuously developing digitalization-based business model innovations and the accordingly changing customer expectations which would inevitably weaken their competitive position.

KEYWORDS

Local Commerce, SERVQUAL, gap-theory, shopping-convenience, buying decision

1. INTRODUCTION

In a low growth market environment in 2014, the local owner operated retail outlet (LOORO) was the group with the highest revenue losses (HDE 2015, p.7). The continued digitalization and further development towards chain stores threatens the very existence of local retail outlets run by their owners. In contrast to this, online retail has been expanding at a growth rate of 17.8 % in 2014 (HDE 2015, p.9). According to the German Retail Federation (HDE) online retail will continue to have good growth prospects in the future, especially due to its pioneering digitalization work. But so far, retail is still dominated by in-store sales. Despite the huge growth

rates, the turnover share of e-commerce of retail is still only 11.1% in Germany (Statista 2014). The biggest changes in store-based retail in the last 20 years have been a tendency towards market concentration and chain stores and specialist retailers winning more market share from LOORO. The market share of LOORO is down from 30% in 1995 to now at only 14% (Collier International 2015).

This leads us to the question whether the digitalization which is the key ingredient of online retail but also is an important aspect of chain stores, specialist stores and big retail companies can also open a new development perspective for LOORO. As most of the research into digitalization in retail has concentrated on strategies for implementing digital applications in big organizations, there is a major gap in research into digitalization of owner-run businesses. In order to address this gap, the authors of this paper have conducted a survey of the current state of digitalization of LOORO in a medium-sized town in Germany. In addition to fulfilling the objective of finding out more about the state of digitalization of LOORO, the survey findings indicate a misalignment or mismatch between the assessment of how important digital services will be in the future on the one side and the current implementation and availability of digital services or even the willingness of LOORO to engage in digitalization on the other side. This paper aims at analyzing this mismatch and presents the hypothesis that owner-run business are in danger of being alienated from the expectations of their customers and underestimate the relevance of service convenience for customers who have changed their buying behavior in the context of digitalization.

In the following section, the digital transformation of local commerce is further defined and contrasted with the general retail context. The third section describes and defines the relevance of convenience for the buying decision and for the decision which retail channel to opt for in order to highlight the relevance of convenience for the investigated retail context. In the fourth section, the SERVQUAL approach and the Gap-Model are introduced as frameworks for the discussion of the results of the already mentioned survey findings of section five. The fifth section covers these findings of a study about the change in customers buying behavior and a summary of our own survey of retailer expectations regarding digitalization and digital services. In the last section, we summarize our findings and continue with a presentation of new research questions according to the transformation of local commerce.

2. TRANSFORMATION OF LOCAL COMMERCE

In the age of digitalization, the retail sector is experiencing major changes. Established structures are eroded, business models are questioned, information asymmetries shift, and thus also power structures between retailers and customers change. Furthermore, limitations of time and space are put into question, and new entrants from other industries introduce innovative ideas and new solutions to customers. We are considering six main transformation drivers depicted in fig. 1 which are responsible for the pressure to take actions in local commerce. Given standards and infrastructures by politics and urban development are building a framework for the dynamic change of competition and new technologies. As well as suppliers and customers change their behavior under the pressure of digitalization in the value chain.

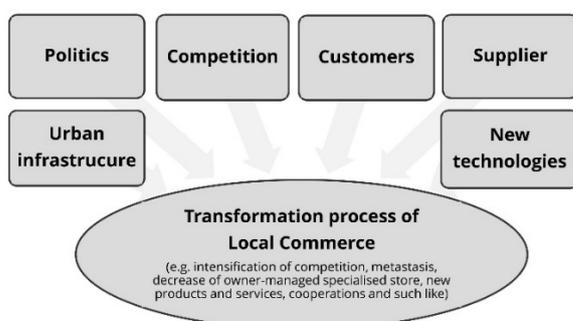


Figure 1 External factors influencing the transformation of local commerce

Because of this and many other technology-driven changes, traditional retail business research started working on completely new challenges. By this, the digitalization of LOORO has only captured little attention so far. This special group of retailers who are not part of large retail associations, chain stores or specialist stores is very hard to classify because of their heterogeneity. Since these local retailers encompass different owner personalities, different business sectors, different target groups, and different business strategies, it is very difficult to observe them as one group and to define recommendations and guidance in this process of digital transformation. In the business model of the owner run store, the owner is normally more involved in the day-to-day operations of the business and has only little time to engage in the digital remodeling process. At the same time, financial investment is a greater personal liability for the business owners, which is a further disincentive. In addition, the implementation of digital services demands a high amount of specialist skills and competences which can be considered another reason why many business owners tend to take on a wait-and-see position.

