Journal of Retailing 93 (2, 2017) 241–251

Journal of Retailing

Research Note

The Role of Service Operations Management in New Retail Venture Survival

Pankaj C. Patel[a,*], Maria João Guedes[b], John A. Pearce II[a]

[a] *Villanova School of Business, Villanova University, Villanova, PA 19085, United States*

[b] *ISEG (School of Economics and Management), Universidade de Lisboa, Rua do Quelhas, 6, 1200-781 Lisboa, Portugal*

Available online 27 March 2017

Abstract

While the factors related to the survival of established retail firms are well researched, current understanding of drivers of new retail venture survival is limited. We assess the influence of retail operations characteristics on the survival of new retail ventures. Based on data from 15,901 Portuguese retail ventures that were founded between 2006 and 2010 and followed until 2014, the new retail ventures with faster inventory turnover or higher staff expenses per employee had a higher likelihood of survival while higher investment in intangible assets had a negative but negligible effect on survival. The implications of these findings for entrepreneurs of new retailing ventures are discussed.

Keywords: Retail operations; New retail ventures; Liability of newness; Survival analysis

Introduction

There is a limited understanding of the determinants of new retail venture survival during the particularly vulnerable early stages of their life cycle. While industry, location, economic conditions, and internal resources are influential in venture survival, characteristics of early stage, retail operations could be primary determinants of new retail venture survival. Guided by a service operations management (SOM) framework, we contribute to an understanding of the drivers of survival of new retail ventures.

Why is understanding the determinants of new retail venture survival important? First, new retail ventures constitute a significant proportion of new enterprises and are major contributors to economic growth and job creation. In the US, the economic growth in the retail business sector occurs primarily as result of the addition of new retail locations rather than through expansion by existing businesses (Decker et al. 2014, p. 12). Retail ventures create approximately 15% of the new jobs (Hortaçsu and Syverson, 2015). Given their contributions to economic growth and job creation, understanding factors that drive the survival of new retail ventures is important for policy makers.

Second, in the retailing literature, despite efforts by researchers to understand the keys to survival in established firms, research on this topic has not focused on new retail ventures (Brady et al. 2008; Griffith, Noble, and Chen 2006; Nilsson 2016; Pal, Medway, and Byrom 2006). Given the liabilities of their newness and smallness compared to established retail firms, new retail ventures may face distinct challenges to survival (Wetter and Wennberg 2009), and therefore, the knowledge of survival of established retail ventures may not be directly applicable to new retail venture survival. Unique challenges to introducing retail operations routines, leveraging scarce resources and capabilities, and overcoming steep learning curves call for further examination of drivers of new retail ventures. In entrepreneurship literature, studies have focused on the survival of manufacturing, high-tech, biotech, professional services, and social enterprise ventures (Bruno, Woolley, and Carlson 2014; Coad et al. 2016; Gimmon and Spiro 2013), but only a few exploratory studies have focused on the characteristics that explain the survival of retail ventures (Cotton and Cachon 2007; Jamal 2005).

Overall, by complementing past research on the survival of established retail ventures, our research builds on the theoretical bases of service operations management (SOM). Service providers must design and manage retail operations that coor-

* Corresponding author.
E-mail addresses: pankaj.patel@villanova.edu (P.C. Patel), mjguedes@iseg.ulisboa.pt (M.J. Guedes), john.pearce@villanova.edu (J.A. Pearce II).

http://dx.doi.org/10.1016/j.jretai.2017.03.001
0022-4359/

dinate the deployment of their resources with their product and service offerings (Roth and Menor 2003; Shockley et al. 2015; Smith et al. 2004). Three aspects of SOM appear promising in driving new retail venture survival. First, higher inventory turnover helps to improve efficiency and effectiveness of the flow of products in retail operations. Second, to strengthen customer contacts, investments in intangible assets could aid in developing a local well-researched retail identity and improving customer service. Third, increasing staff expenses per employee could help in developing human capital necessary to meet service needs and improve customer contact.

We organize the remainder of the paper as follows. We begin by reviewing the relevant literature on SOM and propose our hypotheses. Following this, we discuss our methodology and data. We then present our results, followed by a brief discussion of the theoretical and managerial implications of our findings. The findings provide new retail ventures with guidance on deploying their resources and informs policy makers on improving survival odds of new retail ventures, an organization form important to economic growth and vitality.

