Best practice relationship with service quality in a home entertainment franchised system

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ABSTRACT

Complementing the service vision in organisations leads to the development of best practice initiatives, often adopted by innovative firms in competitive industries and environments. Such initiatives are regarded as pivotal for survival and achieving competitive advantage (Porter 1998). The Video Software Dealers Association of America (VSDA) 2001) described best practice in the home entertainment industry, as identified by Arthur Andersen Business consultants. This covered wideranging aspects, including understanding customers and markets, developing vision and strategy, refining store product offerings, implementing the marketing plan, creating promotions and in-store merchandising and clear in-store operations. Customer service findings included that best customer service is one-to-one, and that strong relationships and loyalty are developed between staff and customers through consistency of management and staff and by personalising customer service. The study evaluates the best practice relationship with service quality (SERVQUAL), using descriptive and inferential statistics. The techniques include Surveypro, SPSS, Kruskal-Wallis, and Cronbach's alpha as a reliability measure. We accept the hypothesis that best practice initiatives are positively associated with service quality. Recommendations for implementation are suggested, together with future research alternatives.

INTRODUCTION

The aim of this paper is to evaluate the relationship between best practice and service quality in a franchised home entertainment system. Best practices are systematic interventions that may be successfully demonstrated, whereas service quality is regarded as a major enhancer driving optimal business performance. This paper correlates these two concepts in a prominent franchised home entertainment system on the African continent.

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The purpose of the study is to empirically examine the proposition of the congruence of best practice and service quality, taking cognisance of the perceptions of franchisees in the defined system. The Video Software Dealers Association of America study is integrated in a southern African context, and service quality literature using SERVQUAL analysis is adapted for the study at hand. Use is made of descriptive and inferential statistics, highlighting the association between best practice and service quality items. Implementation includes recommended initiatives to enhance service quality in similar systems.

BEST PRACTICE

Jarrar & Zairi (2000) identify best practices as those that have been shown to produce superior results; have been selected by a systematic process; and are judged as exemplary, good or successfully demonstrated. They portray the effective transfer of best practice, from searching, evaluating, validating, implementing (transferring and enabling), reviewing to routinising. Transfer involves identifying and learning from best practices and applying them in a new configuration or venue (O'Dell & Grayson 1997). In their empirical study of internal transfer of best practice for performance excellence, Jarrar & Zairi (2000) indicate a wide spread of benchmarking applications across geographical and sectoral borders. It is the intention to adapt an international best practice study (customer satisfaction) into the context of a South African franchised home entertainment organisation.

Zairi (2000) empirically investigated the management of customer satisfaction from a best practice perspective, postulating that organisations need to see the process as a long-term pursuit of improvement – a culture change that can yield competitive outcomes of the highest order. Achieving and maintaining an effective customer-focused culture requires (Zairi 2000) getting closer to customers and having a feel for their future needs; promoting feedback on how well the organisation is performing from the customer's perspective; being aware of new introductions and innovations to satisfy future customer requirements; identifying organisational strengths and weaknesses from a competitive perspective and gauging employee performance and the most appropriate reward and recognition systems.

An audit tool, aimed at specifically measuring loyalty and retention, was developed by Blazey (1997). For instance, the tool analyses the measurement aspects of customer satisfaction; the quality of information and data used; and the external orientation aspects of focusing on customer satisfaction and the decision-making process itself. This audit tool was adapted for implementation of questionnaire design in this study. Zairi (2000) further provides thoughts on customer focus on a best practice perspective. Such initiatives include having a clear service strategy that is deployed with vision, purpose and objectives; key drivers based on best practice, including market dynamics, competition and environmental factors; creating clear

and open dialogue with customers; and monitoring customer satisfaction, loyalty, service quality and retention. These initiatives were used as complementary bases upon which best practice items were developed in the questionnaire.

