

# Role of Service Innovation in Customer Satisfaction and Customer Loyalty: A Study on Organized Retail in India

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## ABSTRACT

In the current tough competitive retail environment in India, it has become imperative for retailers to attract customers through differentiated experiences and retain them through sustaining and meeting their expectations. While numerous studies have explored the relationship between service quality, customer satisfaction and customer loyalty, limited research effort has gone into understanding the relationship between service quality, innovation and customer loyalty. Moreover, despite rapid retail development in India, very limited academic research has looked at the service expectations of Indian shoppers. After presenting existing literature on the topic, a framework is developed and tested to study service innovations in retail and its impact on customers. With the help of SPSS 17.0, various statistical tools like Correlation, ANOVA, and Multi-variate analysis were applied. The results indicate that customers are more likely to frequent stores that consistently deliver on service expectations and innovations play a major role in customer engagement and retention.

**KEYWORDS:** Retail Service Quality, Innovation, Statistical Tools, Customer Loyalty.

**JEL CLASSIFICATION:** O31, M10

## 1. INTRODUCTION

India today, is demanding retail market. It is young, it is plural (in terms of culture) and is changing rapidly. Undoubtedly there is a large market, but there is an equally large supplier base and to earn and retain market share the cornerstone of success is innovation. This paper attempts to analyze the Indian retail phenomenon, where it is headed and role of service innovation in ensuring customer satisfaction and customer loyalty.

### 1.1 Indian Retail Scenario

Organized retail in India is on fire. Being the second largest employment provider after agriculture there are as many as twelve million retail stores spread across the country contributing more than ten percent of GDP of the country. Out of 30 emerging markets, India has been ranked as the most attractive retail destination for two consecutive years. By world retail industry standards, India is very young and the customers of Indian retail are young as well. Nearly 47% of the total population is below 20 years of age and it is this young India who is a major contributor to the growing, emerging, organized, retail sector. The growing trend in retail sector is expected to grow 5 to 30 % yearly and to increase from 35,000 crore to 109,000 crore (\$24 billion) (www.businessmapsofindia.com).

Though retail has been around for a very long time but the retail industry in India is going through some dramatic changes with modern formats replacing the old ones. A rapid increase in number of supermarkets, departmental stores and hypermarkets in India has shown a phenomenal change in the retail sector of India. The concentration of organised sector is visible in large cities in formats such as supermarkets, fast food joints, speciality stores, department stores. Malls have changed the face of organised retail in India. Malls are seen even in Tier II cities and are not confined to metros giving

Indian consumer a new experience at shopping. A revolution in shopping has been seen with this phenomenal rise of the retail industry. Indian Government is also taking a lot of interest in retail as it contributes to foreign exchange (India Microfinance.com). Changing lifestyles of people, favourable demographics, increased pay packages, are some of the factors that can be given credit for the growth in this sector. (www.businessmapsofindia.com). But this dramatic change has also led to tough competition in the retail world. Retail stores have come to recognize that a possible source of competitive advantage is excellent and innovative service.

### 1.2 Innovation

Innovation involves applying all the information and creativity for optimum utilisation of resources. It also includes all processes which adopt new ideas and convert them into useful products (www.businessdictionary.com, 2011). A few more definitions of innovation from literature are as follows:

*"Innovation is acceptance of new ideas, processes, products, or services".* (www.europa.eu.com)

*"Innovation means designing a new product or methodology, which results in a positive impact"* (Garcia and Calantone, 2002).

*"Innovation is the embodiment, combination, or synthesis of knowledge which is original, relevant, and gives added value to the product, process, or service."* (Tidd, Bessant, Pavitt, 1997).

To be termed as "Innovative" an idea must be replicable at a low cost and must cater to a specific need (Liu, 2008). One of the creative efforts of retailers is to introduce goods at the lowest price in most innovative way without any implication on the image of the product (McNair, 1931, 1958). Retail is a very vibrant sector and hence innovation is a necessity for its survival

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(Gilbert, 2003). Retail firms have realised that intangible product is equally important as the product (Schumpeter 1934). Up gradation of technology and innovative ideas help in formation of new organizational structure for retail firms as these changes seen as impact all the functions of supply chain. "Supermarkets" are one of the most successful innovations of retail (Goldman, 1981).