At first glance, big retail associations and chain stores are in a much better starting position for overcoming obstacles on the road to implementing digital services, as it is easier for them to find the money to invest in digitalization and as they can benefit from more powerful organizational setup. Nevertheless, like chain stores and major retail associations, local business are equally called upon to face the new challenges of digitalization and will have to adapt their business models to the new retail landscape.

According to the above discussed background we will focus on the “customer” and we will point out that today’s customer’s change their shopping behavior and that shopping-convenience is a key factor for shoppers to make their buying decision and their channel choice.

3. CONVENIENCE AS KEY FACTOR INFLUENCING BUYING AND RETAIL CHANNEL DECISIONS

According to Seiders et al. (2007) shopping convenience reflects consumers’ perceived time and effort in purchasing or using a service. A number of studies has shown that shopping convenience (e.g. time-saving) has a major influence on buying decisions (cf. Wolfinbarger 2001; Berry et al. 2002; Gupta 2004; Bednarz 2010; Jiang et al. 2013) and retail channel decisions of customers (cf. Rohm, Vanitia 2004; Chang 2005; Choudhury 2008; Maity 2014). If the products are very similar or even the same, the customer weighs pros and cons (convenience / risk) of different retail channels and then takes his buying decision and channel choice, which is thereby influenced by his personal background (education level, experience) (Bhatnagar 2000).

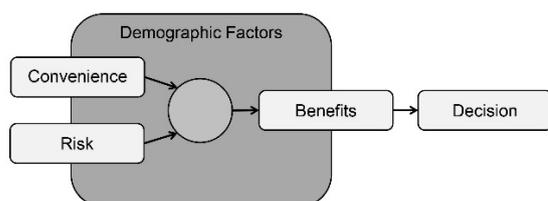


Figure 2: Convenience, risk and Internet shopping behavior (Bhatnagar 2000).

In the context of retailing, Seiders et al. (2000) suggest four dimensions of convenience, which will guide the further discussion in the following sections:

- (1) Access. Consumers may reach a retailer.
- (2) Search. Consumers can identify and select products they wish to buy.
- (3) Possession. Consumers can obtain desired products.
- (4) Transaction. Consumers can effect or amend transactions.

We transferred this classification of shopping convenience categories to our survey as follows, in order to derive digital shopping convenience categories to study:

- (1) Online Visibility (Access)
This category comprises all questions that refer to visibility online, like through a website (e.g. addressing also search engine optimization (SEO) activities), through search engines, or on digital markets.
- (2) Digital In-Store Applications (Search)
This category refers to all questions to do with the product management of local businesses, such as digitalization of stock management, etc.
- (3) Delivery and Pick up (Possession)
This category deals with delivery services and pick-up options for sold products.
- (4) Payment and Customer Relationship Management (Transaction)
This category refers to questions that focus on e.g. payment methods or customer loyalty efforts, such as customer databases and loyalty schemes.

In the following presentation and discussion of survey results the mismatch between expectations of the relevance of digitalization and the visible implementation efforts is revealed. Thereby, only on a small number of questions / results which is in particular related to the above mentioned categories of digital shopping convenience will be considered.

4. LOCAL COMMERCE AND THE SERVQUAL GAP-MODEL

Service quality research has spawned a number of approaches and models (cf. Cardozo 1965; Powers 1988) during its long tradition, such as the SERVQUAL model by Zeithaml et al. (1998). SERVQUAL offers a framework for measuring and managing service quality that encompasses both customer expectations as well as the actual service experience and also defines specific types of gaps that can cause a mismatch between expected and experienced service quality. SERVQUAL allows to conduct research into causes of over- or under-fulfilment of customer expectations using the confirmation / disconfirmation-paradigm amongst other tools. Figure 3 shows the SERVQUAL Gap-Model with the several defined types of gaps (Zeithaml et al. 1998).