HOME ENTERTAINMENT INDUSTRY BEST PRACTICE

The Video Software Dealers Association of America retained Arthur Andersen Business Consultants to identify best practices among the top-performing independent home entertainment retailers in a study conducted in 2000 (VSDA 2001). The report is formatted with a table of contents so that retailers may readily locate specific information. On-site interviews were conducted with the owners/operators of the most profitable independent retailers across five geographically dispersed market areas (based on benchmarking results): upstate New York; southwest Florida; central Ohio; Kansas City, Missouri; and San Francisco, California. The retailers represented a wide range of operations:

- Revenue: \$100 000 to \$1 200 000 per annum
- Competitive situation: no competition to ultra competitive
- Number of stores: one to multiple store locations
- VHS and DVD purchases: no revenue-sharing to revenue-sharing
- Location: small town to urban locations
- Product offerings: DVD, VHS and related consumables and services
- Adult entertainment: no adult to significant adult offerings.

The above dimensions are applicable to the current research project. The VSDA (2001) project is complemented by the findings of a customer satisfaction study conducted on a leading home entertainment retailer in South Africa (Maritz 2002, 2003a, 2003b). VSDA (2001) identified seven core areas of best practice, with corresponding recommendations for implementation. These core findings are incorporated to develop sub-items in the best practice constructs, represented in questions 69–78 in Table 3.

Best practice one: Understand markets and customers

Finding 1: To understand changes in your business, continually evaluate your markets and customers.

By continually evaluating your market and customers, you allow yourself to refine your product offerings and services to meet the changing needs of your customers and assist in more effectively marketing to your existing customers and potential customers. The most profitable participants keep in touch by using the following methods: trade journals, customer research, survey cards, mystery shoppers and employee feedback sessions.

Finding 2: Customers want an enjoyable and convenient shopping experience.

Customers now want and expect in-stock movies. They know that they can find the movie they want at other locations. They expect both new releases and library/ catalogue titles to be in stock. Customers also want and expect personal customer service. They want to be greeted by staff and appreciated for their business. Knowledgeable sales staff make a difference to customers. Convenience in customers' minds goes well beyond having a convenient location. It is defined in terms of instock movies, hours of operation, drop boxes and rental terms. To give customers an enjoyable, convenient in-store experience, consider your store's visual impact. Make sure it is clean with well-kept surroundings. Your product lines should be organised according to a logical, easy-to-follow layout.

Finding 3: Have rental terms that focus on customer expectations.

Clearly define your rental terms and policies for customers and staff. Measure and understand changes in rental terms. The most profitable retailers have developed well thought-out strategies based on their customers' needs and on their competition.

Finding 4: Of the four home entertainment store selection drivers, price is ranked last.

Measure and understand the impact of price changes. The most profitable retailers are not averse to price increases under the right circumstances.

Finding 5: The most profitable home entertainment retailers in this study were price leaders in their markets.

The most profitable retailers interviewed in this survey had well-developed and thought-out pricing strategies for all formats of merchandise based on competition and the economics of their marketplace.

Best practice two: Develop vision and strategy

Finding 1: The most profitable retailers have developed the vision and strategy for their businesses both on a short-term and long-term basis.

This process defines the products and services that will be offered to customers and ensures that they are in line with the business strategy. Each goes through a process,

best characterised as an analysis of strengths, weaknesses, opportunities and threats (SWOT), to evaluate the current and future state of the business.

Finding 2: The most profitable retailers define a mission for their store.

Missions include value, availability, selection and experience related to specialisation in a particular market.

Best practice three: Refine store product offerings

Finding 1: Determine the products and offerings to deliver your mission.

This finding is facilitated by adding products and services to support the mission, eliminating products and services that are adverse to the mission, remaining customer-focused and balancing short- and long-term profitability.

Finding 2: Product and service offerings focus on customer satisfaction through meeting or exceeding expectations. The best stores have changed product purchases over the past couple of years to meet copy depth expectations of consumers.

The goals and current practices used by the most profitable participants to maximise their customer satisfaction are meeting consumer demand for rental product in week one (goal) and meeting total demand on a movie by week two or three (current practice). This may be achieved by revenue-sharing initiatives, or purchasing rates averaged at a minimum of 30% of rental revenue. Interactive gaming practice is to carry the three dominant game platforms: Playstation, Nintendo 64 and X-Box.

Best practice four: Implement marketing plan

Finding 1: Strong focus on community involvement drives awareness and loyalty.

Implementations include point of difference versus national chains, reinforcing activities in-store and focusing on different customer segments, which may include high schools and tertiary institutions (teens), boy scouts/girl scouts (families), performing arts (young adults/families) and chambers of commerce (business).