Depending upon measure of "newness" there are two types of innovations - incremental or breakthrough. Innovations involving minor changes to marginally improve existing performance are incremental whereas breakthrough innovations refer to leapfrog enhancements that significantly alter the consumption patterns of a market. Breakthrough innovations can additionally be divided into advancement of existing technology and departure from the existing market segment. Highly developed technologies improve customer benefits and market based innovations move away from existing markets (Wind and Mahajan, 1997). Irrespective of their type, innovations improve operational efficiency for people internal to organisation and serve their customers better who are external parties. Change in the process is process innovation, change in the firm's organisation is organisational innovation, discovery of a new market behavior is market innovation and introducing a new service product is product innovation. Innovation can be applied to almost all types of business be it supply chains, administrative initiatives, processes of production, or hospitality firms.

- a) Innovations in logistics are where any logistics related service is seen as new and helpful to a particular target audience.
- b) Administrative innovative firms help companies to have sustainable competitive advantage over others as these innovations are difficult to replicate than technologies provided by external suppliers. Some of the most influential administrative innovations of recent years are Just in Time (JIT) (Benner and Tushman, 2003).
- c) Process Innovation introduces a new production method that includes an imaginative and most modern way of handling a commodity commercially which can be functional for the entire value chain process (Schumpeter, 1934).
- d) Hospitality firms are customizing the service experience for hotel guests. Some examples of service customization include flexible check in/out times, personalizing room décor, or having child care options available. The emergence of "boutique" hotels during recent years is an example of an innovative offering in an existing hotel industry. These hotels have minimal décor but offer modern lifestyle amenities. These boutique hotels are a novelty to the traditional hotel experience. Innovation in services offered plays an important role in selection of hotel by people. Innovative services are found to have a larger impact on choices made by guests at economy hotels rather than upper grade hotels (Sundbo, 2001). This innovation in services offered by business is an endeavour to reduce the gap between needs and expectations of consumers. Retailers all around the world are trying their best to reduce this gap through novel means. Service innovation can be change in technology, organisational structure, market behavior or addition of new service (Gallouj, 2002).

### 1.3 Customer Service & Customer Loyalty

India's competitive retail environment puts incredible emphasis

on growing importance of services (India Microfinance.com). Delivering high quality services has become the retailing strategy of utmost importance (Berry L. V., 2006). Service is ranked third in importance after commodity, variety and price (Utkun, 2010). Quality of services offered by retailers significantly affects customer satisfaction, company profits, cross selling and loyalty of customers (Berry, 1986; Hummel and Savit, 1988; Reichheld and Sasser, 1990). A study indicates 68% of customers who never return to a company decide not to come back because of how they were treated. These figures are shocking as two out of three customers do not want to return to a store as they are not treated properly. In another study reported by Arthur Middleton Hughes the author talks about two groups of customers in a company. One received the same service and the other received a better, higher and improved level of service. In a time span of six months customers who had received better service spent 57% more than the people who had been given old service. Perhaps the most prevalent reason for the disparity between satisfaction rating and purchases made is the measurement of satisfaction. A correlation analysis has indicated that quality of retail service is associated with future consumption behavior in terms of customers' intention to visit, repurchase and to recommend the store to others (Amazing service guy.com).

### 1.4 Linking Customer Service and Customer Satisfaction.

Providing excellent service quality to have a high level of customer satisfaction is a critical business requirement (Voss et al, 2004; Vilares & Coehlo, 2003; Van der weile et al, 2002). Kotler (1973) defined customer satisfaction as "the level of persons felt state resulting from comparing a products perceived performance or outcome in violation to his/her own expectations".

