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# **RETAIL STRATEGY, ITS ANTECEDENTS AND RELATIONSHIP WITH PHARMACY PERFORMANCE**

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## **ABSTRACT**

This paper reports findings in the Australian Pharmacy Industry and results suggest that retail strategy has a significant impact on the non-prescription performance of pharmacies. Moreover, a pharmacy's abilities in the form of organisational resources and capabilities (market orientation and employee orientation) are important antecedents to the development of their retail strategy.

## **INTRODUCTION**

The growing intensity of competition from non-pharmacy retailers in the non-prescription sector of pharmacy operations has attracted increasing attention and pharmacist concern. Retail pharmacy is a dual market industry that combines retailing services with professional services (Hindle and Cutting, 2002). Consequently, pharmacists require a superior understanding of their retail service offer and need to adapt it according to the changing retail environment. Anecdotally, it has been suggested that pharmacists need to enhance their retail management skills in order to compete with an increasing number of non-pharmacy retailers. Academic research has been somewhat slow to investigate this issue, which has prompted our academic attention. We propose that developing a retail strategy capitalising on the pharmacy's organisational resources and capabilities is one option for improving performance. Finally, the paper aims to explore the relationship between retail strategy and pharmacy performance. However, this relationship is not expected to operate in a vacuum, hence critical organisational antecedent, namely; resources and capabilities and their influence on retail strategy is explored.

## **LITERATURE REVIEW**

Vorhies (1998) defines organisational performance as a multidimensional construct that taps into financial, operational and customer related performance domains. In contrast, Bharadwaj, Varadarajan and Fahey (1993) proposed that superior organisational performance occurs from the firm's ability to seek a defensible competitive position in the industry. Similarly, this superiority in performance is the result of a value creating strategy that is difficult to imitate by competitors (Barney, 1991). We postulate that the degree to which pharmacies undertake retail strategies may be an appropriate explanation for variations in pharmacies' non-prescription performance. If pharmacies adopt a retail strategy, they will seek to establish positions of difference through such things as merchandise assortment, store design, in-store promotions (i.e. loyalty programs) and customer service levels. This action forms the basis for differentiation and therefore may have a positive impact on performance.

Strategy is defined as planning for a goal or allocating resources among business units to attain or determine long-term goals and objectives of an organisation (Robins and Barnwell, 1998). Based on this perspective, a body of literature has arisen, termed retail strategy, and also referred to as retail offer or retail marketing mix (Reid, 1980; Bloemer and Ruyter, 1998). Retail strategy has been conceptualised as four functional dimensions, namely; merchandise, trading format, customer communication and customer service (Walters and Knee, 1989; Helman and de Chernatony, 1999; McGoldrick and Ho 1992). Other Studies (Baker, Grewal and Parasuraman, 1994; Hilderbrandt, 1988; Joyce and Lambert, 1996; Lindquist, 1974) have researched consumers' image perceptions of retailers and while not conceptualising the above four dimensions, the items they test have considerable similarity to Walters and Knee's (1989) conceptualisation. In extending the retail strategy concept to non-traditional retailers, the aforementioned functional areas are discussed in a retail pharmacy context. A pharmacy's merchandise including non-prescription items both in terms of depth and breadth of range, pricing and quality, which are the tangible products, displayed to the consumer, represents the core of a pharmacy's non-prescription business. The trading format of a retail pharmacy refers to its store location, store layout and store atmosphere. Customer service incorporates the pharmacists' and their assistants' degree of professionalism and levels of personal service and added service elements such as photo processing. Customer communications refers to the in-store promotion of products and services offered by the pharmacy as well as other communication mediums employed. Hence we

hypothesise that: *Hypothesis 1: Retail strategy is positively related to the organisational performance of firms in the pharmacy industry*