Finding 2: Direct mail is a cost-effective tool used to drive frequency for two customer groups: active customers and inactive customers.

The most effective offers have been determined and used to market to the appropriate customer groups. For both types, dedicated direct mail pieces as well as random ones are used.

Best practice five: Offer excellent customer service

Finding 1: The best customer service is one-to-one.

Motivate staff to develop one-to-one relationships with your customers. Initiatives include greeting customers upon entering the store, greeting regular customers by name, providing expert advice on movies and reservations for the best customers.

Finding 2: Strong relationships and loyalty are developed between staff and customers through consistency of management and staff.

Many of the most profitable retailers have employees with lengths of service ranging from two to ten years in the store. Many also have generational staffing.

Best practice six: Create promotions and in-store merchandising

Finding 1: The use of customer-driven merchandising brings ease of use and convenience to the rental experience.

Initiatives include new releases on the outer wall sorted alphabetically; library/catalogue sorted alphabetically; DVDs in a separate section sorted alphabetically; interactive games in a separate section sorted alphabetically; adult entertainment in a separate room, sorted by category and alphabetically within each category; and previously viewed titles sorted alphabetically.

Finding 2: A range of in-store promotions programmes have helped maintain loyalty of consumers despite competitive store openings. These programmes help bring a point of differentiation to the in-store experience. Examples include free popcorn and 'happy-hour'.

Finding 3: A pleasing store is important to keeping your customers coming back.

Have consistent appearance of merchandising materials to correspond with your store décor. This includes clear, singular messages per merchandising piece; updating or changing every six to eight weeks; and minimising clutter in the message. All category and pricing signage is professionally produced and consistent throughout the store, with no handwritten signs. The interior of the store should reflect the image that needs to be projected to your customer.

Finding 4: The best stores regularly remodel/update stores to reinforce a strong and positive image to customers.

Implementations include replacing carpets, painting, updating fixtures, exterior signage and category signage.

Best practice seven: Have clear in-store operations

Finding 1: Store operating procedures are clearly documented in an operations manual for consistency of execution by staff.

Procedures include the store opening, cash management, customer service, cash wrap or check out, merchandising, loss prevention, setting the store street date (date of proposed availability of titles in-store), and safety and security. Store hours of operation were found to have consistent opening times of 09:00 or 10:00. Closing times vary, depending on the community, from 22:00 to midnight on Sundays to Thursdays and 23:00 to midnight on Fridays and Saturdays.

Finding 2: Staffing procedures and requirements vary by store depending on volume and location.

Finding 3: Store guidelines have an overall focus of serving the customer.

Findings indicate that customers expect to queue at major outlets, but not at home entertainment outlets. Home entertainment outlets are perceived to be havens of personalised, friendly service every time.

Most of the findings relate to operating processes that can be segmented into five key areas: understand markets and customers, develop vision and strategy, refine products and services, market and sell, and in-store operations. These five key best practice processes have been identified by Arthur Andersen under a process classification scheme, ten steps to success (VSDA 2001). They are operational processes and focus on the 'front of house' that directly impacts the customer experience, including store offerings and customer service. These processes have direct bottom-line impact. The report concludes with a handy checklist of operational best practices for home entertainment retailers. The operational processes are adapted to measure the relationship with service quality in this study.

The practicality of these best practices aligns with literature on the service profit chain (develop vision and strategy), service quality (understanding markets and customers), relationship management (offer excellent customer service), benchmarking (have clear in-store operations) and franchising (clearly documented operations manual). The disciplines depicted in brackets represent alignment of marketing terminology, services marketing and service quality with that of best practice items. Overall, service quality (Zeithaml & Bitner 2003), relationship management (Peck et al. 1999) and best practice/benchmarking (TBE 2004; VSDA 2001) are consolidated to enhance customer satisfaction and loyalty.