Bhaskar, (2011) observed some critical factors that influence retail service quality and for this reason have an effect on customer satisfaction. They found that personal communication, trustworthiness, physical features and problem solving significantly affect customer satisfaction and as a result stores should concentrate more on personal interaction and dependability of the store to boost their service. Hathcote, (1994) examined the gap between consumers expectation and perception, shopping at apparel specialty stores and identified four determinants of service quality- Individual Attention, Consistency, Tangibles, and Convenience. Their findings discovered the fact that widest gap between consumer's expectation and perception was for personal attention factor. Brady et al. (2001) engaged LISREL analysis to study customers of fast food restaurants in America and Latin America and with the help of their findings confirmed there was a relationship between service quality and customer satisfaction. Innovation in every sector can bring customer satisfaction as it brings new features which fulfill their desires. Organisations have to make strategies for continuous innovations for satisfied customer base be it innovation in services offered or product related features. An empirical study wanted to explore customer satisfaction in relation to service innovation and customer value in locally-renowned chain hotels in Taiwan. The findings revealed customer's perceptions of service innovation in terms of organization innovation, process innovation and production innovation help in increasing customer satisfaction (Ming-Horng et al, 2012). These results were in consistent with the findings by many scholars (Kim & Mauborgne, 2005; Korsching & El-

Ghamrini, 2003). Customers perception of product value and service value created by hotel business operators contribute to increase the overall evaluation of the hotel. This result was also in consistent with the opinion of several scholars (Woodruff, 1997; Kotler, 2002). It is also proved that that service innovation produces a significant moderating effect between customer value and customer satisfaction, indicating that customer's perceptions of high customer value and the ability of the hotel to perform service innovation will raise customer satisfaction. This result is consistent with relevant scholars (Jan & Christian, 2005; Drejer, 2004). Hence an industry should work constantly to elevate the level of their service innovation in terms of organizational management, operational procedure, and products/services as well as to enhance infrastructural facilities, product value and service value in pursuit of higher customer satisfaction (Ming-Hong et al, 2012).

### 1.5 Service Innovation

Services are usually defined as anything that is left out once if agriculture, mining and manufacturing are removed. There are a number of new trends with service innovation but the ones which are gaining importance are

- Services are becoming more R & D intensive.
- Services are increasingly innovative (Service innovation.com).

Priti Vahter, (2011) studied how the innovation-productivity relationship differs across various sub-branches of the service sector. They divided the service sector into two broad categories - less knowledge intensive sector (less KIS) and more knowledge intensive sector (more KIS). It was found that despite the lower propensity to engage in innovation, the efficiency of turning innovation investments into innovation outputs and these into performance improvements was higher in less KIS sectors like retail in Estonia.

Service innovation is the employability of a superior version of service concept. It could be a new channel to interact with consumers, a new distribution mechanism or new technology or a combination of all. Service innovation is beneficial to the service provider as well as the customer (Service innovation.com). There is a strong relationship between service quality and customer satisfaction (Ahmad, Jamal;Naser, Kamal, 2003). Brands aiming at take maximum advantage of important retail opportunities have to take innovative approach to a store's format or they are at risk in this new commercial environment. If organisations still view their store in an isolated way they are in danger of losing customers to more connected brands who value communication, information and advice. Ecommerce can be viewed as an opportunity to innovate, drive efficiencies and differentiate brands offer. Technology must be used as a tool to enhance customers experience or provide a place where customers can do trial and error, compare, review, order for home delivery or buy in-store. The famous footwear brand Adidas is transforming its stores by introducing consumer-focused technology. What needs to be remembered is the integration of technology must be meaningful and relevant to consumer need, whether this is increased convenience, product interactivity or better communication. Today's connected consumers want to check out reviews of products and services before they make decisions and retail stores need to support this desire for connectivity through out the customer's journey especially the use of smartphones in the store to make shopping easier

(3 Aubrey, Judge, 2012).

### 1.6 Customer loyalty and retail environment

Client's choice to revisit a store largely depends on the satisfying experience. It also depends on the customer's perceived importance of store image, store attributes, which constantly keep changing due to direct experiences with the store's overall offerings. Store image is a combination of all functional and psychological factors that consumers perceive to be found in retail stores (Lindquist,1974). Hansen and Deutscher, (1978) made comparison of different attributes across departmental and grocery stores and tried to study the relative importance of the various aspects of retail image to different consumer segments. They concluded that the same attributes are important across different types of stores. Dr. Yao-kuei Lee and Dr. Tsai-lung Liu, found that in the context of retail health and beauty goods the impact of quality on overall customer satisfaction and loyalty is greater than that of value. Customer loyalty is also found more quality-driven than value-driven as is customer satisfaction. Innovation also impacts customer loyalty (Dachyar, 2011). Innovation has a significant effect on customer loyalty because it influences factors such as customer expectation, perceived quality, perceived value, corporate image, customer satisfaction, customer trust/confidence, customer commitment and customer complaints (Jasmine Yeap Ai Leen, 2011).

