Managing Service Quality to Gain Competitive Advantage in Retail Environment

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Abstract – **There are dynamic changes occurring at the retail sale market. There is less emphasized maneuvring space for differentiation. The retailers offer similar assortment of the products with similar prices and quality. This opens more space for differentiation based on providing excellent services. The purpose of this paper is to give an insight into characteristics of retail market of the Federation of Bosnia and Herzegovina. Also, the importance of intensifying researches on service quality in the above-mentioned environment will be emphasized.**

Keywords – **service quality, retail, competitive advantage**

1. Introduction

In the following period survival and success at the retail market will depend on flexibility and effectiveness in all aspects of activities, including superiority over global competition at technology application to reduce expenses; and dramatic improvement of service quality [1]. Business success in retail is often related to dedication to quality improvement, and quality in retail is related to all shapes and characteristics of selling places, products, services and people which combination will satisfy stated or implicated needs and wishes of customers [1].

2. Retail services

Retail is service activity. Namely, basic economic function of a retailer is to ensure customers with few basic and important services along with products. Those services are: accessibility of location, suitableness of working hours, range of products, information about products, and suitableness of quantities [2]. The above-mentioned services are a part of basic retailer's functions that act as ties in supply chain between a producer and a customer. Each retailer provides services as a part of the offer, and the customers use them every time while purchasing. Different retailers offer different levels of services. The retailers also enrich their offer with additional services such as advising and aiding in purchase decision, deliveries of products to respond to customers' requests and competitive pressures. Retail services (or retailers' services) present a set of services that a retailer offers to the customers in addition to offered products [2].

Contemporary customers have very sharpened eye for price, quality, and purchase experience itself. They require a lot. It is not enough to satisfy only their wishes, needs and preferences. It is necessary to make them enthusiastic.

When a customer enters retail facilities he/she examines the products, analyses the prices, and quality, compares the products, and brings decision about the purchase. Besides those elements that can be touched or felt a customer is under the influence of other factors such as image, ambiance, music, and level of service. Most of the afore-mentioned elements are relatively easy to copy, while whole purchase experience that a customer experiences is unique[3]. Just in creation of entire purchase experience, which is different from the one the competition offers, provision of services adapted to target market can play an important role.

Creation of service mix must be guided by customers' wishes in relation to purchase experience. Namely, there are customers who are exclusively guided by purchase outcome while purchasing in sense of acquiring value for money, and the other group of customers observes the purchase as one of the ways to spend free time, and for them the purchase is an activity that represents the pleasure. With regards to that two different types of services there are: services oriented towards purchase outcome and services oriented towards purchase process. Services oriented towards purchase outcome can be extended before and after the purchase, and are related to: advising and providing information before the purchase, possibility to exchange products, provided guaranties for a product, delivery of a product at home address, facilitated ways of purchase in terms of favourable granting credit, information support in physical terms or on-line. Services oriented towards purchase process are related to: insuring presence of additional personnel in a shop with advising task, offering information about products on leaflets, demonstration and displays, wrapping gifts, and help desk [2].

Service mix is a key factor in differentiation between the two shops. Retailers bring decisions about service mix that will be offered to the customers [4]:

1. Pre-purchase services (taking orders over the telephone or post, advertising, decorating shop-windows and interior, equipping facilities, setting working hours);
2. Post-purchase services (shipment and delivery, wrapping gifts, adjustments and returns, changes and exchanges, installation and engraving); and
3. Supporting services (information, cashing cheques, parking, restaurants, repairs, interior design, granting credit, toilet and babysitting services).

Services are integral part of every offer and role of service quality in ensuring customers' satisfaction in retail is of a key importance. Customers' loyalty is increasingly considered as a key for retailers' success since it is recognised that new customers' attraction is more expensive than keeping existing ones [5].

Retail world and services' concept are mutually interlaced. Relevance and quality of service mix are efficacious manner for retailer to differ from other since good retail services relay on long-term investment in employees' education and therefore they can be sustainable source of competitive advantage [6].

3. Service quality

Researches directed towards concept and quality measurement were originally related to area of goods, while service sector was neglected [7]. But, knowledge about quality of goods is not sufficient to understand service quality. Publications published in late 1970s and 1980s enabled clearer understanding of service quality and its measurement.

In the last three decades service quality has gained a lot of research attention in both theoretical and practical sense. The subject is concept which is abstract, multidimensional, and changeable over the time and which is hard to define, describe, or measure. The meaning of quality is different to different users so it can be said that subjectivity is dominant characteristic of service qualities [8]. Service quality is a function of client's perception about services.