It is acknowledged that it is highly unlikely that pharmacies will achieve superior performance by merely improving the degree to which they adopt retail strategies. In this capacity, a pharmacy's innate abilities, which are represented by organisational antecedents such as organisational resources and capabilities can provide a focus for developing the retail strategy and may be a source of superior performance and competitive advantage. Organisational resources are conceptualised to include a combination of trading, relational and skill resources. Trading resources within the context of pharmacies include, the pharmacy location, ability to operate efficiently and minimise costs are important factors in developing the retail strategy. Additionally, relational resources (Hermel and Bartoli, 2001) such as relationships with suppliers and other medical practitioners, such as general practitioners (Pioch and Schmidt, 2001), are important to the retail strategy of pharmacies. This is because firstly, it is vital that there are sufficient levels of stock in each merchandise category, since meeting customer demand efficiently is a pre-requisite to providing quality customer service (Farris and Schopflocher, 1999). Moreover, good relationships with general practitioners may be beneficial to pharmacists since it may increase store traffic to the pharmacy. Furthermore, the skills and competencies of the staff are proposed to be crucial for a pharmacy to develop their retail strategy. This is because the delivery of quality customer service is said to be a core dimension for enhancing performance (Meller and Mann, 2001, Pioch and Schmidt, 2001). Hence we hypothesise that: *Hypothesis 2: Organisational resources are positively related to the retail strategy of firms in the pharmacy industry*

The marketing concept, with the view that customer needs should drive the firm's strategies, is seen as the foundation of market orientation (Kohli and Joworski, 1990; Narver and Slater, 1990). A review of existing literature suggests a lack of empirical studies addressing the relationship between market orientation and performance in the health care industry (Kumar, Subramaniam and Yauger, 1998), and more specifically in a retail pharmacy environment. Although, pharmacies are customer driven, they may need to assess or develop this culture further and develop the retail strategy accordingly. An orientation towards the market may enable pharmacies to develop the four dimensions of the retail strategy in line with customers' needs, competitors' strategies and share this information within the pharmacy. This may lead to enhanced pharmacy performance. Employee orientation is concerned with an organisation's commitment towards developing their human resources (Lam and White, 1998: 353). Previous studies have predominantly focused on the influence of superior human resource management on performance (Becker and Gehart, 1996; Huselid, Jackson, Schuler, 1997; Lam and White, 1998; Mavondo, 1999, Meller and Mann, 2001). Empirical research examining the association between employee orientation and the retail strategy is scarce. Additionally, competent and motivated staff are important to retailers. Pharmacy staff are representatives of the pharmacy's image and can directly influence the delivery of quality customer service and enhance the overall store environment. This assists in the development of the retail strategy and may lead to enhanced pharmacy performance. As a result of this gap in the literature, the present research aims to empirically examine the association between employee orientation and retail offer. In summary, organisational capabilities are expected to impact on the development of a pharmacy's retail strategy. We propose that such capabilities are the foundation upon which the retail strategy is based. Hence, we hypothesise that: *Hypothesis 3: Organisational capabilities (market orientation and employee orientation) are positively related to the retail strategy of firms in the pharmacy industry*

## METHODOLOGY

The research design of this study utilised both exploratory and conclusive research. Secondary data and qualitative depth interviews were conducted in the exploratory stage of the research process as a means of providing deeper insight into the relationship between retail strategy and organisational performance, as well as the critical antecedents. Following this, the conclusive stage of the research used a survey technique for the purpose of testing the hypotheses of possible relationships between the variables identified in the conceptual framework. The mail survey was used in this study as it provided respondents with more time to answer questions, which improves the accuracy of the data (Watson, 1999). The key principles advocated by Dillman's (1978) Total Design Method were adopted in this study: minimise the cost for the respondent, maximise the reward for responding and establish trust (Dillman's (1978)). Utilizing the key informant method, respondents were the proprietors of pharmacies in Victoria, Australia. The sampling frame used in the study was provided by the Pharmacy Guild of Australia. The database consisted of 432 randomly selected retail pharmacy proprietors and managers in Victoria. A useable sample of 146 was obtained, yielding a 34% response rate.

The majority of the scales used in this study were based on existing literature. The original measures for retail strategy were modified to suit the retail pharmacy context. All the key constructs were measured on a seven point Likert-type, ranging from (1) 'not at all' to (7) 'to a great extent' (7). Organisational resource measures were adapted from Fritz (1996). Existing measures of Organisational resource measures were adapted from Fritz (1996), market orientation was adapted from Narver and Slater (1990), employee orientation were adapted from Fritz (1996) and Lam and White (1998), retail strategy were based on existing measures from McGoldrick and Ho (1992) and organisational performance were based on Dubelaar et al (2002), Fritz (1996) and Shoham (1996). The reliability of the measurement scales was found to satisfactorily meet Nunally's (1978) recommendation, as the Cronbach  $\alpha$ 's were above 0.7 for all the constructs.

