

2 Retail marketing, concepts and research model

2.1 Introduction

The aim of this chapter is to present an overview of the essential terms and conceptual basics which are necessary for a comprehensive understanding of the research problem. This comprises the definition of retail and internal marketing. To diagnose RM and propose solutions for a more effective RM management in practice, previous research and theories are drawn on. The analysis of relevant RM and IM literature, thus, helps to identify the appropriate theoretical and conceptual basis. This identification process is a key requirement for improving RM effectiveness. Moreover, it allows the research questions and associated hypotheses to be positioned in the overall context, thus highlighting their contribution to management practice and the development of insight related to RM research. At the same time research gaps are made transparent.

In this chapter a theory is presented that is appropriate for explaining the impact of RM activities on sales performance and on sales staff's attitude. Based on this theory a conceptual model is developed to connect RM factors with sales target figures and psychographic data in order to measure the direct and indirect effects of RM on sales. These RM factors have been derived from a comprehensive literature review. Their relevance for practice is summarized in chapter 2.5.

The specific objectives of this chapter are:

- to understand and critically evaluate RM and IM management theory
- to document and evaluate current RM and IM key models and frameworks related to organisational performance
- to examine the validity and reliability issues of current RM and IM research
- to identify gaps in knowledge and deficits in research
- to develop specific research questions addressing these gaps in knowledge and the associated research objectives
- to position this research in the existing RM and IM literature context

- to present evidence contributing to this research project for management practice and theory
- to develop a research model that helps to improve RM effectiveness in management practice
- to formulate research hypotheses based on this research model which will be tested statistically to answer the research questions.

2.2 Retail marketing

2.2.1 *Defining retail and internal marketing*

RM or retailing involves those companies engaged primarily in buying goods from other companies in order to resell these products to the consumer. Retail establishments are often called shops or stores. The retailing process is the last step in the distribution chain of merchandise. Retailers sell small or even single quantities to the general public. This process combines the following key elements: logistics, availability at point of sale, assortment, provisioning of sales advice, after-sales service (Zentes et al., 2007: 1-5). Owing to their direct contact with the consumer retailers have more options in their RM-Mix than manufacturers (Berman and Evans, 2008: 109-111).

Retail concepts are often replicated and transferred from one country to another. Replicating basic RM features and adopting new retail marketing practices to local markets are commonplace activities in retail expansion and internationalisation. Alexander and Doherty (2009) make clear that retailers operate very different concepts and formats. Retailers may run large hypermarkets or warehouses, such as Tesco or Carrefour or small concessionary outlets in department stores such as Oasis, an international fashion retailer. Retailers may licence or franchise their operations; a case in point is Marks & Spencer's internationalization strategy. They may even enter the market on a pure online strategy basis without integrating any local partner (Alexander and Doherty, 2009: 5).

Internal marketing is a concept that can help an organisation to improve its service quality by treating the employees as internal customers and by accordingly addressing their needs (Berry, 1981: 12). This treatment leads to a customer-orientated employee behaviour and supports the achievement of sales and corporate targets more effectively (Gelade and Young, 2005; Gelade and Ivery, 2003; Schneider and Bowen, 1995). A recent analysis by Brown and Lam (2008)

shows employee satisfaction to be a relevant determinant for service quality and customer satisfaction. Based on an empirical and a conceptual research review Ahmed and Rafiq (2002) identify five key IM elements: employee motivation and satisfaction, customer orientation and satisfaction, inter-functional management, a marketing-based approach towards an organisation's employees and an implementation of a corporate strategy (Ahmed and Rafiq, 2002: 9).

2.2.2 Clarifying the relevance of internal marketing

Internal marketing is particularly relevant in the present context because of the research aim, which is to determine the critical success factors of the direct and indirect relationships between retail marketing, attitude and sales performance. RM and IM aim at strengthening customer focus and service orientation. Both disciplines consider frontline employees' performance as pivotal in developing this customer focus. Because of the potential impact of RM and IM on sales staff attitude, congruent factors that can be ascribed to both disciplines are incorporated in the present RM definition. As outlined in section 1.1 the effect of central support factors from RM and IM on the attitude of internal target groups is of utmost importance in the present context. Therefore, three further **IM concepts are embedded into the classical RM definition**: internal communications, reward and recognition structures as well as staff training and development. By definition these factors are more related to internal than retail marketing.