SERVICE QUALITY

Service quality management has been considered a major driver in enhancing business performance (Zeithaml & Bitner 2003). In service organisations, customer-

perceived service quality is considered one of the key determinants of business performance (Hung-Chang 2002; Teas 1993; Palmer 2001). Sureshchandar, Rajendran & Anantharaman (2002) empirically investigated the relationship between management's perception of total quality service and customer perceptions of service quality from a best practice perspective. Their results were indicative of total quality service dimensions being good predictors of service quality. Furthermore, the soft issues of total quality services (such as human resources, customer focus, service culture, employee satisfaction, top management commitment, leadership and social responsibility) seem to be more vital than the hard issues (such as customer interaction and customer service) in positively influencing customer-perceived service quality.

Within the best practice framework (TBE 2004), Baldridge National Quality Program (NIST 2004) identifies generic best practice core values and concepts. These include visionary leadership, customer-driven excellence, organisational and personal learning, valuing employees and partners, agility, focusing on the future, managing for innovation, management by fact, social responsibility, focusing on results and creating value and a systems perspective. Many of these core values are represented in allied disciplines, such as entrepreneurial activity (visionary leadership and innovation), service quality and the service profit chain (customer-driven excellence, valuing employees and partners), franchising (systems perspective) and relationship management (social responsibility, organisational and personal learning). Home entertainment industry best practices are specifically identified.

Service quality is often conceptualised as the comparison between service expectations and actual performance perceptions (Zeithaml & Bitner 2003). Emphasis is placed on the combined attitudinal construct of service quality, highlighting constituents of both cognitive and affective components. Parasuraman, Ziethaml & Berry (1998) tend to delineate service quality using more cognitive items, whereas Palmer (2001) found that the affective attitudes exhibited more change under affective means of persuasion than under cognitive means of persuasion. Teas (1993), however, argues that service quality is a combination of transaction and overall attitude.

Research suggests that customers perceive service quality in a multi-dimensional way, based on multiple factors relevant to the context. Zeithaml & Bitner (2003) identify dimensions of reliability, assurance, tangibles, empathy and responsiveness. They further identify the gaps model of service quality. The gaps model provides input into managing the services marketing mix for service quality and setting service standards. The integration of service relationships includes market orientation, loyalty, customer satisfaction, marketing culture, previous experience, internal marketing, future consumer behaviour and culture.

Service quality measurement includes analyses of a number of tools, including SERVQUAL (Parasuraman et al. 1998), SERVPERF (Cronin & Taylor 1992),

EP/NQ model (Teas 1993), Qualitometro (Franceschini & Rossetto 1997), the critical factor approach (Sureshchandar et al. 2002), bank service quality (Bahia & Nantel 2000) and the two-way model (Schvaneveldt et al. 1991). The appropriate measurement tool for this study, however, integrates the service quality dimensions of SERVQUAL.

METHODOLOGY

The research methodology comprised the survey approach, using electronic media and Surveypro analysis. The population consisted of all 162 franchised outlets within the market leader in the South African home entertainment sector. Surveypro methodology included an electronic survey, combined with Internet-aided data compilation and representation. This was facilitated by descriptive and inferential statistical techniques using SPSS data analysis. Inferential significance tests included the ANOVA Kruskal-Wallis hypothesis test, based on the approximation of the chisquare distribution with k-1 degrees of freedom. Internal-consistency reliability is measured by the Cronbach's coefficient alpha, measuring overall inter-item correlation between the identified constructs. The Pearson correlation coefficient was implemented to evaluate association between the best practice and service quality dimensions. Exploratory research, in the form of the literature review and previous empirical studies, was used as background and facilitating data. Best practices for the home entertainment industry were identified, linking theory with practice (VSDA 2001). Service quality is measured using an integration of the SERVQUAL service quality measurement tool. Best practice items are represented in questions 69-78 in Table 3.

EMPIRICAL RESULTS

The final data representation consisted of 93 responses, indicative of an 84.6% response rate. This represents 162 franchised outlets, consisting of 110 franchisees (depicted in Table 1). Seventy-three per cent of respondents were male. Responses from the Western Cape and Gauteng regions predominated. Seventy-two per cent of respondents own only one franchised outlet, indicative of an absence of entrepreneurial orientation.

Industry best practice (BP) is represented in the questionnaire by associated themes within the construct, including understanding customer markets, developing strategy and vision 1 and 2, refining offerings, influencing the marketing plan 1 and 2 and 3, promotion and in-store merchandising, and clear in-store operations 1 and 2. These best practice initiatives are represented as questions 69–78 in Table 3.