We argue that the findings of the two following surveys indicate the existence of Gaps 1 and 2 of the SERVQUAL Gap-Model, increasing the risk of poor service quality in terms of under-fulfilled digital convenience expectations (Gap 5). According to Zeithaml et al. (1998) Gap 5 stands for the "expected service – perceived service gap" and needs to be interpreted as a function of the other gaps: "*The quality that a consumer perceives in a service is a function of the magnitude and direction of the gap between expected service and perceived service.*" (Zeithaml et al. 1998) Gap 1 then represents the "consumer expectation – management perception gap". This gap represents the discrepancies between executive perceptions of and the actual consumer expectations, leading to improper service decisions and thus contributing to a Gap 5, which would mean negative impact on the service quality from the consumers' viewpoint. Gap 2 finally stands for the "management perception – service quality specification gap". It represents the difficulties of the management to match or exceed with their service specifications the expectations of the consumers, for example due to a lack of awareness, understanding or willingness, and thus also contributes to Gap 5. We neglect the other gaps at this point as they do not refer directly to the focus of this paper.

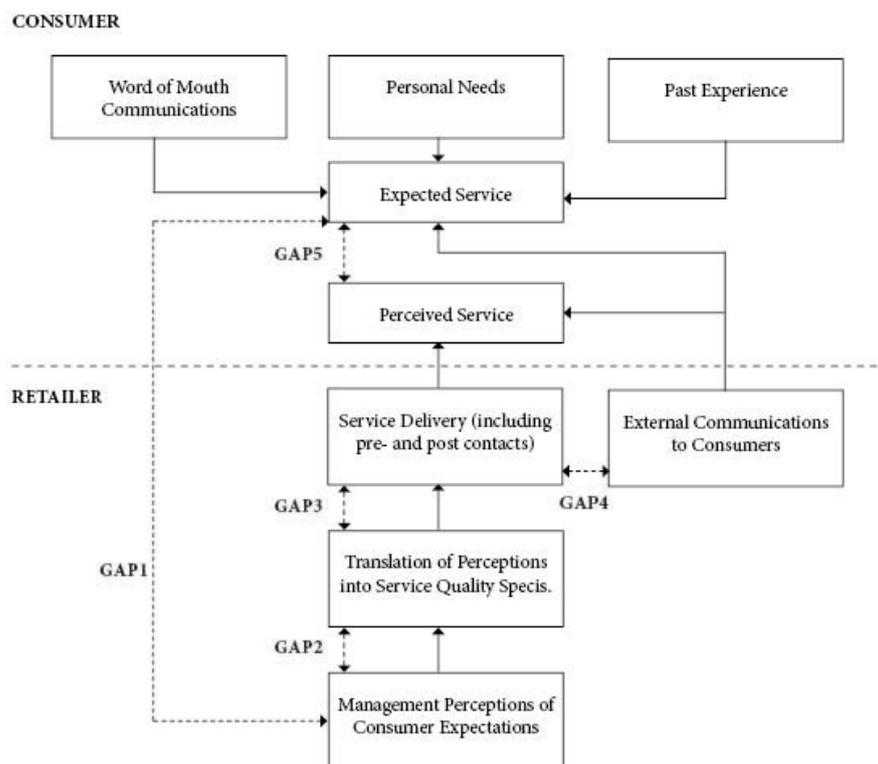


Figure 2: Service Quality Model (Zeithaml et al. 1998)

The following section now focuses on the two studies that reveal clear evidence for changing customer shopping behaviour and that LOORO are aware of the importance of digitalization, but that they nevertheless do not feel pressured to take efforts to provide digital-services as they do not seem to be fully aware of the changing digital shopping-convenience of their customers.

5. CHANGING SHOPPING BEHAVIOR & RETAILERS' PERCEPTION

In 2014, the Institute for Trade Research (IFH) conducted a survey among 411 customers concerning their shopping behaviour. This survey took place in the same town that we addressed in our survey. The IFH's survey indicates clear evidence of the change in the shopping behaviour of today's consumers. It pointed out that 26% of the 411 interviewees indicated that they had changed their high street shopping habits due to new digital retail outlets and that they did less high street shopping than before. A further 19.7% stated that they now shopped more online, but that they continued to visit the high street as often as before. This means that a total of 45% of customers have changed their shopping habits due to the digitalization and the offers of the online retail market (IFH 2014). This also means that in their opting for the online retail channel rather than the high street channel, these customers indirectly give on the one hand a negative assessment of shopping convenience of local retail outlets and on the other hand a signal that there is a need to enhance the competitiveness of local retail outlets with regard to digital/non-digital convenience.