The beginnings of conceptualisation and service quality measurement were based on two schools – Scandinavian whose representative is Grönroos (1984) [9]and American whose representatives are Parasuraman, Berry and Zeithaml (1985, 1988) [10] and [11]. Both conceptualisations have a foothold in disconfirmation paradigm that implies that the quality is a result of comparison perceived with expected interpretation. Grönroos (1984) [9] identifies two components of service quality: technical quality and functional quality. Technical quality is related to final outcome and a result of service offering process. Functional quality is related to interaction between a client and service company – on process of service provision. Furthermore, image of service provider that is created based on functional technical quality influences perception of service quality. According to an American school it is possible to identify five dimensions (22 indicators) that clients use while evaluating service quality: tangibles, reliability, responsiveness, assurance and empathy. Representatives of this school are the authors of the SERVQUAL model – dominant instrument in service quality research. According to Grönroos (1984) [9] perceived service quality is an outcome of comparison between expected and provided service. According to Parasuraman et al. (1988) [11]perceived service quality is defined as a level of discrepancy between perceptions and expectations of a client. Perceived service quality – as difference in level and direction between perceptions and expectations – is related to client's attitude or service estimation as a whole over the time, while satisfaction is related to concrete transaction. Other models for service quality measurement have followed. The researchers have adopted one of the two above-mentioned conceptualisations of service quality [12]. Rust and Oliver (1994) [13] have extended Scandinavian model by environment in which service is provided and have considered that service quality perception is based on evaluation of three dimensions and they are as follows: interaction with employees (functional quality), environment in which the service is provided, and final outcome of provided service (technical quality).

SERVQUAL model for service quality measurement is both broadly applicable and broadly criticized at the same time, and criticism was a foundation which shaped new models of service quality. Cronin and Taylor (1992) [14] have developed the scale to measure service quality - SERVPERF that measures service quality based only on perceptions of performances. The results of their research have indicated that service quality estimation by measuring only performances has shown as better predictor of service quality. The authors have tested and confirmed suggested conceptualisation of service quality in four service activities. Teas (1993) [15] created a model according to which service quality is measured by comparison of perception of service performance and ideal (performance) service instead of expectation.

Based on qualitative and empirical research Brady and Cronin (2001) [12] have presented a model of service quality as a structure of factors in three levels that link perceived service quality with different dimensions (quality of interaction, quality of physical environment and quality of outcome). Each of the afore-mentioned dimensions has three sub-dimensions that present foundation of perceived service quality. The authors have tested and confirmed the suggested conceptualisation of service quality in four service activities.

Seth, Deshmukh and Vrat (2005) [16] in their paper entitled: "Service quality models: a review" have given a review of twelve different models of service quality that are applicable in different service environments.

Retail services as an offer of combination of tangibility (physical products) and intangibility have similarities, but they also differ from the services in which core intangible offer dominates. Service quality models that are exclusively developed for pure service environment (SERVQUAL and SERVPERF) did not prove as corresponding ones in those industries that are different from pure service environments [17]. Dabholkar et at. (1996) [18] – combined findings of qualitative researches (phenomenological interviews, in-depth interviews, following behaviour and experiences of customers at selling place), SERVQUAL and findings from existing literature – have developed Retail Service Quality Scale as an instrument to measure service quality in retail. The instrument consists of 28 indicators – 17 overtaken from SERVQUAL, and 11 developed on the basis of qualitative researches and literature review – that measure five dimensions of service quality at a scale of five levels of intensity. Those are as follows: physical environment, reliability, personal interaction, problem solving and policy. The authors emphasise that the customers evaluate certain service quality dimensions, but they also evaluate whole service that can be positioned as a superior factor to the factors that present dimensions, and which incorporates meaning that is common for all dimensions.

Insight into literature reveals that SERVQUAL (Parasuraman et al. 1988) and RSQS (Dabholkar et al.) are the most common used instruments to measure service quality in retail (Guar, Agrawal 2006) [19]. The authors give a review of empirical researches in which SERVQUAL was used to measure service quality (Carman 1990; Fin and Lamb 1991; Guiry Hutchinson and Weitz, 1992; Gagliano and Hathcote1994; Vazquez, Rodriguez and Ruiz 1995) and those in which RSQS was used to measure service quality Boshoff and Terblanche 1997; Mehta, Lalwani and Han, 2000; Siu and Cheung 2001; Kim and Jin 2002; Siu and Chow 2003; Kaul 2005). While doing so they concluded that neither SERVQUAL nor RSQS present reliable and valid (universally accepted) measure of service quality in retail. Namely, when service quality is researched it is necessary to adjust the application of the afore-mentioned instruments by taking into consideration contextual variations or to develop alternative instruments.

