

**GENERIC COMPETITIVE STRATEGY AND CUSTOMER
RETENTION:
A STUDY OF THE SUPERMARKETS IN VAVUNIYA DISTRICT**

Pushpanathan A¹, and Ragulan, N²

¹Department of Economics and Management, Faculty of Business Studies,
Vavuniya Campus of the University of Jaffna, Vavuniya.

²Programme Coordinator, Nucleus Foundation, Vavuniya

pushpa642002@yahoo.com, apushpanathan@mail.vau.jfn.ac.lk
n.ragulan@ymail.com

ABSTRACT: A supermarket is a large form of the traditional grocery store. It is a self-service shop offering a wide variety of food and household products, organized into aisles. It is larger in size and has a wider selection than a traditional grocery store, but is smaller and more limited in the range of merchandise than a hypermarket or big-box market. Supermarket focuses not only the cities but also the suburbs and villages. The Changes in social life, trends, technology have also significantly affected the industry. The reluctance that prevailed with people to buy from super markets at the beginning was gradually disappearing. Consequently, traditional retailers are now facing a great challenge of competing with existing super markets mainly to retain the customers by using some strategies. The objective of this study is to analysis the competitive strategy and customer retention of Supermarkets in Vavuniya District. Cost-leadership, differentiation, and focus are considered independent variables of this study and customer satisfaction, service quality, employees' participation, and customer relations are considered as dependent variable. Data is collected from the customers of supermarkets in Vavuniya District. Totally 250 customers were selected as sample of this study based on their income above LKR 50000/=. Data were analyzed using the Statistical Package of Social Sciences (SPSS 16). Correlation and Regression analysis of independents and dependent variables were made in this study. The finding of present study indicated that the positive relationship between generic competitive strategy and customer retention were observed. But differentiation strategy is highly correlated with customer retention of supermarkets in Vavuniya District.

Keywords: Cost-leadership, differentiation, focus, customer retention

1. INTRODUCTION

A supermarket is a large form of the traditional grocery store. It is a self-service shop offering a wide variety of food and household products, organized into aisles. It is larger in size and has a wider selection than a traditional grocery store, but is smaller and more limited in the range of merchandise than a hypermarket or big-box market. Supermarket focuses not only the cities but also the suburbs and villages. The Changes in social life, trends, technology have also significantly affected the industry. The reluctance that prevailed with people to buy from super markets at the beginning was gradually disappearing. Consequently, traditional retailers are now facing a great challenge of competing with existing super markets mainly to retain the customers by using some strategies.

Porter's framework, a business can maximize performance either by striving to be the low-cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. A low-cost strategy effectively implemented when the business designs, produces, and markets, a comparable product more efficiently than its competitors. A differentiation strategy is effectively implemented when the business provides unique and superior value to the buyer in terms of facets such as product quality, special features, or after sales service.

Before 2009 only three supermarkets were in Vavuniya District. One is owned by Government and other two are owned by private. After the 2009 another two supermarkets started to functions in Vavuniya. People in Vavuniya like to purchase the products at supermarkets. Why people like supermarket because many facilities are available in supermarkets than the grocery shops. Such as parking facilities, selection of products, wide range of products, quality of services and so on. Supermarkets are one of the service organizations. It is selling the products to customers. So Organizations are continually looking for innovative ways to acquire, increase and retain business because the cost of losing customers is rising. Service is viewed as an important factor in customer retention. Successful organizations define what customer retention means for business and create the necessary measures to quantify their retention rate. The objective of this study is to analysis the competitive strategy and customer retention of Supermarkets in Vavuniya District.

LITERATURE REVIEW

Generic Competitive Strategy

Porter's generic strategy highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate competitive strategy for the last 30 years (Pretorius, et al 2008). According to this model, a company can choose how it wants to compete with competitors based on the match between its type of competitive advantage and the market target pursued, as the key determinates of choice (Akan et.al. 2006).

The two essential strategies in porter's concept of generic competitive strategies (Porter, 2004) are overall, i.e. industry wide, cost leadership and overall differentiation strategy. The aim of cost leadership is to release lower costs than all competitors. A prerequisite for actively this industry- wide lowest cost level is to capture a high market share and these produce large quantities. This permits cost digression on the basis of experience carve effects, spreading fixed costs anon a large number of products and exerting market power.

The differentiation strategy is usually confined to a small market share. A company pursuing a differentiation strategy differentiates itself from competitors by offering a unique benefit to its customers and this establishing a unique setting proposition. Further differentiation strategy based upper persuading customers

that a product is superior in some way to that offered by competitors. In differentiation strategies, the emphasis is on creating value through uniqueness, as opposed to lowest cost (Porter 1980, Havacka et al. 2001, Hyatt, 2001). Uniqueness can be achieved through service innovations, superior service, creative advertising, better supplier relationships leading to better services or in an almost unlimited number of ways.