Table 1: Response and realisation rates

Region/Province	Franchisees	Outlets	Average outlets per franchisee	Response counts	Response (%)
Western Cape	35	64	1.8	32	91.4
Gauteng	35	46	1.3	27	77.1
Eastern Cape	12	14	1.2	11	91.6
KwaZulu-Natal	7	10	1.4	6	85.7
Limpopo	4	5	1.3	4	80.0
North-West	5	7	1.4	4	80.6
Free State	5	8	1.6	4	80.0
Mpumalanga	4	4	1.0	3	75.0
Northern Cape	3	4	1.3	2	66.7
Total	110	162	1.4	93	84.6

The purpose and objective of the study is to evaluate the association of best practice to service quality using inferential statistics. The hypothesis postulates that:

H₁: Best practice initiatives are positively associated with service quality.

H₀: Best practice initiatives are not positively associated with service quality.

The format of the investigation followed a descriptive and inferential analysis by means of item analysis and the ANOVA Kruskal-Wallis hypothesis test of significance.

BEST PRACTICE DESCRIPTIVE AND INFERENTIAL STATISTICS

Item descriptive statistics are depicted in Table 2. The left hand column identifies the best practice associations of understanding customer markets, developing strategy and vision 1 and 2, refining offerings, influencing the marketing plan 1 and 2 and 3, promotion and in-store merchandising, and clear in-store operations 1 and 2. The descriptive and inferential statistics are used for an analysis on a per item basis. Each of these associations represents sub-items in the best practice construct (questions 69–78 in Table 3). Correlation analysis is used to evaluate associations within the construct, together with associations of service quality.

Construct descriptives are characterised by a mean score of 3.31, representing an overall positive response to the construct questions. Forty-one per cent of construct responses were in the 'agree' scale, indicative of the relative peakedness of the construct distribution (kurtosis of 2.123). The standard deviation for the sample

mean, referred to as the standard error of the mean, is relatively small for the n=93 response rate, which indicates that the average deviation from the mean is relatively stable. Standard deviations are relatively low (with all variables below 1.0), which indicates that the majority of the responses were distributed closely around the mean score. Kurtosis is indicative of a relatively peaked distribution, with variable 75 indicative of substantial peakedness. Excluding variable 75 would result in a construct kurtosis of 1.503, which is more representative of the data set. Sixty per cent of the variables are characteristic of a peaked distribution, while the distribution of 20% of the variables is marginally flatter than a normal distribution.

Table 2: Best practice descriptive statistics

Question	Association	Item mean	Std error of mean	Standard deviation	Kurtosis
69	Understanding customers and markets	3.04	0.092	0.779	0.044
70	Developing strategy and vision 1	2.86	0.103	0.944	-0.578
71	Refining offerings	3.73	0.064	0.668	2.614
72	Implementing the marketing plan 1	4.15	0.075	0.779	2.891
73	Implementing the marketing plan 2	2.36	0.070	0.933	0.391
74	Implementing the marketing plan 3	3.83	0.097	0.673	3.729
75	Promotion and in-store merchandising	4.15	0.081	0.722	7.704
76	Clear in-store operations 1	3.80	0.070	0.616	4.483
77	Clear in-store operations 2	2.85	0.098	0.988	-0.388
78	Developing strategy and vision 2	2.31	0.081	0.884	0.336
	Construct descriptives $n = 93$	3.31	0.083	0.799	2.123

Not all variables are intended to be analysed from a Pearson correlation point of view; all variables are merely listed for the purpose of completing the table. Appropriate correlations are discussed in the per item evaluations. Inter-item reliability is analysed by means of the Cronbach's alpha, with values depicted in Table 3. The table includes the corrected item-total correlation and the alpha if the item is deleted. The Cronbach's alpha reliability coefficient is appropriate for the project at hand (0.7893). Should any item be deleted, the alpha is only marginally affected, confirming the decision to include all variables.