Adjustments can relate to type of service activity as well as to specificities of country's environment in which the research is conducted. Speaking of retail it would be advisable to adjust instruments taking in consideration the type of a retail shop as well. Namely, different retail formats offer different set of services to their customers. Modified instruments can further be tested in different retail formats using cross-cultural samples. It would be the way towards development of new, more reliable, culturally unlimited, and globally applicable instruments to measure service quality in retail. Qualitative researches and extensive research of literature are a foundation to identify indicators that will be inserted or omitted from both scales.

Neither SERVQUAL nor RSQS should be blindly applicable in different service activities and in different cultures under hypothesis that the customers behave similarly. It is necessary to review service quality dimensions in alternative cultural environments [17].

Past research attempts to standardise service quality dimensions have not yielded fruit. It is necessary to direct researches towards discovering unique dimensions of perceived service quality in different sectors and towards finding regularities between sectors of similar type [20].

4. Retail characteristics at market in the Federation of Bosnia and Herzegovina with neighbouring countries' overview

According to the conclusions of the authors of the project "Development of trade and domestic market in the Federation of Bosnia and Herzegovina" (2010) market of the Federation of Bosnia and Herzegovina is emerging, and trade as an activity has an important role since it has the highest individual contribution to the gross domestic product. In addition it individually employs the higher number of workers out of the total employment, while the institutions are still developing. The area of trade and domestic market is mostly regulated by domestic laws although harmonisation with the acquis is ahead of us. Market of the Federation of Bosnia and Herzegovina moves towards a phase in which overcoming share of traditional trade will be significantly decreased, and development of retail network will develop based on different retail formats. Liberalised trade courses in the world open possibilities to expand on new markets. Simultaneously, domestic market becomes exposed to a pressure on competitiveness of domestic tenderer. Trade, as well as other activities in the world, are characterised by mergers and acquisitions to strengthen market position. Market players emerged in that way become global players. They direct their investments especially towards growing markets with higher number of citizens, and growing markets with lower number of competitors as the market in the Federation of Bosnia and Herzegovina is.

Internal environment / External environment		Strengths	Weaknesses
		• Dynamic expansion • Significant share in GDP generation • Employs more than 10% in the FBiH • Significant capacities were formed • Consolidation and modernisation • Increased efficiency and productivity • Competition	• Territorial and administrative unevenness • Small market and unattractiveness to global traders • Imported goods mostly, small number of domestic brands • Still atomized and fragmented sector
Threats	• Divided and complicated market • Incompetent administration • Nonexistence of clear economic policies • Corruption • Poor consumer protection	1. Stimulate further expansion through constitutional and regulatory reform 2. Institutional development and support 3. Fight against corruption 4. Stimulation of competition and consumers' protection	1. Harmonize regulations and legal framework in Bosnia and Herzegovina 2. Create economic policy and development strategy 3. Create system to foster domestic production and brands 4. Stimulate investments 5. Ensure institutions for consumers' protection
Opportunities	• Signing of the SAA with the EU • Liberal and open market • Growth of the GDP and the economy in general • Regional connection and investments	1. Make programme of the EU financial means use 2. Educate teams to make proposals and programmes 3. Stimulate development of market economy 4. Protect competition	1. Create regional structure of Bosnia and Herzegovina 2. Stimulate evener regional development of Bosnia and Herzegovina 3. Attract foreign investors

Figure 1. Results of SWOT analysis for market development and internal trade in the Federation of Bosnia and Herzegovina [21]

It is possible to get an insight into market development and internal trade in the Federation of Bosnia and Herzegovina using situation analysis or analysis of strengths, weaknesses, opportunities and threats that were made by project's authors. This analysis can be an indicator of undertaking economic policy measures at macroeconomic level and business decisions at corporation level in conditions of reliable data disposability and based on quantitative analysis of ranking and importance of every factor.

Consumers in Bosnia and Herzegovina are characterized by the following valuable orientations: consumption increase tendency, dominating passivity in consumption, enjoyment in purchase and orientation towards quality, but not towards price (range of products is important) [21].

According to researches of Agency GfK Croatia [22] it can be claimed that internationalisation, consolidation, and concentration of market easily but surely became a reality at the retail market in Bosnia and Herzegovina as well.

