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Customer orientation, merchandising competencies, and financial performance of small fashion retailers in Bangkok

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Abstract

Purpose – The purpose of this study is to examine customer orientation and fashion merchandising competencies to learn which strategic option has a stronger relationship with retailer financial performance.

Design/methodology/approach – A cross-sectional survey was used to collect self-report data from a random sample of 275 small specialty retailers of women's clothing in Bangkok. Retailers offer similar merchandise assortments and customer services in dense, highly competitive, agglomerative environments. The survey form contained multi-item scales measuring customer orientation, fashion merchandising competencies, and store financial performance. Bivariate correlations, multiple regression coefficients, and hierarchical linear model coefficients describe relationships of interest, controlling for retailer location.

Findings – Results show medium to large effect sizes for several fashion merchandising competencies but no substantive effects for the two customer orientation constructs. Effect sizes depend on whether financial performance is measured subjectively or as retailer return on investment or as probability of retailer survival.

Research limitations/implications – Data are restricted in range and reported effect sizes are smaller than true effect sizes. Data also are influenced by common method variance, influencing reported effect sizes in an opposite direction. Effect sizes may or may not describe causal relationships because of the study's cross-sectional design. Because of the study's setting in Bangkok, results must be extended to similar retail settings with caution. Results indicate that a clustered fashion retailer can improve financial performance by striving for a fashion leadership position, anticipating fashion trends, and offering merchandise assortments in terms of styles and usages. Results indicate that a clustered fashion retailer will have difficulty improving financial performance via customer service and CRM activities.

Originality/value – Few studies in fashion retailing address predictors of financial performance at the individual store level. The authors help fill this knowledge gap by examining relationships between customer service activities, CRM activities, and key merchandising competencies and retailer subjective financial performance, return on investment, and probability of survival. Retailers compete in a spatially confined area, facilitating comparison shopping and heightening rivalries between retailers.

Keywords Fashion industry, Small retailers, Women's clothing, Thailand

Paper type Research paper

Introduction

What is the relationship between customer orientation and financial performance of fashion goods retailers? Is the relationship similar in size to relationships for key

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merchandising competencies? Might customer orientation have an incremental relationship with financial performance beyond relationships for key merchandising competencies? We examine these questions in a previously unstudied research context consisting of spatially distant clusters of speciality stores in Bangkok whose primary offering is women's clothing. Each cluster contains a large number of relatively small stores competing aggressively for patronage among customers who are believed to seek variety and enjoy shopping.

Clusters of retailers selling similar and related merchandise are found in many urban areas around the world (Porter, 1990; Saxenian, 1994). Such clusters are readily apparent in Bangkok. Each cluster contains retailers that sell only one or two product categories such as computers and software, gold and jewellery, wedding apparel, and women's clothing, the latter cluster being the most common. Within each cluster, consumers are offered a wide variety in store choice, convenience in search, and implicit assurances that prices are competitive. Bangkok's clothing clusters range in size from approximately 40 stores to over 400 and in age from less than six months to more than 40 years. Clothing and other clusters of retailers are distinct from Bangkok's shopping malls and open air markets, where distances between direct competitors are greater and the mix of offered product categories is more diverse.

Our interest in relationships between retailer financial performance and customer orientation vs fashion merchandising competencies is based on conceptual considerations and supported by opinions of store owners. From a conceptual viewpoint, we hold that customer orientation may be an effective retailing practice only after a retailer's merchandising competencies are adequately developed. If these competencies are lacking, efforts by a fashion goods retailer to focus on customers' interests may have little or no impact on financial performance. Whatever forms these efforts may take – courteous service, creative problem solving, or attempts to build long-term relationships with valuable customers – these efforts are likely irrelevant to customers if merchandise is out of stock, dated, or poorly promoted.