In order to investigate the state of digitalization of LOORO in this context, we conducted a comprehensive survey of local commerce between 10th and 19th February 2015 in that same medium sized German town (46.000 inhabitants) (name will be given after review). The survey was supported by the society for economic and market promotion (WMS) of the town. The WMS provided us with contacts to 135 local businesses that

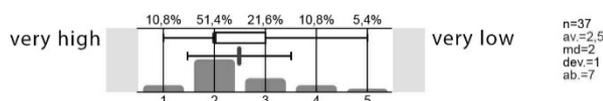
are listed as owner-operated retail outlets on their database. Of these 135 businesses 85 fulfilled our definition of a LOORO (e.g.: retail store open on business days and with focus on consumer goods). The 85 businesses fulfilling our criteria were contacted personally and invited to take part in the survey. 44 of the contacted business completed all questions on the survey (51.8%). The survey was based on the causality model called Technology Acceptance Model (TAM) (Davis 1986) and consisted of 11 questions with 226 answer options.

The answers of the survey on digitalization in local commerce indicate that there is a gulf between the perception of the relevance of digitalization and the implementation of services or the willingness to consider implementing digital services. This can be illustrated by the following exemplary results:

62.2% of the surveyed retailers stated that digitalization would have a high or a very high relevance for their business in the future.

Figure 4: Survey data

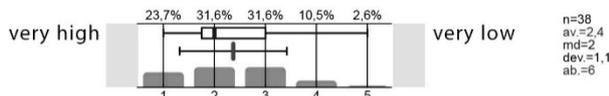
2.6) In your opinion, what importance will digitalization have for your business in the future?



55.3% described their willingness to engage with digitalization as high or very high.

Figure 5: Survey data

1.15) Willingness to work with digital applications?

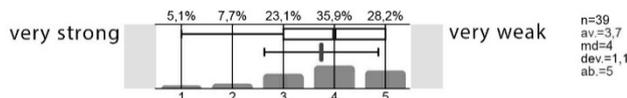


Thus most of the surveyed retailers indicated that digitalization is of a high relevance to them and that they are willing to engage with it.

But on the other hand 64.1% of the surveyed retailers assumed that customers would only have a low or even very low expectation of digital services for their business. A further 23.1% did not give a view on this question.

Figure 6: Survey data

7.5) How much do your customers expect digital service offerings from you (e.g. online store, apps, internet site)?



In keeping with this view, the digital services local business offer also reside on a rather low level according to the survey findings. In total twelve questions addressed digital services already in place, with six of them referring to category 1 (Online Visibility), one question to category 2 (Digital in store applications), one question to category 3 (delivery and in store pick-up) and 4 questions to category 4 (payment and customer relationship management) of the above mentioned categories of digital-shopping convenience. The only category in which the local retailers seem to have started implementing online services was category 1, as several use websites and online shops. Regarding all the other categories, referring to services such as mobile or online payment, use of social media, online advertising, digital loyalty cards, using other business platforms or using service apps the provided answers indicated a low or even very low usage so far.

According to the Gap Model, the summarized responses clearly indicate a gap 1, as there is a mismatch between the perceived customers' expectations regarding digitalization (very low) and the actual change in buying behaviour (45% of the asked consumers already changed their shopping habits). In addition to that, the service specifications do not match to the perceived importance of digitalization (very high) as only very few digital services are being offered so far (very low). This can be considered as an indicator for gap 2, the management perception – service quality specification gap. Together, gaps 1 and 2 indicate a growing gap 5 and thus risky development. But the surveyed retailers do not seem to perceive these gaps as causes of the problematic market development introduced at the beginning of the paper and well-known within the retail industry.

6. CONCLUSION

In summary, we pointed that despite the more and more difficult market environment most LOORO see digitalization as a topic rather for the future than for today and do not (yet) feel pressured to really engage with it. Using the SERVQUAL Gap-Model and thereby considering two studies conducted in the same German town covering both the retailers' and the customers' perspective, we pointed out a growing mismatch between the (digital) shopping-convenience expected by customers and the according offers and activities of the studied retail outlets.

As we argue that the owner-operated retail outlets, which are a major economic factor for high street retail and the town economy can only retain their competitive edge if they manage to tailor their services and products more towards the service expectations of their customers, our advice is to "Mind the Gap." A closer assessment of customer expectations and a closer alignment of (digital) services with those changing expectations seem to be key ingredients for making progress and halting the increasing market share of e-commerce for local businesses.

This paper aimed at making one first contribution towards addressing challenges faced by local commerce in view of digitalization of retail according to their special background and obstacles. In future, we are looking forward to do more research on the options of local retailers to fill up the discovered gaps between their perceptions and the customers' expectations with regard to digital shopping-convenience. Some examples to be studied include mobile payment, digital shelf extensions, online marketing and co-operative logistics solutions allowing for same-day delivery and how these could be used for digital business model innovations by local retailers.

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