Neighborhood retailing and local competitive advantage: the mediating role of residents' quality of life perceptions

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Cite as:
Sarcinelli Arthur, BRANDAO MARCELO, Botelho Delane (2023), Neighborhood retailing and local competitive advantage: the mediating role of residents' quality of life perceptions. *Proceedings of the European Marketing Academy*, 52nd, (113936)

Paper from the 52nd Annual EMAC Conference, Odense/Denmark, May 23-26, 2023

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ABSTRACT

Traditional retail models face a need for adaptation arising from constant technological innovations applied to the retail market, adverse macroeconomic events on a global scale, and changes in consumer behavior. Therefore, it is argued that the increase in the attractiveness of a brick-and-mortar retail agglomeration results from the application of well-designed services focused on improving the perceived quality of life of their locality. Results from a survey applied with customers and residents of Brazilian neighborhood street retail clusters indicate that quality of life is a mechanism that best explains the impact of service delivery on conglomerate competitive advantage, meaning that quality of life positively and directly mediates the relationship between service strategies and competitive advantage.

Keywords: ***Quality of Life. Services Strategies. Regional Competitive Advantage.***

Track: ***Retailing & Omni-Channel Management***

1 Introduction

The retail industry is at an inflection point stage, where the occurrence of several macro environmental changes in short intervals (e.g., Brexit Event, COVID-19 pandemic, and refugee crisis) causes drastic changes in consumption patterns and puts pressure on retailers to reshape their operations for the not-too-distant future (Oracle Retail, 2021). In addition, increasing number of physical stores closed and declining footfall levels raise concerns about how brick-and-mortar retailers can ensure the survival of their businesses (PwC, 2022). We argue that economic recovery strategies of high street retail conglomerates for the near future will be successful if there is a concern to build a regional image focused not only on a good shopping destination, but also as a good place to work and live. Therefore, the main objective of this study is to elucidate the role of quality-of-life perceptions (QoL) as a mechanism explaining the relationship between retail conglomerates' service strategies and regional competitive advantage.

Consumers are increasingly demanding about the quality of the shopping experience and its impact on the local community: 59% of UK consumers wants to support their local street retailers (RWRC, 2021) while US consumers are preferring to visit open-air shopping destinations more often given their greater proximity to home, convenient access, and select assortment of essential services (Deloitte, 2022). These data show that consumers in different countries are increasing their consideration for non-monetary and well-being enhancing factors when choosing their shopping destination. Therefore, it becomes necessary that the street retail environment be seen not only as an option for consumption of products and services, but also as a revitalized and attractive environment to serve the community via leisure options, cultural events, and a place to socialize.

Evidenced the importance of high street retail and its need to upgrade to better serve regional demands of local people, we advocate that perceived quality of life is an integral part in the transformation process of retail conglomerates. Quality of life can be understood as how each individual evaluates his satisfaction with the outcome of important experiences in his life, a multidimensional concept that encompasses others such as well-being and happiness (Hu, Li, Liu, and Chen, 2022).

Consumption situations can be considered important life experiences (e.g., choosing an engagement ring, outfit for a major job interview, travel package to the dream vacation destination), as well as service provision to the individual (e.g., early detection of a serious disease, obtaining a loan for starting a business, high school graduation) and the community

(e.g., neighborhood watch, cleaning taskforce), indicating that the whole service experience added to the situation is determinant for sustaining feelings of happiness and well-being for the individual or community using the service.

The current literature indicates that increasing regional competitive advantage can be a consequence of public policies (Glaeser and Gottlieb, 2009) or the implementation of transformative services (Anderson et al., 2013), and both viewpoints converge on the notion that perceived quality of life is an important factor in the attractiveness of an urban business region (Anderson and Ostrom, 2015; Glaeser, 2011). However, quality-of-life is seen as an outcome rather than an intermediary in the regional competitive advantage augmentation (Russell-Bennett et al., 2019). Since the influence of retail cluster's positive and negative branding effects with their own city's brand is bilateral in nature (Alexander et al., 2020), our main contribution to the literature is the proposition that quality-of-life acts as a mechanism in enhancing prosocial and profitable services in aiding retail conglomerate's attractiveness.