Loyalty is faithfulness that comes from consciousness and arises without any forces, but is based on past experience (F, Claes.). In the ECSI model (European Customer Satisfaction Index), customer loyalty is a result of customer Satisfaction on quality, value, expectations, and company image ( L. Yao-kuei & Tsai-lung Liu.).

Customer loyalty (attitudes and behaviour) comes from the commitment and trust / confidence of customers, which is a feeling of satisfaction with the purchase or consumption of a goods (Marie-Christine Plichon Lichtlé and Véronique). Customer Satisfaction and Customer Loyalty are not only confined to retail sector. This is due to the fact that organisations competitiveness is due to quality of service offered by it and so the most important success factor, hence quality of services is one of the most sought out areas for researchers in the banking sector (Avkiran, 1994; Stafford, 1996; Johnston, 1997; Angur et al, 1999; Sureshchandar et al, 2002; Gounaris et al, 2003). There is a strong and direct relationship between profits, growth, customer loyalty, customer satisfaction, the value of goods and services to customers, and employee capability, satisfaction, loyalty, and productivity (Heskett et al, 1997). Thus the present initiative aims to study the impact of Innovation in terms of product, retail environment, customer satisfaction on customer satisfaction and loyalty of the customers.

### 2. NEED FOR STUDY

A lot of research is already diverted towards developing new tools to make sales more attractive in terms of product innovation, ambience, product display, convenience of customers and much more. The sole aim is to maintain existing customers and attract new ones (Pantano and Naccarato, 2010; Laria and Pantano, 2011; Soderlund and Julander, 2009).

Developing new products and services is a mandatory function for business sustainability and profitability but the

main focus of these tools is development of new products (Jugend and da Silva, 2012; Sanchez, et al., 2011). Past researches confirm the increasing interest for e-commerce and web-based channel for shopping (Hsiao, 2009; Liu and Forsythe, 2011) with decreased interest in traditional stores (Rotemi-Mindali and Solomon, 2007; Weltevreden, 2007; Hsiao, 2009). Hence the traditional stores are forced to innovate for maintaining the existing market share and exploring new market opportunities. While numerous studies have explored the relationship between service quality, customer satisfaction and customer loyalty, limited research effort has gone into understanding the relationship between service quality, innovation and customer loyalty. Moreover, despite rapid retail development in India, very limited academic research has looked at the service expectations of Indian shoppers. A framework (Refer to figure 1) has been developed to diagram the hypothesised relationships in between these variables and tested to study service retail innovations and its impact on customers.

**3. METHODOLOGY**

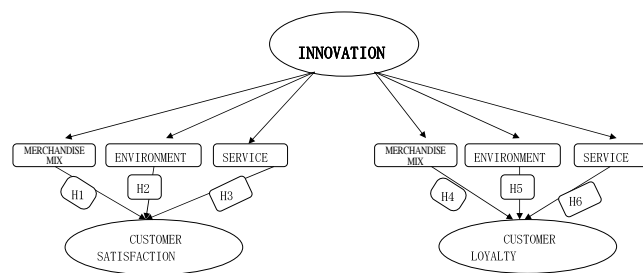
**3.1 Design of questionnaire**

The questionnaire consisted of thirteen questions. Data pertaining to gender, marital status, age, income, occupation and educational qualification needed for sample description was collected on category scales. In order to understand shopping patterns, frequency of store visits and money spent were asked. This information was collected by asking respondents to respond to categories of frequency of store visits in the last three months (ranging from less than two times to more than six visits) and the amount spent on an average per visit (Ranging from less than Rs.3000 to More than Rs 5000). Store loyalty was measured on the basis of frequency of store visits in last three months.

A five point Likert-type scale was used to measure the respondents' evaluation of product (9 items), Environment (cognitive and sensory combined, 10 items) and people related innovation (5 items).

A Likert scale was also used to measure customer satisfaction (6 items). The items for all the major variables were author created based on extensive literature review. These were tested for reliability using Cronbach alpha standards and validated using a panel of six experts consisting of practicing retailers, a quality expert, research methodology and retail marketing professors.