Our study adds to the quite limited literature on financial performance of small retailers. A review (Runyan and Droge, 2008) of the retailing literature for a 20-year period ending in 2007 found 134 papers focusing on small retailers, only a handful of which addressed financial performance. Our review of the *Journal of Fashion Marketing and Management* since its inception revealed only one study (Moore and Fairhurst, 2003) addressing financial performance of fashion retailers. That study addressed marketing capabilities and firm performance of speciality apparel and footwear retailing chains in the USA. Results showed that image differentiation and promotional capabilities are related to financial performance while customer service (CS) capabilities and market knowledge are not. One other study in the Journal (Marzo-Navarro *et al.*, 2004) addressed the impact of relationship marketing activities on consumer loyalty to boutique fashion retailers in Spain. Results showed that CS provided by sales associates is related to consumer satisfaction with the store which, in turn, is related to consumer loyalty to the store. Left unanswered were relationships between loyalty and individual store revenues and profits. In sum, researchers have paid little attention to relationships between store financial performance and the fashion retailer strategies and actions investigated here.

Store owner opinions, conceptual background, research hypotheses

Opinions of store owners support our interest in the relative relationships of customer orientation and fashion merchandising competencies with financial performance.

Early in our research process, we conducted depth interviews with 15 store owners at two clothing clusters (not among those clusters used for final data collection). The purpose of these interviews was to provide insight into store operations and competitive conditions. Owners were selected at convenience and interviews of about 90 minutes each were conducted and recorded. A formal guide provided consistency across interviews and contained probing and follow-up questions to clarify responses.

Transcripts of interviews described owners' efforts to differentiate themselves from rivals in their respective clusters (especially nearby rivals) and to avoid price competition. Owners described strategies for merchandise selection, stocking and pricing, staffing, financial management, and CS. Owners described high store mortality rates in their clusters and the existence of a list of potential competitors waiting for spaces to be vacated. Of particular interest were owners' responses to questions 11 and 13 on the guide:

> Do you think that building good relationships with customers is important to store performance? Why/why not? What do you think about customer relationship management? Do you have programs for building good relationships with customers? Give examples.
>
> Do you agree that merchandising skills (such as inventory management, merchandise assortment, space allocation, and financial management) influence store performance? If so, please explain.

All owners agreed with the first part of question 11. However, several owners were not familiar with the term "customer relationship management" (CRM) or stated that they had no specific programmes for building customer relationships. All owners agreed with question 13 and gave details about their particular merchandising skills. Several described their CS practices and beliefs.

On the basis of insights from the depth interviews, we position our study in the framework of resource advantage theory (Hunt, 2000). An essential idea of this theory of competition is that innovatively acquired and innovatively managed resources in a firm combine to yield competitive advantage. Examples of resources include capital, land, equipment, skills, knowledge, reputation, supplier relationships, and CRM orientation, all held to be heterogeneous and imperfectly mobile across rivals. Firms use their unique resources to create differentiated offerings having high value to specific customer segments, thus obtaining comparative advantages over competitors. These advantages can lead to long-term competitive advantages and ultimately to superior performance. Resource advantage theory is rarely used in studies of small retailers (Runyan and Droge, 2008) but is especially appropriate here because conditions in our studied clusters closely match stated foundations of the theory (Hunt and Morgan, 1995, p. 3).

Following earlier researchers (Deshpande *et al.*, 1993; Homburg *et al.*, 2011), we define customer orientation as a set of beliefs and practices that places "customers' interests first, while not excluding those of all other stakeholders such as owners, managers, and employees, in order to develop a long-term profitable enterprise" (Deshpande *et al.*, 1993, p. 27). A retailer's focus on these interests should result in satisfied customers, store loyalty, and profits. However, this focus may limit innovation at the firm (for a review see Zhou *et al.*, 2005) and may be effective only when combined with other firm capabilities such as entrepreneurship and organizational learning (Hult and Ketchen, 2001; Matsuno *et al.*, 2002). Such combination with other capabilities is consistent with our examination of customer orientation capabilities along with fashion merchandising competencies. We define fashion merchandising competencies

as the set of knowledge, beliefs, and skills relevant to decisions about retail stock assortments, stock levels, stock displays, stock space allocation, store layout, and store promotions.