2.2.3 Defining franchising and branch management

Franchising is defined as a contractual agreement between two legally and financially separate entities, the franchisor and the franchisee. The franchisor has established a market-tested and flexible business concept (Connell, 1999). He grants the franchisee the right to distribute its products, techniques and trademarks with certain preconditions attached. These preconditions may include a percentage of gross monthly sales and a royalty fee as well as an obligation to purchase goods exclusively from the franchisor. The franchisor provides commercial, marketing and technical assistance (Gilbert, 1999: 241; Inma, 2005: 29). A franchise system offers the franchisor a relatively fast and cost-effective market penetration, compared with establishing company-owned branches (Hoffman and Preble, 1991).

In general, franchising is not used as an exclusive company strategy, but franchisors run a significant number of outlets or branches themselves. Running **plural-form networks** is more complex than monolithic systems of branches or franchise stores. In return, there are synergies such as a higher flexibility, e.g. when deciding on opening new stores. At the same time, the risks of conflict are higher within the network. Often, franchise systems require a different management culture needed to manage a branch store (Cliquet, 2000: 375-377).

Basically, there are three forms of franchising. Firstly, there is **product-distribution franchising** in which the franchisor grants the franchisee the right to sell specific goods by using his or her name. This form of franchising is also widely understood as a form of licensing. Secondly, there is **trade mark franchising**. In this case a franchisor grants the franchisee the right to use a certain production system to produce certain goods. The franchisor grants the permission for the franchisee to present and promote the goods. Thirdly, there is **business format franchising** in which the franchisor offers a complete business format to the franchisee. The franchisor provides a proven trading method and supports the franchisee in developing and operating the business (Berman and Evans, 2008: 110-114; McGoldrick, 2002: 51). This case represents the understanding of franchise management in the present study.

2.2.4 Targeting through retail marketing

The planned analysis of the effectiveness of RM addresses both internal and external target groups. RM effectiveness is measured in terms of its impact on sales performance and the attitude of its internal target groups. This perspective combines two sales formats, both franchise and branch outlets.

Other than the management of a branch format, the management of a franchise format needs to pay particular attention to the fact that a franchisee is a business owner in his or her own right. This makes it difficult for the franchisor to enforce the implementation of concrete RM or service initiatives within this system. The effective communication with the franchise partner is a key factor in developing a trusting relationship between headquarters and franchisee (Maritz and Niemann, 2008: 20).

2.2.5 *Managing the elements of retail marketing*

Firstly, RM concerns four elements: product, place, promotion and distribution. In the retail context it is vital to mention the selling environment especially as this environment places the RM-Mix in relation to its direct and local environment and also covers its store image as well as regional and local trends. Considering these aspects and the justification of the integration of IM concepts (see sections 1.1 and 2.2.2) retail marketing is defined by the following factors in the present context: communications and sales support, staff training and development, merchandising, pricing, reward and recognition structures and location and store environment.

2.2.5.1 Communications and sales support

Communications has both an external and internal aspect. The external focus has the objective of gaining customer loyalty by means of a branding strategy. Keller (1993) defines a brand as a set of mental associations held by the consumer regarding a product. This definition focuses on the gain in perceived value which the brand name brings. Brands are conditional assets supported by economic business models. At the same time they are names that influence buyers who decide on the strength of a relationship (Perrey and Spillecke, 2011: 3-5).

Word-of-mouth recommendation based on previous experience is essential for a customer's future choice. As such personal recommendations now play a major part in the promotional mix. For the retailer branding clearly has advantages since it helps to differentiate one product from that of a competitor. This is true particularly for own-label product ranges. For the consumer branding also has advantages because it facilitates the recognition of a product and the identification with it (Tybout and Calkins, 2005: 1-8).

The internal dimension is directed at all communications activities meant to change insights, attitudes and behaviour of internal target groups (Bruhn, 1998: 1046). This definition shows that internal communications is aimed at informing the relevant internal target groups directly in contact with the customer. They must be informed about corporate changes such as a new marketing or sales strategy or external changes in the market place (Stauss and Schulze, 1990: 151-153). The effective use of internal communications requires the co-ordinated use of different media such as oral briefings, corporate newspapers and videos (Ahmed and Rafiq, 2002: 31).

2.2.5.1 Staff training and development

Training comprises both basic and advanced aspects. It covers all activities concerning the development of the employees' job-related qualifications. These training periods are relevant because customer personnel need to possess special knowledge and skills that can identify and solve the problems of a customer. In this way good service quality can be offered, sales can be generated and, last but not least, customers can be retained. Success and failure in retailing largely depends on the know-how of its staff. Training allows personnel to feel confident in the encounter with the customer, in completing the transaction and in dealing professionally with all situations (Gilbert, 1999: 92). In the internal marketing context staff training and development aim at developing customer consciousness (Ahmed and Rafiq, 2002: 35).