**Conceptual Model:**



**Figure 1: Proposed framework linking Merchandise mix, Environment and Customer Service related innovation**

**factors with customer satisfaction and store loyalty.**

**Table 1: Sample Profile**

Serial No.	Demographic Variable	Frequency	Percentage
1)	Age:		
	20-25 years	153	45.0
	26-30 years	137	40.3
	31-35 years	36	10.6
2)	Gender		
	Male	196	57.6
	Female	144	42.4
	Marital Status		
3)	Married	78	22.9
	Unmarried	261	76.8
	Others	1	.3
	4)	Monthly Household Income(in Rs)	
<35000		62	18.2
35001-50000		180	52.9
50001-65000		62	18.2
>65000		36	10.6
5)	Profession		
	Self Employed	71	20.9
	Student	201	59.1
	Government employed	10	2.9
	Private sector employees	31	9.1
	Professional	25	7.4
6)	Amount of one time Purchase from store(in Rs)		
	<3000	71	20.9
	3001-4000	142	41.8
	4001-5000	104	30.6
	>5000	23	6.8
7)	Frequency of visits to store in three months		
	0-2 times	58	17.1
	2-4 times	172	50.6
	4-6 times	92	27.1
	more than 6 times	18	5.3
8)	Educational Qualification		
	Undergraduate	21	6.2
	Graduate	134	39.4
	Post Graduate	185	54.4

### 3.2 Sampling procedure

The role of service innovation and its impact on customer satisfaction and loyalty was studied by means of structured questionnaire circulated to shoppers. Primary data was collected using this structured questionnaire in order to statistically test the hypothesis after piloting on a sample of 30 respondents.

### 3.3 Sample size

The final sample achieved was 340. The required sample size is with Level of Precision (D) = 0.25, Confidence interval= 95%, z value = 1.96. Since convenient sampling method was deployed surveys were administered to 340 people. The individual responses were kept confidential in order to encourage openness and disclosure.

### 3.4 Sample Profile

Simple frequency distributions were used to gather information and profile the respondents along with demographics such as age, gender, marital status, monthly income, and profession (refer table 1). The sample represented 57.6 % of male respondents while 42.4% were female. The table shows the various demographic items along with percentage of individual profile.

### 3.5 Data processing and analysis

Univariate, Bivariate and Multivariate analysis were carried out with the help of SPSS 17.0. Internal consistency of items for each of the components of innovation (merchandise mix, environment and customer service) was studied using Cronbach alpha (refer table 2) which depict acceptable levels of reliability (internal consistency). The 5 items of environment (cognitive) and 5 items of environment (sensory) were computed to form a new variable under the heading "Retail Environment" (10 items). Bivariate analysis was carried out to examine relationship between Innovation variables and Customer satisfaction. Multivariate analysis was carried out to find predictors of customer satisfaction among the innovation factors.

**Table 2: Reliability Statistics**

Innovation scale items	Cronbach's Alpha	N of Items
Merchandise Mix	.841	9
Environment (Cognitive)	.852	5
Environment (Sensory)	.812	5
Customer Service	.896	5
Customer Satisfaction	.810	6

### 3.6 Hypotheses

A conceptual model developed by Zeithaml et al (2008) correlates Service Quality, Customer Satisfaction and Customer Loyalty. The model explains that service quality is the result of reliability, assurance, responsiveness, empathy and tangibles. The quality of service and Product, price, situational and personal factors influences Customer satisfaction so some hypotheses for this study were

**H1** *There is a significant correlation between Customer satisfaction and innovations in Merchandise mix.*

**H2** *There is a significant correlation between Customer satisfaction and innovations in retail environment.*

**H3** *There is a significant correlation between Customer satisfaction and innovations in customer service.*

In the current tough competitive retail environment in India,

Innovation is the only key for survival as customers tend to migrate to new stores which is competent enough to drag the customer from their previous stores. Moreover, regardless of the merit of the store, the stores brand equity is very vulnerable to the reaction of dissatisfied customers (Leonard L. Berry May 2010). Store atmospherics consisting of attributes like store color, lighting, sales personnel, music along with location of store location are important. But store atmospheric attributes form the overall context within which shoppers make decisions of store selection and patronage. Retail environment research has found that such attributes affect the image of the store (Kotler, 1973). According to Wong & Sohal, (2003) Consumers' become and remain loyal with the such service quality offered by the retail stores. Accordingly the following hypothesis were framed:

**H4** *There is a significant difference in mean score of perceived Innovation in Merchandise Mix among consumers with different frequency in their store visit.*

**H5** *There is a significant difference in mean score of perceived Innovation in Retail Environment among consumers with different frequency in their store visit.*

**H6** *There is a significant difference in mean score of perceived Innovation in Customer Service among consumers with different frequency in their store visit.*

Customer satisfaction plays a very important role and is a major key influence in converting customers from Trial Purchase objective to Repetitive purchase objective (Taylor and Baker, 1994). Hence the following null hypothesis was framed and tested.

**H7** *Merchandise mix related innovation has an impact on customer satisfaction.*

**H8** *Innovation in retail environment has an impact on customer satisfaction.*

**H9** *Innovation in customer service has no impact on customer satisfaction.*

## 4. DISCUSSION OF RESULTS

### 4.1 Null Hypotheses

Ho1, Ho2, Ho3 were tested with the help of Karl Pearson's coefficient of correlation (refer table 3). Null Hypothesis Ho1 concerning correlations between customer satisfaction and Product innovation was rejected indicating that there is significant correlation between customer satisfaction and merchandise mix related innovation. Null Hypothesis Ho2 concerning correlations between customer satisfaction and Innovation in retail environment was rejected indicating that there is significant correlation between customer satisfaction and innovation in the retail environment. Null Hypothesis Ho3 concerning correlations between customer satisfaction and Innovation in customer service was rejected indicating that there is significant correlation between customer satisfaction and innovation in customer service.

**Table 3: Correlations between Innovation factors and Customer satisfaction.**

		Merchandise Mix	Retail environment	Customer Service
Customer Satisfaction	Pearson Correlation	.705	.763	.625
	Sig. (2-tailed)	.000	.000	.000

**4.2 Analysis of Variance (ANOVA)**

One way ANOVA (conducted at 0.05 level of significance) between the frequency of store visits (i.e. 0-2 times, 2-4 times, 4-6 times and more than 6 times) and innovation factors was carried out to test null hypothesis Ho4, Ho5 and Ho6. It showed that there was significant difference between number of times a person visited a store and level of innovation perceived in the store (refer table 4).

The analyses shows that, there is Significant difference (F = 8.314, p < 0.05) in the frequency of visits made to a store and perceived Merchandise related Innovation. Mean of frequency of visits more than 6 times was 3.84 which was the highest and mean of visits of range 0-2 times was the lowest, i.e. 3.35.

The analyses also shows that, there is significant difference in the frequency of visits made to a store and Innovation in Retail Environment (F = 6.409, p < 0.05). Mean of frequency of visits more than 6 times was 3.84 which was the highest and mean of number of visits of range 0-2 times was the lowest, i.e., 3.35.

The analyses further shows that, there is significant difference in the frequency of visits made to a store and Innovation in customer service (F = 5.675, p < 0.05). Mean of frequency of visits more than 6 times was 3.90 which was the highest and mean of number of visits of range 0-2 times was the lowest, i.e., 3.35.

**4.3 Multiple regression analysis** was carried out in order to study the impact of Innovation on customer satisfaction (Ho7, Ho8, Ho9). Customer satisfaction was dependent variable and innovation factors (Merchandise mix innovation, Innovation in Retail environment and Innovation in customer service) were independent variables.

The equation of regression formed was:  
 $CS = b_0 + b_1.PI + b_2.IRE + b_3.ICS$   
 CS=Customer Satisfaction; PI= Product innovation;  
 IRE= Innovation in Retail environment; ICS= Innovation in customer service.