2 Hypotheses development

The main premise of this paper is related to the enhancement of local regional competitiveness via the planning and implementation of good service strategies, meaning that the mix of services provided by a retail cluster contributes to improve the attractiveness of the region where it is located (e.g., a street, a neighborhood, etc.), making it objectively more attractive as a tourist, commercial or residential destination than the nearby surroundings.

Understanding that the service strategies variable consists of the effort put into developing and maintaining a complex service system that has a service delivery consistent with the company's value proposition across all points of contact during the service journey (Patrício *et al.*, 2011), it is imperative that the service elements (i.e., aesthetics, atmosphere, and service design) are orchestrated with a focus on consistency (Bolton *et al.*, 2018).

The aesthetic element refers to the influence of sensory stimuli on consumers' understanding and exploration of the service environment (Kumar, Purani, and Sahadev, 2017), whereas the store atmosphere is synonymous with the servicescape (Turley and Milliman, 2000). In addition, service design is conceptualized as an iterative, person-centered approach to creating new services and holistic services experiences between retailers and customers (Ostrom *et al.*, 2010). Consequently, the interaction between the subdimensions of service offerings of a high-street retail conglomerate interfere with the attractiveness of the location by increasing the competitiveness of the shopping hub via patronizing behaviors (Alexander et al., 2020).

Therefore, we expect that there is a directly proportional relationship between service strategies and regional competitive advantage of retail clusters, meaning that an improvement in the strategies employed (i.e., either by increasing the number of strategies or by improving the quality-of-service elements) directly and positively interferes with the level of competitive advantage of the locality. From an economic perspective, retail conglomerates that develop better service strategies are more likely to be seen as an ideal shopping destination by consumers, a good place to work from an employee's perspective, and a good investment opportunity by entrepreneurs. Thus, the first hypothesis is formulated:

H1: Services strategies positively influences competitive advantage.

However, the economic point of view alone is not sufficient to explain why a retail conglomerate is attractive to various stakeholders. The transformative service paradigm contributes to a deeper understanding of the reasons for the attractiveness of a retail cluster by elucidating that we are surrounded by services daily and these services can generate drastic changes in the well-being of individuals, communities, regions, and nations affected by the service (Anderson and Ostrom, 2015). Service has a transformative potential when it does not have a strictly economic focus, but rather on improving quality of life by providing access to quality services, the option to choose from a range of service providers, alleviate suffering, and foster happiness for individuals and communities (Fisk et al., 2018).

Understanding that the well-being goal of transformative services is part of a construct encompassing physical, psychological, financial and social aspects contained within the complex concept of quality of life, it becomes more salient to investigate the impact of transformative service initiatives in altering individuals' perceived quality of life through different kinds of well-being (Russell–Bennett *et al.*, 2020).

We postulate that a proactive stance by the retail conglomerate in developing a range of services attractive to the local community can be beneficial in fostering social well-being, as service strategies consistent with a customized value proposition (e.g. set of small independent essential service stores located in a suburban street) contribute to the revitalization of a street retail environment once seen only as commercial and now seen as a lively locality belonging to the urban center, adding leisure activities, socializing and cultural events as a way to associate the retail conglomerate region as a "third place", an environment that attracts people seeking to improve their well-being through social interactions, emotional support, and even contemplation (Rosenbaum et al., 2017). From a social point of view, retail conglomerates that develop better service strategies improve the welfare of individuals involved with service delivery (e.g., consumers and employees) and generate greater social

impact in the region where they are located, increasing the standard of living and perceptions of local quality of life.

H2: Services strategies positively influences quality of life perceptions.

Moreover, quality of life itself interferes with the level of competitiveness of a commercial region (Wong, 2001). Given that quality of life is related to an extensive range of human experiences linked to an idiosyncratic perception of well-being (Russell–Bennett *et al.*, 2020), a direct result of improved perception of quality of life is increased regional competitive advantage, since a location that provides greater happiness and better feelings of well-being fosters economic development by attracting more companies and financial investments (Wong, 2001), skilled labor (Winters, 2014), real estate speculation (Morris, 2019), and increased tourism development (Hu et al., 2022).