The key to success is that customers must be willing to pay more for the uniqueness of a service than the firm paid to create it. Firms following a differentiation strategy can charge a higher price for their products. The differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique or quality product.

The third strategy in Porter's concept of generic competitive strategies is focus (Porter 2004) or niche strategy (Nielson, 1987, Shrivastava, 1995). A company may focus on a geographic market, a customer group or a product group in order to better serve this niche market. This strategy is not a destined strategy, since it is a focused application of either cost leadership or differentiation strategy to a niche market.

Customer Retention

Inherently, a retained customer will be loyal due to the attachment and commitment to the organization. This customer will, then, recommend others to purchase and repurchase the companies' product and services (Diller, 1998; Diller and Muellner, 1998; and Oliver, 1999).

Customer retention requires clear direction and this is the first stand of customer retention in order to effectively retain customers, a significant commitment and clear signal from company's top management is highly required. Top management needs to adopt a more holistic approach in order to be more receptive towards latest changes in the industry. With this, the impact of functional barriers and hierarchies of an organization can be reduced which will enable the company to be more competitive in retaining their customers (Dawes and Swailes, 1999).

Customer retention has been shown to be a primary goal in firms that practice relationship marketing (Groenroos, 1991; Coviello et al., 2002). While the precise meaning and measurement of customer retention can vary between industries and firms (Aspinall et al., 2001) there appears to be a general consensus that focusing on customer retention can yield several economic benefits (Dawkins and Reichheld, 1990).

Lengthens, the volumes purchased grow and customer referrals increase. Simultaneously, relationship maintenance costs fall as both customer and supplier learn more about each other. Because fewer customers churn, customer replacement costs fall. Finally, retained customers may pay higher prices than newly acquired customers, and are less likely to receive discounted offers that are often made to acquire new customers. For example, compute that "it can be [up to] ten times more expensive to win a customer than to retain a customer-

and the cost of bringing a new customer to the same level of profitability as the lost one is up to 16 times more” (Lindgreen et al., 2000).

Blattberg et al. (2001) state that customer retention is taking place when a customer keeps on buying the same market offering over a long period of time. For products with short purchase cycles, they define customer retention as occurring when ‘the customer continues to purchase the product or service over a specified time period’. For products with long purchase cycles, they define customer retention as taking place when the customer indicates the intention to purchase the product or service at the next purchase occasion.

Measuring the customer retention rate is seen as the initial step in improving loyalty to, and the profitability of a service organization (Payne, 2000), yet many organizations do not understand the importance of improving customer retention rates, and the impact of these on profitability.

Retained customers represent an opportunity to increase profitability as well as loyalty. Customer relationship profitability is the result of improved quality in the service provided by an organization (Storbacka et al, 1994). A satisfied customer creates a strong relationship with the particular organization; this leads to relationship durability and customer loyalty and retention.

Customer retention management has several components. It is important to build relationships with customers, to manage customer to customer interactions, to reduce dissatisfaction, as well as to try and reduce potential defections.

HYPOTHESES

Following hypotheses are derived from the literature review of the present study.

H1: There is a positive relationship between cost leadership strategy and customer retention

H2: There is a positive relationship between differentiation strategy and customer retention

H3: There is a positive relationship between focus strategy and customer retention.

2. METHODOLOGY

Five supermarkets are functioning in Vavuniya Town area. Randomly 50 customers were selected from each supermarket for the study purpose. Totally 250 customers were selected as sample of this study based on their income. The researcher considers the monthly income of customers of the supermarkets above LKR 50000/=.

Data were collected from customers of the supermarkets in Vavuniya District. For collecting the data structured questionnaires issued among the customers of the supermarkets based on the independent and dependent variables.

Data were entered into SPSS 17.00 package for analyzing the variables. First reliability of variables was measured in this study. Measuring the reliability, Cronbach alpha was calculated. The Cronbach's alpha is expressed as a correlation coefficient, and its value ranges from 0 to +1. By convention alpha should be 0.70 or higher to retain an item in a scale. The Cronbach alpha of variables of this study is 0.75. It is greater than the cut off rate.

Adequacy of data sample test was done in this study. KMO and Bartlett's test were measured for adequacy of data. The value sampling adequacy KMO and Bartlett's method is more than 0.5. The study indicated that all variables adequacy are in the range between 0.5 and 0.7. It is indicating that the values of adequacy are mediocre. The details are given in the Table 1. Regression analysis was used in this study.