Arrival of foreign players from the region (Konzum, Mercator, Tuš) has contributed to a growing consolidation and concentration of the market. Share of big formats has grown continuously from 2007, but minimarkets and traditional shops still have important role at the market although their total share in 2010 fell under 50%. More than half of turnover belongs to hypermarkets and supermarkets. However, discount shop chains including "cash & carry" formats are lacking so it is not surprising that small shops take over 40% of participation in the turnover. First ten chains take about 45% of the market. According to the researches of the same agency the level of consumption was in mild growth trend until 2010 in Bosnia and Herzegovina when more expressed fall of consumption and declining number of goings to shopping started.

In the year when the GDP was 2%, inflation 2%, unemployment 28%, and in which purchasing power was only 17% of the European average, some trade chains in Bosnia and Herzegovina recorded successful business doing and increase of market share compared to others. Konzum and Bingo have recorded the highest growth in market share (around 20%) according to researches of Agency GfK Bosnia and Herzegovina [23]. Spreading of retail network and investments in new sales premises have contributed to it.

Some of the regional players at Bosnia and Herzegovina market used method of opening their big formats (Tuš), while the others decided to overtake smaller and already well-established chains (Konzum, Mercator). Konzum took over VF Komerc; Mališić took over Diona from Široki Brijeg, Dženanović took over hypermarkets Aura and facilities of Tom and Supernova. Mercator did the same with Omega and Gekom in 2008 and 2010. Delta Maxi took over Tropic, while DP and Ilma merged firstly and existed for some time under common name DP and Ilma. Since February 2011 all the shops have operated under the name DP [22].

Looking back at the events in the region we refer back to the conclusion that region's retail market is marked with the trend of concentration. Each individual market has experienced and is still experiencing transformation from dispersion and fragmentation of retail market to concentration, starting firstly from stronger development of domestic chains and subsequent arrival of foreign players. Currently there is a rivalry between domestic players and foreign ones within the markets of Slovenia and Croatia. Bosnia and Herzegovina is still marked by consolidation process between the regional and the domestic powers [24].

Researching some basic characteristics of retail in the Adriatic Region, the GfK Agency [22] compares Croatia, Bosnia and Herzegovina, and Serbia. With regards to retail structure and strength of leading chains Croatia gets closest to developed market economies of the Middle European countries. Namely, retail market is marked with relatively significant share of great modern channels; hypermarkets and supermarkets take half of total turnover at the market of consumer goods. There is also one discount shop chain (Lidl) that grows constantly, and small shops' share does not go over 30% of turnover. Big formats are also overcoming but discount shops' chains and "cash & carry" are still missing. Small shops' share is 40% in the turnover. Hypermarket share in Serbia is only 5% in the turnover, and along with supermarkets they make 28%. Serbian market is still fragmented, and small shops' share is 54%. First ten chains in Croatia take ¾ of the market; it is around 45% in Bosnia and Herzegovina, and around 41% in Serbia.

Intensive retail development in Bosnia and Herzegovina in the past decade was stimulated by transformation from traditional small shops' markets towards the modern market, which is characterised by supermarkets and hypermarkets. Time period between 2008 and 2010 was marked by instability: starting from inflation in 2008 followed by financial crisis and recession. During 2010 retail in Bosnia and Herzegovina started to recover although the economy continued to stagnate. In the time period until 2015, retail in Bosnia and Herzegovina expects development and growth from low starting position since Bosnia and Herzegovina was at the rear of the Eastern European markets in 2010. Konzum still retains a leading position in retail trade in Bosnia and Herzegovina. Other competitors can hardly follow its aggressive growth strategy. Different from its greatest competitors, Konzum does not only build its own shops but it also hires and aggressively overtakes other retailers. Independent retailers were faced with problems during 2009 and 2010. Independent supermarkets and hypermarkets found themselves under pressure for merger or takeover by big trade chains. Small independent traders did not present targets for takeover so they had to put "the key into the lock" or focus themselves on appropriate niche. Besides consolidation which was noticeable in the whole Eastern Europe, according to Euromonitor the forthcoming decade will bring three important trends: entrance of foreign capital, development of private brands and fighting illegal trade within retail in Bosnia and Herzegovina [24].

5. Conclusion

As rivalry between actors at retail market in the Federation Bosnia and Herzegovina gets into full swing, the more intensive search for competitive advantages' resources will be. Review of the situation at the retail market in the Federation of Bosnia and Herzegovina is promising with regards to possibility of using quality service as a source of competitive advantage. Literature review on service quality, on the other hand, reveals promising potential of service quality in retail. Guidelines for further researches are in accordance with the development of scales for service quality measurement for retail adapted markets in the Federation of Bosnia and Herzegovina that will serve in obtaining more integral image of perceived service quality in function of obtaining sustainable competitive advantage.

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