



Information technology use in retail chains: Impact on the standardisation of pricing and promotion strategies and performance



Fumikazu Morimura^{a,*}, Yuji Sakagawa^b

^a Graduate School of Business Administration, Kobe University, 2-1, Rokkodai-cho Nada-ku, Kobe city 657-8501, Hyogo, Japan

^b Graduate School of Economics and Business Administration, Hokkaido University, Kita 9, Nishi 7, Kita-ku, Sapporo city 060-0809, Hokkaido, Japan

ARTICLE INFO

Keywords:

Retail chain
Information technology use
Pricing strategy
Promotion strategy
Standardisation

ABSTRACT

The objective of this study is to investigate the effect of IT use for exploitation and exploration on the standardisation of pricing and promotion strategies and business performance in retail chains. We used a questionnaire survey to collect data from 314 retail chains in Japan and the data was analysed using structural equation modelling. We found that IT use for exploitation has a positive effect on the standardisation of promotion strategies, whereas IT use for exploration has a positive impact on the standardisation of pricing strategies. In addition, we found that IT use for exploitation moderates the relationship between IT use for exploration and the standardisation of promotion strategies. A standardised pricing strategy has a negative impact on business performance. In contrast, a standardised promotion strategy has a positive effect on business performance. The contribution of this study is the development of an integrated framework to analyse the effect of IT use for exploitation and exploration on the standardisation of pricing and promotion strategies including the interplay between the two different uses of IT.

1. Introduction

Successful strategy differentiation allows retailers to increase their sales volume and market share (Gauri et al., 2008). In particular, retail chains are primarily concerned with increasing the volume of transactions, which creates buying power and enables them to reduce their buying costs by offering the same brands across the chain (Walters and Laffy, 1996). However, it is difficult for retail chains to differentiate their assortment because commoditisation has increased and retailers can easily procure substitutable brands. Therefore, to increase sales volume, they must develop both a differentiated pricing strategy that satisfies consumers' price needs and a differentiated promotion strategy that increases consumers' perceptions of quality regarding their standardised assortment (Bolton and Shankar, 2003).

Finding a large market segment and achieving a high share of the market is necessary for retail chains to increase their profits (Levy et al., 2004). The market is composed of numerous trading areas, and the structure in terms of market segmentation and competitors differs among trading areas. A retail store's profit depends on its ability to develop a strategy that meets the needs of their target customers in each trading area (Gauri et al., 2008; Mantrala et al., 2009). A retail chain's profit is the aggregation of the profits of stores located in each trading area. Therefore, it is necessary to develop a differentiated strategy that

is effective in each trading area. When a retail chain is successful in developing such a strategy, it can then standardise the strategy across all stores. As a result, the retail chain enjoys the benefits of economies of scale (Doyle and Corstjens, 1983; Pardo-del-Val et al., 2014). Previous studies have found that pricing and promotion strategies use different mechanisms to increase retail chain profit. A standardised pricing strategy reduces profit (Choudhary et al., 2005; Hall et al., 2010) because competitors can easily imitate a pricing strategy in the short term. In contrast, a promotion strategy is difficult to imitate. Therefore, a standardised promotion strategy increases profit (Zhang and Wedel, 2009).

In the case where a retail chain develops a differentiated strategy and standardises it across all stores, it is necessary for the retail chain to continuously seek information regarding latent customer needs while continuing to meet existing needs, adjusting their operations quickly in response to new information (Qi et al., 2017). In Japan, a retail chain is faced with many different competitors in each trading area and must also confront different consumption cultures and societies (Larke, 1992). This increases heterogeneity among trading areas, which affects consumers' reactions to pricing and promotion strategies in each trading area. Because retail chains operate numerous stores that are widely dispersed across a geographical area, it is difficult to interact with each store to understand their customers' existing needs and

* Corresponding author.

E-mail addresses: fumikazumorimura@b.kobe-u.ac.jp (F. Morimura), yuji.sakagawa@econ.hokudai.ac.jp (Y. Sakagawa).

discover latent needs to develop differentiated strategies and control the implementation of new strategies. These difficulties are related to organisational limitations regarding information processing capabilities (Aoki, 2001; Aoyama, 2007; Chang and Harrington, 2002). In retail chains, these capabilities are vital if economies of scale are to be achieved (Makadok, 1999).

Retail chains need to increase their capabilities in terms of understanding customers' existing needs, discovering latent needs, developing a differentiated strategy, and operationalising it quickly. Recent developments in information technology (IT) have allowed retail chains to decrease not only their operating costs but also the initial cost of the IT. In the retail context, two types of IT use have been identified; exploitation and exploration (Fiorito et al., 2010). Retail chains have been able to develop their exploitation capabilities to understand their customers' existing needs and increase operational efficiency, and their exploration capabilities to discover latent needs (Oh et al., 2012; Qi et al., 2017). IT use for exploitation increases capabilities related to routinising and standardising strategies across retail chains and refining their knowledge of existing markets and resources. In contrast, IT use for exploration enhances their capabilities in relation to gathering detailed information about customers, discovering latent needs and seeking new opportunities in terms of future markets.