H3: Quality of life perceptions positively influences competitive advantage.

However, we speculate that quality of life has an additional function in the phenomenon of retail conglomerates attractiveness levels. The location of the retail conglomerate is crucial for optimizing customer traffic and potential sales, bringing positive economic improvements (e.g., real estate speculation and an increase in job offers) and decreasing negative effects on the locality (e.g., traffic improvement and crime reduction). In addition, the provision of services with a focus on local development positively impacts the perceived well-being of employees, residents, and customers (Boenigk *et al.*, 2021). Therefore, the transformative power of services through atmospherics and well-designed services enhances local QoL and consequently positive spillover effects for the attractiveness of the urban place, meaning that the quality of life perceived by individuals acts as a mechanism in the effort of service strategies to augment regional competitiveness levels.

H4: the influence of services strategies on retail conglomerate's competitive advantage is potentialized by quality-of-life perceptions.

3 Method

A cross-sectional correlational study was conducted to investigate the mediating role of quality of life in the relationship between services strategies and regional competitive advantage. Data were collected through an online self-administered questionnaire. Participants were recruited through a consumer online panel from Brazilian universities and a customer email database provided by local retailers' associations. We used the following criteria to select valid respondents: Must be a client of local brick-and-mortar retail agglomeration and reside in this neighborhood for at least 12 months.

The questionnaire comprised three major constructs: Service Strategies (SS) as a higher-order construct composed of Retail Service Quality (RSQ), Tenant Mix (TMIX), Atmospherics (ATM), and Product Assortment (PA); Quality of Life (QoL) also as a higher-order construct consisting of Customer Service Well-Being (CSWB), Financial Well-Being (FWB), Subjective Well-Being (PWB), and Environmental Well-Being (EWB); Patronage Intention (PI) as a proxy for regional competitive advantage.

The disjoint two-stage approach (Sarstedt *et al.*, 2019) was utilized to assess the higher-order constructs. Therefore, the subdimensions of SS were analyzed as follows: RSQ was assessed with 28 itens extracted from Dabholkar *et al.* (1996), TMIX was measured with five itens adapted from Teller and Elms (2010), PA measurement was done with six itens from Bauer *et al.* (2012), and store atmospherics assessed with eight itens adapted from Teller and Elms (2010). In addition, quality of life was measured indirectly according to the following subdimensions of well-being: CSWB consisted of sixteen itens adapted from Falter and Hadwich (2020), FWB as a seven-item scale from Ponchio *et al.* (2019), SWB was measured using 12 itens adapted from Warr (1990), and EWB as a six-item scale from Summers *et al.* (2016). PI was measured using a four-item scale adapted from Mehta *et al.* (2013).

In addition to theoretical constructs, respondents were asked about their purchases at the retail agglomeration (i.e., purchase frequency, type of products purchased, average amount spent, and their interaction with shopkeepers, employees and other clients), their neighborhood (i.e., name of the locality, distance to the retail agglomeration, and time living in their current residence), and sociodemographic question (i.e., age, level of education, gender, and average monthly family income). Data analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM) technique following Becker *et al.* (2022) guidelines.

4 Results

Data collection took place during August 2022, totaling 223 valid responses. The sample is characterized by individuals in the age range between 18 and 72 (M_{age} = 39.19; SD_{age} = 13.51) and with most women (N_{women} = 131; 58.74%) that live near their local brick-and-mortar retail agglomeration ($M_{distance}$ = 1.89; Median = 1; $SD_{distance}$ = 1.31; 75% percentile = 3.0) and are frequent shoppers ($N_{once\ per\ week}$ = 116; 52.01%) that spent a substantial amount per shopping trip (Mean = R$253.28; Median= R$100; SD = R$487.01; 75% percentile = R$200.00) with a focus on purchasing essential goods ($N_{essential\ goods}$ = 129, 57.84%; N_{non-}

$_{essential\ goods}$ = 11, 4.93%; N_{both} = 78, 34.97%). In addition, most of the sample are long-time residents of their current neighborhood (Mean = 15.42 years; Median = 12 years; SD = 13.86 years; 25% percentile = 3 years; 75% percentile = 24 years), with an average monthly family income of over 4000 BRL ($N_{4000\text{-}8000BRL}$ = 59, 26.45%; $N_{8000\text{-}16000BRL}$ = 56, 25.11%) and are mildly interactive with other customers (M= 4.40; SD = 2.04) but more interactive with shopkeepers (M= 5.04; SD = 1.84) and employees (M= 5.40; SD = 1.73; Median = 6). Therefore, it is possible to infer that the Brazilian consumer has a close relationship with his local retailer.