Table 01: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.680
Bartlett's Test of Sphericity	Approx. Chi-Square	7.241
	df	1
	Sig.	.009

Source: Survey Data

3. RESULTS AND DISCUSSION

For analyzing the data of present study, generic competitive strategy is considered as independent variable and customer retention – customer satisfaction, service quality, employee participation, and customer relationship – is considered as dependent variable of this study. For testing the hypotheses of the present study correlation and regression analysis were used. The correlation analysis of independent and dependent variables are illustrated in Table No. 2. The relationship among the cost leadership, differentiation, focus and customer retention are positively significant in the present study. But result indicated that the relationship between differentiation and customer retention are highly correlated than the other variables.

Table No 2: Correlation between independent and dependent variables

	Customer Retention	Significance
Cost Leadership	.715	.000
Differentiation	.773	.000
Focus	.344	.015

Source: Survey Data

To test hypotheses H1, H2, and H3, The researcher performed a regression analyses. For testing the hypotheses, Differentiation, Cost-Leadership, and Focus on the customer retention of the supermarkets entered in the SPSS Package. The results indicated that the differentiation, cost-leadership, and focus are significantly related to customer retention ($\beta = .735, p < .01, \beta = .616, p < .01, \text{ and } \beta = .496, p < .01$ respectively). The results demonstrate that three variables, differentiation, cost-leadership, and focus, have significant effects on customer retention. Therefore, hypotheses H1, H2, and H3 are accepted. The results are indicated in the Table 3.

Table 3. Regression Analysis of Deepened and Independent Variables

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	Beta	Std. Error	Beta		
(Constant)	8.580	.505		9.070	.000
Differentiation	.735	.051	.763	4.216	.000
Cost Leadership	.616	.077	.643	4.092	.000
Focus	.496	.099	.587	2.990	.003

a. Dependent Variable:
Customer Retention

4. CONCLUSION

Present study highlighted the generic competitive strategy and customer retention in the super markets. Mainly the study focused how the generic competitive strategies – differentiation, cost-leadership, and focus on the customer retention of the supermarkets. Every business people should retain customers for business survival. Because searching new customers they need to spend more money. That's why the business people retain their customers. The results of present study indicated the the supermarkets in Vavuniya District has positive impact for using Generic strategy on Customer retention.

5. REFERENCES

AKAN, O., ALLEN, R.S., HELMS, M.M. & SPRALLS, S.A. (2006), Critical tactics for implementing Porter's generic strategies. *Journal of Business Strategy*, 27(1), pp 43-53

ASPINALL, E., NANCARROW, C. AND STONE, M. (2001), The meaning and measurement of customer retention. *Journal of Targeting, Measurement and Analysis for Marketing*, 10(1),79-87.

BLATTBERG, ROBERT C. GARY GETZ, AND JACQUELYN S. THOMAS (2001), *Customer Equity: Building and Managing Relationships as Valuable Assets*, Boston: Harvard Business School Press.

COVIELLO, N.E., BRODIE, R.J., DANAHER, P.J. AND JOHNSTON, W.J. (2002), How firms relate to their markets: an empirical examination of contemporary marketing practices, *Journal of Marketing*, 66(3), 33-46.

DAWES, J., & SWAILES, S. (1999), Retention sans frontiers: issues for financial services retailers. *International Journal of Bank Marketing*, 17(1), 36-43.

DAWKINS, P.M. AND REICHHELD, F.F. (1990), Customer retention as a competitive weapon. *Directors and Board*, 14 Summer, 42-7.

DILLER, H. (1997), Was Leisten Kundenclubs? *Marketing ZFP*, 19(1), 33-41.

DILLER, H. AND MUÈLLNER, M. (1998). Kundenbindungsmanagement. in A. Meyer, (Ed.), "Handbuch Dienstleistungs-Marketing," Schäffer-Poeschel: Stuttgart, pp.1219-1240.

GROËNROOS, C. (1991), The marketing strategy continuum: toward a marketing concept for the 1990s. *Management Decision*, 29(1), 7-13.

LINDGREEN, A., DAVIS, R., BRODIE, R. J., AND BUCHANAN-OLIVER, M. (2000), Pluralism in contemporary marketing practice. *The International Journal of Bank Marketing*, 18(6), 294-308.

OLIVER, R. (1999), Whence Consumer Loyalty?. *Journal of Marketing*, 63(special), 33-44.

Porter, M.E. (2004). 'Building the Microeconomic Foundations of Prosperity: Findings from the Business Competitiveness Index', in M.E. Porter, K. Schwab, X. Sala-i-Martin and A. Lopez-Claros (eds.) *The Global Competitiveness Report 2004–2005*, Palgrave Macmillan, World Economic Forum: New York, pp: 19–50.

STORBACKA, K., STRANDVIK, T., AND GRÖNROOS, C. (1994), Managing customer relationships for profit: the dynamics of relationship quality. *International Journal of Service Industry Management*, 5(5), 21-38.