## RESULTS

The aggregate retail strategy construct was entered into a simple regression analysis as a means of evaluating its predictive ability in terms of organisational performance. The results indicate that retail strategy registered a significant F-ratio at  $p < 0.001$  for the overall organisational performance construct, financial performance and strategic performance. It is evident that retail strategy explains a significant proportion of all dependent constructs (15% of financial performance, and 11% of strategic performance). Therefore, retail strategy was found to improve a retailer's financial bottom line in terms of the number and value of non-prescription transactions, gross margin, ROI and ROA. In regards to strategic performance, retail strategy has a positive influence on the achievement of strategic objectives, target customer satisfaction and the pharmacies overall performance. The relationship between organisational resources and the retail strategy was also examined using multiple regression analysis. Organisational resources registered a significant F-ratio at  $p < 0.001$  for the overall retail offer constructs. Similarly, it was found that organisational resources recorded a significant F-ratio at  $p < 0.001$  for Customer Service. Hence organisational resources explain a significant proportion (16%) of customer service in terms of such areas as the levels of customer service and additional service offerings. Organisational resources registered a F-ratio at  $p < 0.01$  for merchandise and trading format and a F-ratio at  $p < 0.5$  for customer communication. This is indicative that organisational resources explain only a small proportion of customer communication. In comparison, it explains a larger proportion of merchandise (6%) and trading format (8%). The market orientation constructs registered a significant ( $p < 0.001$ ) F-ratio for the aggregate retail strategy construct, trading format, customer service and customer communication. However, the F-ratio for merchandise, was only slightly less significant. The  $R^2$  value is suggestive that market orientation explains 21% of retail strategy overall, 15% of the variance of customer communication, 13% of the variance in trading format, 10% of customer service and 6% of merchandise. Additionally, employee orientation indicated a significant ( $p < 0.001$ ) F-ratio for customer service. The  $R^2$  suggests that employee orientation is greatest in relation to customer service. The reason being that 16% of variation in customer service is explained by employee orientation. Employee orientation was also found to have a significant ( $p < 0.01$ ) F-ratio for retail strategy overall and trading format explaining 6% respectively.

## DISCUSSION AND CONCLUSION

It has been suggested that pharmacies should improve their retail skills in light of their changing competitive marketplace in order to remain competitive and improve their performance (Skrovan, 2002). We hypothesise that retail strategy would be positively related to the organisational performance of firms within the pharmacy industry. The results discussed in the preceding section support Hypothesis 1. Hence, pharmacy managers should invest resources into retail strategy beyond the traditional professional service they offer. The professional service aspect of the pharmacy has encouraged a customer service focus in pharmacy retail offers. We hypothesised that organisational resources and capabilities would be positively related to the retail strategy of firms within the pharmacy industry. By investigating organisational resources, market orientation and employee orientation the results were found to support Hypothesis 2 and 3. Pharmacies that invest more in their organisational resources, and have a market and employee orientation will be more likely to outperform pharmacies who invest less in these areas. The results suggest that market orientation was the most significant of the two capabilities investigated in positively influencing retail strategy. One possible explanation for this is that through market sensing activities pharmacies can more accurately match their retail offer to the needs and wants of consumers and identify areas relative to their competitors in which they can be superior and different and therefore create greater customer value. While employee orientation was found to have a significant positive relationship with retail strategy and its dimensions its greatest impact was found to be on customer service. When pharmacies are committed to developing their employees, it is logical that the result is enhanced customer service. In summary, in an effort to enhance their non-prescription

performance pharmacies need to focus on their resources and capabilities to improve their retail strategy, which will guide the pharmacy's growth. While the context of this paper is the Australian pharmacy sector it is expected that, with some adaptation, the conceptual framework and operationalisation would be applicable to a number of other non-traditional retail sectors in the future.

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