The first objective of this study is to investigate the research question: How do two different types of IT use affect the standardisation of pricing and promotion strategies. Previous studies have found that IT use for exploitation can increase profit by enhancing efficiency in relation to operations and the collection of consumer information, while IT use for exploration supports the discovery of latent consumer needs, thereby increasing profit (Aloysius et al., 2016; Oh et al., 2012; Renko and Druzijanic, 2014). These studies assume that IT use leads directly to increased profit. However, retail chains use IT to increase their profit by collecting market information to develop a differentiated strategy and then standardising it across the chain. Retailers can achieve a competitive advantage by integrating IT use with other resources to develop a successful strategy (Fleisher et al., 2008; Powell and Dent-Micallef, 1997; Varadarajan et al., 2010). Pricing and promotion strategies are especially important for retail chains, and the standardisation of these strategies requires different mechanisms if the chain is to increase its profit (Choudhary et al., 2005; Hall et al., 2010; Zhang and Wedel, 2009). Previous studies on IT use have not empirically investigated the indirect effect of IT use on retail chain profit through the standardisation of pricing and promotion strategies.

The second objective of this study is to address the research question: How does IT use for exploitation moderate the effect of IT use for exploration on the standardisation of pricing and promotion strategies. When retail chains find latent customer needs and develop differentiated strategies to satisfy those needs, they should routinise those strategies across the chain to maximise the efficiency of their operations (Qi et al., 2017) and enable each store to acquire a first-mover advantage (Denstadli et al., 2005; Markides and Sosa, 2013). Excessive exploration without exploitation results in failure to achieve appropriate returns from new strategies (Andriopoulos and Lewis, 2010; Herhausen, 2016). Profit from exploration depends on exploitation because a firm can only internalise new resources into its competences via exploitation (Cao et al., 2009; Gupta et al., 2006). Therefore, IT use for exploitation moderates the effect of IT use for exploration when developing strategies in the retail chain context. Previous studies have shown that the two types of IT use contribute independently to satisfying consumer needs and stabilising retail business performance (Aloysius et al., 2016; Oh et al., 2012; Renko and Druzijanic, 2014). However, the mechanism through which the interplay of the two types of IT use leads to the development and implementation of pricing and promotion strategies, and how this is reflected in business performance, remains a "black box". The goal of this study is to answer these research questions. Fig. 1 shows our research model.

2. Literature review and hypotheses

2.1. Retailing in Japan

Developing differentiated pricing and promotion strategies has become increasingly difficult for retail chains in Japan. The retail environment has become more diverse and uncertain as a result of increasingly competitive market characteristics, difficult economic conditions and changing consumer characteristics such as demographics and preferences (Dekimpe et al., 2011; Gauri et al., 2008; Mantrala et al., 2009). The situation has become more pronounced for Japanese retailers than ever before for the following reasons.

First, commoditisation of products is easy in Japan compared with the US and Europe. Product innovation is immediately diffused, which creates a large market and encourages numerous firms to enter that market (Alpert et al., 2001). This diffusion increases product interchangeability (Reimann et al., 2010), and retailers can procure substitutable brands. Therefore, it is difficult to differentiate their assortment. In other words, it is easy for new competitors to enter the market by offering a substitute brand. In addition, oligopolisation has increased as the retail industry has matured in Japan, although the degree of oligopolisation is still lower than that in Europe and the US (Ministry of Economy, Trade, and Industry, 2016). In an oligopolistic market, it becomes difficult to develop a differentiated strategy because resources are substitutable, and thus the homogeneity of retailers' resources has increased. Therefore, retailers need to find latent needs, develop a differentiated strategy, and obtain a competitive advantage.

Second, differences between consumption patterns in various trading areas are increasing. Many small or medium-sized retailers exist, and they are actively supported by the government. They have fewer resources than the large retail chains, and their brand range is the same as those of their competitors. However, the attitude of Japanese consumers towards price is complex, and they are willing to pay a higher price for a better-quality shopping experience and for services (Aoyama, 2007). This means that Japanese consumers are value-sensitive. Therefore, small and medium-sized retailers must develop unique, value-added services that satisfy area-specific needs if they are to survive (New Super Market Association of Japan, 2015). This competition creates independent consumption cultures and societies in each trading area (Larke, 1992) and increases the heterogeneity of the retail market (Ministry of Economy, Trade and Industry in Japan, 2016; Ministry of Health, Labour and Welfare in Japan, 2016). Consumers' needs in relation to retail offerings differ, and thus their reactions to a given strategy are different in each trading area, which reduces the effectiveness of a retail chain's standardised strategy. Thus, retail chains can achieve significant economies of scale if they can discover latent needs, develop a differentiated strategy that is effective across all trading areas and operationalise it quickly, regardless of what types of products they sell (e.g., groceries, apparel, sporting goods, do-it-yourself materials, or furniture).

2.2. Retail pricing strategy and standardisation

The resource-based view states that successful differentiation of strategy requires causal ambiguity and imperfectly imitable capabilities (Suarez and Lanzolla, 2007). When retail chains successfully develop a differentiated strategy that is effective in each trading area, the standardised strategy contributes to both increased sales and reduced costs related to operationalising and monitoring the execution of the strategy. In contrast, in the case in which the strategy is not differentiated, a retail chain customises its strategy to meet the needs of each trading area (Kasiri et al., 2017).

The pricing strategy defines the positioning of retail chains in the market and creates a pattern in terms of consumers' price expectations (Lal and Rao, 1997). Retail chains can adopt various temporal and spatial pricing strategies such as everyday low pricing (EDLP) and high/

Download English Version:

<https://daneshyari.com/en/article/10127773>

Download Persian Version:

<https://daneshyari.com/article/10127773>

[Daneshyari.com](https://daneshyari.com)