Results from Harman's single factor test indicated an explained variance of 31.69%, a value below the 50% threshold recommended by the literature and indicative that the cross-sectional application of the questionnaire did not inflate the relationship between the constructs (Podsakoff et al., 2003).

Measurement model analysis indicated that the theoretical model has satisfactory reliability indices (i.e., Cronbach's alpha and composite reliability over .80 for all constructs, as well as indicators with relevant and significant weights), convergent validity (i.e., AVE >.50 for all constructs) and discriminant validity (i.e., HTMT values below .85 for all pairwise construct relationships) for both lower and higher order latent variables, in line with current guidelines in the PLS-SEM literature (Sarstedt *et al.*, 2019; Becker *et al.*, 2022).

The path coefficient analysis was implemented via bootstrapping procedure with 5000 subsamples. Services strategies positively and significantly influence the patronage intention of local consumers ($\beta_{SS\rightarrow PI}$ = .231; 95% CI [.003,.436]), that is, the service mix of both the individual retailer and the conglomerate itself directly impacts local competitive advantage through an increase in residents' intention to be recurring customers, supporting hypothesis H1. In addition, SS positively impacts the perceived quality of life of the locality ($_{\beta SS\rightarrow QoL}$ = .737; 95% CI [.666,.810]) and QoL has a direct, positive and significant influence on PI ($_{\beta QoL\rightarrow PI}$ = .364; 95% CI [.183,.555]). Therefore, hypotheses H2 and H3 are corroborated since an improvement in service delivery increases the perception of high quality of life of the location and this also enhances the competitive advantage of the region in which the retail conglomerate is located.

Mediation analysis indicates that the indirect effect is positive and significant (ab = .268; 95% CI [.136,.420]), larger than the direct effect (i.e., c' = $\beta_{SS\rightarrow PI}$), and accounts for about 53% of the total effect (c = .499; 95% CI [.363;.626]). Therefore, quality of life is a mechanism that best explains the relationship between SS and PI, supporting hypothesis H4.

The structural model analysis highlighted that the empirical model has satisfactory predictive power over the endogenous latent variables (R^2_{QoL} = .541; R^2_{PI} = .301), while the use of the PLS_Predict algorithm demonstrated that this predictive power is independent of a specific sample (i.e., Q^2 values over .07 and PLS-SEM's RMSE values lower than the benchmark general linear model for all indicators; Shmueli et al., 2019).

5 Conclusions

The purpose of this research is to elucidate the mediating role of resident's quality of life perceptions in the relationship between local retailers' service strategies and strengthening the competitive advantage of the retail conglomerate region. The analysis of the survey data indicates that retail agglomerations focused on improving the quality and variety of their service offerings have a direct impact on increasing the attractiveness of the retail center, as well as an indirect impact through improvements in perceived quality of life, making the region objectively better than the neighborhood from an economic, social, and community perspective. Therefore, QoL is an important variable in understanding the phenomenon of revitalization and attractiveness of street retailing, since it acts as a mechanism in the relationship between service strategies and regional competitive advantage.

However, there are limitations of the survey that may affect the generalizability of the results: Although the sample has a high level of education (i.e., about 52% of the sample has a postgraduate degree), it is uncertain what the degree of technical knowledge about retail management is, as well as the non-inclusion of questions about natural amenities in the questionnaire and the categorical, self-reported measurement of purchase frequency. Thus, opportunities for future studies lie in testing the hypothesis of mediation moderated by the type of amenity present in the retail region and applying a causal study to gauge the theoretical relationships proposed (e.g., field experiment with consumers to gauge the extent to which transformative service tactics impact a greater intention to revisit or reside in the location).

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