Table 3: Item reliability analyses for best practice themes

Question	Association	Item-scale correlation	Alpha if item deleted	
69	Understanding customers and markets	0.6039	0.7602	
70	Developing strategy and vision 1	0.6179	0.7460	
71	Refining offerings	0.5381	0.7599	
72	Implementing the marketing plan 1	0.3170	0.8149	
73	Implementing the marketing plan 2	0.3806	0.7756	
74	Implementing the marketing plan 3	0.3698	0.7740	
75	Promotion and in-store merchandising	0.4868	0.7856	
76	Clear in-store operations 1	0.5141	0.7547	
77	Clear in-store operations 2	0.4985	0.7589	
78	Developing strategy and vision 2	0.4655	0.7707	
Reliability coefficients 10 items				
Cronbach's alpha for the construct = 0.7893				

Table 3 identifies an appropriate construct Cronbach's alpha of 0.7893 (above the desired 0.7). The distribution is also characterised by appropriate reliability should any item be deleted. Item-scale correlations are also appropriate (above 0.3). An average item-scale correlation of over 0.48 is indicative of the strength of significant association within the construct.

INDUSTRY BEST PRACTICE HIGHLIGHTS

Empirical results highlight the following associations within the defined franchise system. The highlighted results are identified by sub-items, represented as questions 69–78 of Table 3):

- Promotion and in-store merchandising dominate the best practice associations, suggesting the importance of physical evidence tangibles in the service offering (question 75).
- Implementing the marketing plan with regard to community involvement also dominates best practice associations, which is indicative of the link between localised marketing and awareness and loyalty (questions 72–74).
- Clear in-store operations regarding operating procedures are regarded as poorly documented by the majority of franchisees, as is the use of direct mail (questions 76 and 77).

- Best practice initiatives are not adequately communicated within the defined franchise system, implying discontent with overall communication within the system (question 69).
- Developing strategy and vision is regarded as undeveloped, particularly with respect to single outlet franchisees. The implications include lack of long-term business planning, vision and direction (questions 70 and 78).

In conclusion, best practice initiatives were positively related to service quality.

BEST PRACTICE SIGNIFICANCE

The items were analysed, evaluating their associations with inter-construct items and their associations with other constructs. There is now an opportunity to empirically analyse best practice in the light of association with service quality. The applicable null and alternate hypotheses are represented as:

H₁: Best practice initiatives are positively associated with service quality.

H₀: Best practice initiatives are not positively associated with service quality.

The use of the non-parametric ANOVA Kruskal-Wallis significance test is applicable to H_1 (Table 4).

Table 4: Application of non-parametric ANOVA Kruskal-Wallis significance test to H₁

	Test statistic a.b
	Best practice initiatives
Chi-square	4.998
Asymp.Sig	0.172

c. Kruskal-Wallis test

Note: a.b refers to the correlation between best practice and service quality

The presentation of the p-value at 0.172 (greater than 0.05) indicates that the null hypothesis is not unlikely, and the null hypothesis is therefore not rejected. We therefore accept the hypothesis that best practice initiatives are positively associated with service quality. The purpose and objective to demonstrate the relationship between service quality and best practice results in a positive association between the two constructs.

d. Group variable SQ (service quality)

RECOMMENDATIONS AND CONCLUSIONS

It has been shown that industry best practice initiatives enhance service quality. Taking a lead from the studies of the Video Software Dealers Association of America, and in conjunction with the empirical findings of this research report, the recommendations include:

- A best practice and benchmarking guideline should be developed and implemented for franchisees. The themes should include understanding markets and customers, developing vision and strategy, refining outlet offerings, implementing the marketing plan, excellent customer service, creating promotions and in-store merchandising, and clear in-store operations. These guidelines will not take the place of an operations manual but are intended to supplement it.
- The franchise operations manual should be updated, with appropriate training in communication and new initiatives.
- Training and development should be facilitated with respect to business planning at franchisee level.
- Best practice communication and interaction should be linked with service profit chain and relationship marketing initiatives (such as intranet and the internal marketing core competencies matrix).

Best practice initiatives are integrally linked to the relationship marketing, service profit chain and service quality constructs. Overall, a guideline of best practices, communicated formally to franchisees, will go a long way towards enhancing both customer and franchisee satisfaction.

Primary research limitations revolve around the population of the data set, consisting of a study within a defined franchise system. Recommendations for further research include international application within the home entertainment industry coupled with synergies with other related service industries.

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