Insights from Prior Research

SOM is a multifaceted theoretical framework that has evolved over time from foci on service quality gaps (Brogowicz, Delene, and Lyth 1990) and servicescapes (Bitner 1992) to more recent efforts that propose a Unified Service Theory (Sampson 2012). Reviews of the SOM literature suggest that there is not a definitive theoretical framework of SOM but it is a constellation of research interests that are focused on the distinctive characteristics of service operations (Sampson 2012, p. 1).

SOM could provide new retail ventures with a framework to manage an assortment of products, customer service, and branding (Borin, Farris, and Freeland 1994; Cachon, Terwiesch, and Xu 2005; Mulhern and Leone 1991;). New retail ventures can draw on the tenets of service operations management to make viable early-stage resource commitments to ensure their stability by aligning retail activities with local opportunities and strategic priorities (Hill and Birkinshaw 2009). Based on the SOM framework, we propose three predictors of retail firm survival—inventory turnover, intangible assets, and staff expenses per employee.

Inventory management

When faced with demand uncertainty during early years, the ability to manage inventory could increase the odds of new retail venture survival. Inventory turnover signals the efficacy of a venture's attempts to align target market segments with retail offerings and service delivery systems (Roth and Manor 2003). Increasing inventory turnover, from the perspective of lean production in SOM, helps to improve service operations (cf. Froehle and Roth 2004), enhance cost competitiveness, and improve resource utilization levels (Sampson and Froehle 2006). Faster inventory turnover in retail ventures implies improving forecasting and demand management capabilities, reliable and recurring relationships with external stakeholders (cf. Rumyantsev and Netessine 2007), and the ability to orchestrate internal resources and routines (Dubelaar, Chow, and Larson 2001).

While inventory management could also improve survival odds for established retail firms, its effects could be stronger for new retail ventures that may lack technological capabilities and resources to develop advanced inventory management routines (Oh, Teo, and Sambamurthy 2012). Errors in inventory management would be less damaging for established retailers with more slack resources and operational flexibility, whereas resource constrained new retail ventures could have greater difficulty correcting errors in inventory management (Sellers-Rubio and Más-Ruiz 2009). We expect that an ability to develop efficient early stage inventory management routines, which are proxied by inventory turnover, can improve survival odds of new retail ventures (cf. Liu, So, and Zhang 2010).

Hypothesis 1. Inventory turnover is positively associated with new retail venture survival.

Intangible assets

The customer is a primary source of variation in service settings and poses a critical challenge that varies based on the degree of customer contact and the level of essential services offered by a new retail establishment (Johnston and Clark 2008). In the SOM framework, intangible assets are central to building customer loyalty in retail service operations (Ailawadi and Keller 2004), and symbiotically leverage tangible resources (Roth and Menor 2003). Investments in intangible assets may include investments in both hard (e.g., layouts and décor) and soft (e.g., customer service processes) assets, software to develop internal operations and external relationships, purchase of computerized databases of customers, and the design of retail locations and logos.

Because new retail ventures have limited legitimacy (cf. Michael and Kim 2005, p. 143), their investments in intangible assets signal accountability and commitment to a retail strategy (Hannan and Freeman 1984) and allow ventures to form of knowledge about customers, suppliers, and creditors (Thornhill and Amit 2003). Early-stage investments in intangible assets help to establish branding advantages (Kumar and Leone 1988) by developing a unique cognitive niche among local customers (Roper and Parker 2006), increasing cognitive footprints to facilitate customer purchase decisions (Jara and Cliquet 2012), and thereby building, developing, and sustaining customer relationships (Swoboda et al. 2007). They also help capture customer attention to realize higher share in local markets (Clarke, Horita, and MacKaness 2000; Tarnovskaya, Elg, and Burt 2008).

Relative to new retail ventures that have limited path dependent advantages in developing intangible assets, established retailers are better able to leverage tangible assets to a greater extent (Kaplan and Norton 2004) and improve market power (Caves and Murphy 1976). By separating the survival odds of large and small firms, in a sample of 339 Canadian bankruptcies (with 132 wholesale and retail firms), Thornhill and Amit (2003) found that younger firms with "greater breadth and depth of knowledge about customers, suppliers, competitors" (p. 500)