2.2.5.2 Merchandising

Within the store the retailer offers a merchandise assortment to the customers and one of his primary functions is to select the appropriate breadth and depth of the assortment and the specific products. Subsequently, he tailors the offer to the targeted customers' requirements (Krafft and Mantrala, 2006: 20). Therefore the development and implementation of a merchandise plan and a product portfolio is a singularly important aspect of a retail strategy (Gilbert, 1999). Traditionally, retailers have been promoting a single manufacturer or brand, which has been developed to multiples so as to create differentiation. Consequently, a merchandising concept working with different categories with key brands is a relatively new feature. According to Walters & Hanrahan (2000) the phases of merchandising are listed as: marketing consideration, merchandise, strategy options, type of customer base, financial considerations and merchandise assortment.

A critical factor in merchandising management is related to availability and flexibility. Thanks to modern technology it is easy to control and centralize merchandise management through rapid communication with sales and stock departments. Delivery schemes, once the domain of manufacturers, can also be controlled by retailers (Foord, Bowlby and Tillsley, 1996). This allows for the meeting of customer needs rapidly through more effective control over stock. In internal marketing the job represents the merchandise or product (Collins and Payne, 1991: 265).

2.2.5.3 Pricing, reward and recognition structures

As consumers spend a large part of their disposable income on retailing, pricing is regarded as a major factor. Retailers have many strategic and tactical pricing options available to influence purchasing behaviour (Zentes, 2007: 5).

For internal target groups reward systems are relevant as they form the basis of their income. Therefore reward systems are a key element in the organisational incentive system (Spelsiek 2005: 41). Employee reward systems refer to programs set up by a company to reward performance and to motivate employees on an individual and group level (Becker, 1995: 34). They are normally considered to be separate from regular salary. They may be monetary in nature or otherwise. In practice they used to be considered the domain of large companies. Meanwhile, however, small businesses have also begun employing them as a tool to lure top employees in a competitive job market as well as to increase employee motivation and performance (Homburg and Jensen, 2000: 57-60).

The use of motivational cash incentives such as bonuses, awards and recognition programs directed at front personnel is common (Ahmed and Rafiq, 2002: 31). It is a widely held belief that cash incentives are superior to non-monetary incentives. "The major advantage of paying in cash is that the value of cash in the eyes of the recipient is universally high" (Lawler, 1987: 222). Monetary incentives can be split into fixed and variable incentives (Lehmkühler, 2001: 119). Variable incentives fluctuate according to their assessment base such as revenue, sales quota or customer satisfaction. They make clear to the employee that an orientation of their individual behaviour towards specific corporate targets is a worthwhile endeavour (Lehmkühler, 2001: 152). In this context commissions and premiums are especially relevant.

2.2.5.4 Location and store environment

The old adage that the three most important factors in retailing are "location, location and location" is still frequently repeated. Location of the store is clearly considered a pivotal determinant of retailing success because in store-based retailing good locations are key elements for attracting consumers. Furthermore, because of its intrinsically fixed nature, in the short-term the location cannot be changed (Zentes et al., 2007: 4).

It is argued that the selling environment comprises elements such as customer-orientated display of goods in a convenient location, supported by well-presented merchandise. Customers have a conception of current fashion and

Table 1: Integration of RM factors in the present research context

RM Factor	Relevance for Research Context
Communi- cations and Sales Support	Branding is a strategic asset in retailing in general and can be a competitive advantage. It is particularly relevant in telecommunications retailing because of fierce competition and high penetration of specialist / network operator stores (ubiquity of products and services). Personal recommendations from customers and shop visitors (word-of-mouth recommendation) based on previous service experiences with that store develop the image and brand of a retailer. Internal communications is very important as information on new mobile phones, voice or data tariffs, campaigns (new customer and retention offers) change quickly. Sales staff must be on the edge of these developments to be competent in the sales conversation with customers.
Training and Development of Personnel	Training is a key requirement for a high competence and service-quality level as telecommunications solutions are based on complex products and services.
Merchan- dising	Merchandise plan and product portfolio are crucial factors. The present telecommunications retailer promotes offers of different network operators (mobile and fixed line) so as to create differentiation from single brand outlets. The merchandising concept, therefore, must be adjusted to the higher complexity resulting from a multi-brand portfolio. Because of the dynamic technological changes in this sector a critical factor in merchandise management is related to availability and range of mobile phones.
Pricing, Reward and Recognition Systems	Pricing is another pivotal factor. In saturated markets prices often decide over where the customer makes the deal. This applies in particular to the telecommunications sector in Germany with its high density of telecommunications retailers and operator stores. Reward and recognition systems are relevant because branch managers earn a third of their income on a variable basis. In the case of franchisees these systems are even more relevant as their entire income depends on these schemes.
Location and Store Environment	Location and store environment are considered to be the most relevant factors in retailing. In the present case this is especially relevant because telecommunications outlets are generally located in AAA locations in all midsize and big cities.