**Table 4: Descriptive for ANOVA between Innovation factors and frequency of visits made to a store.**

Innovation Factors	Frequency of Visits	N	Mean Values
Merchandise Mix	0-2 times	58	3.3525
	2-4 times	172	3.6176
	4-6 times	92	3.8345
	more than 6 times	18	3.8457
	<b>Total</b>	<b>340</b>	<b>3.6431</b>
Retail Environment	0-2 times	58	3.3862
	2-4 times	172	3.7064
	4-6 times	92	3.8413
	more than 6 times	18	3.8667
	<b>Total</b>	<b>340</b>	<b>3.6968</b>
Customer Service	0-2 times	58	3.3506
	2-4 times	172	3.5901
	4-6 times	92	3.6938
	more than 6 times	18	3.9074
	<b>Total</b>	<b>340</b>	<b>3.6968</b>

	<b>Total</b>	<b>340</b>	<b>3.5941</b>
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According to regression output the value of coefficients was  $b_0 = .291, b_1 = .239, b_2 = .516, b_3 = 1.85$  (refer table 5).

Hence the regression equation can be written as

$$CS = .291 + .239 PI + .516 IRE + 1.85 ICS.$$

(F=181.701, p<0.05) - shows that model is significant at a confidence level of 95%. The t-test for significance of individual independent variables shows at 95% confidence level, all the variables are individually significant with innovation in retail environment as most important (.485) followed by product innovation (.211) and innovation in customer service (.160). Adjusted r square value is .615 indicating that approximately 62% of variability in customer satisfaction can be explained with independent innovation variables.

**Table 5: Regression Model Summary**

		Sum of Squares	df	Mean Square	F	Sig.
Merchandise Mix	Between Groups	9.121	3	3.040	8.314	.000
	Within Groups	122.864	336	.366		
	<b>Total</b>	<b>131.985</b>	<b>339</b>			
Retail environment	Between Groups	8.051	3	2.684	6.409	.000
	Within Groups	140.695	336	.419		
	<b>Total</b>	<b>148.746</b>	<b>339</b>			
Customer Service	Between Groups	6.125	3	2.042	5.675	.001
	Within Groups	120.864	336	.360		
	<b>Total</b>	<b>126.988</b>	<b>339</b>			

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787(a)	0.619	0.615	.43734

a. Predictors: (Constant), Customer Service, Product, Retail environment

**ANOVA**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	104.258	3	34.753	181.701	.000(a)
	Residual	64.264	336	.191		
	<b>Total</b>	<b>168.522</b>	<b>339</b>			

a. Predictors: (Constant), Customer Service, Product, Retail environment

b. Dependent Variable: Customer Satisfaction  
Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	.291	.156		1.871	
	Merchandise Mix	.239	.066	.211	3.620	.062
	Retail environment	.516	.064	.485	8.025	.000
	Customer Service	.185	.054	.160	3.401	.001

a. Dependent Variable: Customer Satisfaction

## 5. CONCLUSIONS AND SUGGESTIONS

One of the key objectives of the research was to find out if there was any relationship between perceived Merchandise related innovation, Innovation in Retail environment, Innovation in customer service of the stores patronized by the respondents and their customer satisfaction.

Results of correlation analysis show there is a significant relationship between innovation factors studied and customer satisfaction thereby confirming that Merchandise related innovation, Innovation in Retail environment, Innovation in customer service tend to increase customer satisfaction. Moreover, Table 4 shows that the loyalty of a customer (as measured by frequency of number of visits to a store) was influenced by innovation factors. The store to which the customers tended to be loyal had significantly higher scores all the service innovation factors. Past researches showed consumers prefer huge shopping areas where large amount of products are displayed. They are happier with areas which enhance their experience and influence the number of visits to the store. Other Elements were enquired which might have the major influence on consumer's choice of store and on their trust in the vendor, with benefits for firm's profitability and some of these were addition of plants and furniture for more realistic look, to fill all blanks with products as customers avoid seeing empty spaces in the stores (Laria and Pantano, 2012).

The results of our study are in line with above findings that customers are more likely to frequent stores that consistently deliver on service expectations and innovations play a major role in customer engagement and retention. Service innovation has also been found to successfully explain the customer satisfaction in the multiple regression analysis.

It is therefore quite evident that improved level of customer satisfaction can be achieved by experimenting and maintaining an interesting merchandise mix, retail environment, and customer service as they also have significant impact on customer satisfaction. Retail companies have to pay considerable attention to innovation in their offerings to enhance customer satisfaction and customer loyalty and thereby increase their market share and sustain against the competition.