style which retailers need to live up to (Markham, 1998). Research shows that the changes of lifestyle have affected people's shopping behaviour in terms of their being more sensitive to the selling environment. Retailers are increasingly starting to concentrate on the overall shopping environment and experience. Both the demands for leisure goods and an entertaining shopping environment in

which to purchase these goods must to be borne in mind by retailers (Krafft and Mantrala, 2005: 16). In the HRM and internal marketing context location or place or distribution may represent the physical workplace and meetings, conference rooms and channels used to deliver training programs (Ahmed and Rafiq, 2002: 34).

Table 1 represents the foundation for the theoretical underpinning of the research. It justifies the **definition of RM factors** and presents their **specific relevance** for the mobilcom-debitel retail network. This table is derived from the previous five sections on the management of RM factors.

2.3 Concepts

To address the research aim and objectives, the literature is reviewed to identify research needs and relevant constructs. This section covers concepts and theoretical findings of retail and internal marketing research.

2.3.1 *Retail marketing and the service profit chain*

The present project does not take an isolated view of the relationship between RM and sales performance. It endeavours to offer an integrated perspective of the cause-and-effect structures between the headquarters and the internal and external target groups. In accordance with the service profit chain concept, this research model presents a functional chain covering central RM on the headquarters level. On the outlet level it embraces attitude and behavioural aspects of sales personnel together with the degree of satisfaction with the perceived service quality by customers and non-customers.

The service profit chain model highlights links between customer satisfaction as well as employee loyalty and satisfaction. Moreover, it shows the connection between these factors and an organisation's overall profit. This profit is linked to customer loyalty and satisfaction through the implementation of referral related sales and retention strategies. The service profit chain identifies direct and strong relationships between profit, customer satisfaction, employee satisfaction and capability (Heskett et al., 1997: 17-38). In the present context, sales performance substitutes profitability as a target variable.

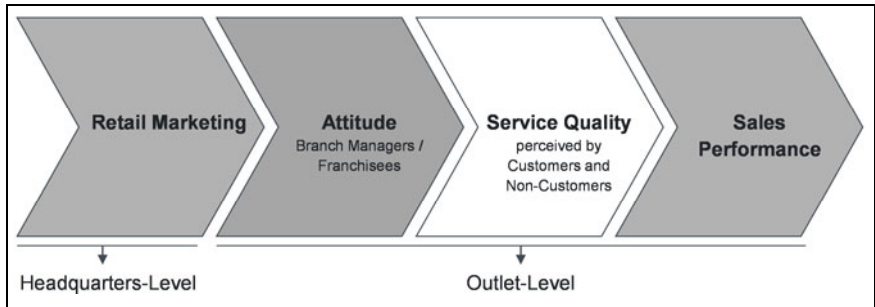


Figure 2: Extended service profit chain.
Source: Accordance to Heskett et al. (1997)

The illustration in figure 2 presents an overview of the key elements within the adjusted service profit chain.

The service profit chain model highlights the links between customer satisfaction and employee loyalty and satisfaction. It also shows the connection between these factors and an organisation's overall profit. This profit is not directly linked to service quality. It is indirectly connected with customer loyalty and satisfaction through referral, related sales and retention strategies (Heskett et al., 1997: 26-34).

The closer an employee feels connected to the employer, the more effort and energy he will invest in his day-to-day business (Drake et al., 2005).

In the present research project the original service profit chain-concept is extended by the central RM dimension. Furthermore, the adjusted model puts sales performance at the place of profitability as key output variable.

2.3.2 *The loyalty and commitment index*

To successfully address the research aim and to determine the success factors contributing to the relationship between RM, attitude and sales performance, the applied attitude concept takes into account the typically relevant sub-items: loyalty, commitment and autonomy.

In scientific research, the attitude and satisfaction concepts are intensively discussed with particular consideration of their similarities and differences. Attitudes are generally defined as an individual's acquired and lasting willingness to react to certain objects positively or negatively (Fishbein and Ajzen, 1972: 488). Employee satisfaction relates to the overall feeling and expectations about a job or its different aspects (Petty et al., 2005; Spector, 1997; Togia et al., 2004).

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