The study has helped identify a few critical factors related to merchandise mix, environment, customer service and establish their impact on retail customer satisfaction and

retail customer loyalty. It can help retail managers understand the importance and role of innovation and to make better innovation oriented strategies. Innovation can clearly become the basic tool for retailers to create competitive advantage and augment shopping experience.

## 6. LIMITATIONS AND FUTURE RESEARCH

While the objectives of the study of establishing the importance of service innovation in the retail sector has been achieved, service innovation in this domain is still not completely explored. Moreover, the study is limited by a convenience sampling. Further, data been collected from a metro city (Mumbai) and therefore this would limit the generalization of results. The impact of "halo effect" cannot be ignored either. It is quite possible that respondents who are very happy with whichever retailer they are patronizing reported a higher score for the level of innovation of the retailer concerned while it could be quite similar to the other stores.

Since it was an author developed scale and is not subject to validity evaluations other than a panel of experts and no confirmatory factor analysis has been undertaken future research needs to subject the scale to more validity evaluations. A triangulation of different methods would be ideal to take this study forward. In addition to customer reported scores, experimental methods could also be undertaken to understand the impact of innovation in retail stores.

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## ANNEXURE

Table 1: Scale Measuring Merchandise Mix Innovation

Item	Scale	Source (adapted from)
1. This store tends to be the first to carry a new product that is launched in the market	Likert	Shih-Hao Wu, Stephen Chi-Tsun Huang, Ching-Yi Daphne Tsai and Ying-Chih Chen, 2009
2. Compared to other stores in the market, this store tends to carry lot of new products.	Likert	- do -
3. This store has a reputation in market for carrying merchandise that is different and unusual.	Likert	- do -
4. This store tends to carry original and different products.	Likert	- do -
5. This store has all latest styles.	Likert	- do -
6. Some of the products you find here you will not find anywhere else.	Likert	- do -
7. The store tends to be a fashion leader than a fashion follower.	Likert	- do -
8. The store allows you to customise their products to your requirements.	Likert	- do -
9. The store seems to realise what customers want even before the customers themselves realise it.	Likert	- do -

Table2: Scale Measuring Innovation in Retail Environment (Sensory)

Item	Scale	Source (adapted from)
1. The store has new and different environment.	Likert	Chris Aubrey, David Judge, 2012; Laria and Pantano, 2012
2. The colors and sounds in the store are unique.	Likert	Tian, Bearden, and hunter, 2001
3. The environment feels fresh and different.	Likert	- do -
4. There is great sense of space within the store.	Likert	Chris Aubrey, David Judge, 2012; Laria and Pantano, 2012
5. The ambience of the store is interesting and different.	Likert	- do -

Table 3: Scale Measuring Innovation in Retail Environment (Cognitive)

Item	Scale	Source (adapted from)
1. I think the store is very innovative	Likert	Chris Aubrey, David Judge, 2012; Laria and Pantano, 2012
2. They have set up this store with a difference.	Likert	Tian, Bearden, and hunter, 2001
3. The signage style and usage in this store is unique.	Likert	- do -
4. The merchandise is arranged in a customer friendly manner.	Likert	Chris Aubrey, David Judge, 2012; Laria and Pantano, 2012
5. Its easy to navigate this store.	Likert	- do -

**Table 4: Scale Measuring Customer Satisfaction**

Item	Scale	Source (adpated from)
1.The store has good selection of merchandise.	Likert	Palic, Mirko: Maricic, Mirela: kovac, Ivan, 2011
2. The store has good reputation.	Likert	- do -
3. Overall I have good impression about the store.	Likert	- do -
4.The store offers good service.	Likert	- do -
5.Overall i am satisfied with this store.	Likert	- do -

**Table 5: Scale Measuring Customer Service**

Item	Scale	Source (adpated from)
1. The personnel in this store tend to be updated on the latest trends.	Likert	Dhabholkar,Thorpe,and Rentz 1996
2. Whenever I need information on a new product or brand I tend to go here.	Likert	- do -
3. The personnel in this store have an original and different style.	Likert	- do -
4. Everyday this store seems to have something new going on.	Likert	- do -
5. The store offers services that other stores do not.	Likert	- do -
6. The staff at this store is friendly.	Likert	- do -

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