We identify three dependent variables that measure retailer financial performance from the perspective of individual store owners. Variables describe performance in terms of owners' subjective assessments of financial performance, store return on investment, and probability of store survival. We recognize two categories of independent variables, fashion merchandising competencies and customer orientation. Following sections briefly summarize literature relevant to these variables and state our research hypotheses.

Dependent variables

Financial performance of a firm often is measured as an objective or numerical "fact", either reported by respondents or acquired from company records. Objective performance measures (such as return on investment or earnings per share) can be difficult to gather because data may not be easily available or respondents may worry about confidentiality. Objective measures also are easy to misinterpret: a store reporting a low return on investment might be seen as poorly performing, when in fact it may be spending heavily on innovative strategies that have not yet reached payback. Subjective measures of performance usually avoid problems of availability and confidentiality and typically are taken as beliefs of key informants (Pelham and Wilson, 1996). Subjective measures in the marketing literature have described return on assets (Narver and Slater, 1990), return on investment (Harris, 2001), and overall firm performance relative to competitors (Jaworski and Kohli, 1993). Subjective measures also are widely used in the retailing literature (e.g. Conant and White, 1999; Moore and Fairhurst, 2003).

An omnibus measure of financial performance is business survival, frequently measured as a subjective probability reported by a key informant. The decision to terminate a business reflects financial performance and additional concepts such as switching costs, profit expectations, capital reserves, and social capital that differ among competitors (Bates, 2005; Gimeno *et al.*, 1997; Kalnins and Chung, 2006). Thus, researchers using survival or its subjective probability to indicate firm performance must be mindful of these other concepts. In general, business survival might be considered an indirect measure of a firm's financial performance, a threshold that stimulates relevant decision makers to consider dissolution.

Independent and control variables

Our independent variable constructs fall into two categories, fashion merchandising competencies and customer orientation, containing three and two variables, respectively. Fashion trend forecasting is the first merchandising competency variable, defined as the retailer's ability to predict identities, popularities, and timings of popular clothing styles. The ability of fashion goods retailers to predict fashion trends is important. A recent study shows that price reductions for out-of-fashion merchandise account for almost 33 per cent of sales and that preseason fashion trend forecasting errors approach 50 per cent (Bruce and Daly, 2006). Many shoppers are conscious of the dated nature of fashion products and avoid buying or using products past their peak. Thus, we hypothesize:

H1. Fashion trend forecasting skills of retailers in clothing clusters are positively related with store financial performance.

Merchandise assortment is the second merchandising competency variable, defined as the clustered retailer's ability to maintain a mix of clothing items in terms of qualities, usage purposes, styles, and prices. Studies have shown that merchandise assortments influence buyers' store choice (Broniarczyk *et al.*, 1998, p. 169), retail patronage (Pan and Zinkhan, 2006), consumption quantities (Broniarczyk, 2008, p. 772), and preferences and purchase decisions (Simonson, 1999). However, in the present research setting, competitors can imitate successful offerings easily, given their nearby locations, and the prominence of displayed products. The number of product quality levels offered influences the likelihood that customers will choose relatively expensive products (Simonson and Tversky, 1992). If desired products are not in stock, many customers will switch stores (Verhoef and Sloot, 2006), even when they face high search costs (Mantrala and Kraft, 2010, p. 48). We focus on two dimensions of merchandise assortment, quality and variety. We hypothesize:

H2. Quality and variety merchandise assortment skills of retailers in clothing clusters are positively related with store financial performance.

Fashion leadership is the third merchandising competency variable, defined as the clustered retailer's ability to occupy a favoured position among rivals in terms of merchandise styles, designs, colours, and fabrics. A fashion leader emerges in a group of competitors because it can sense customer demand and offer the latest fashions before competitors (Czarniawska-Joerges *et al.*, 1996, p. 124). A leader gains high revenues and high profits in early stages of a fashion life cycle by charging early buyers high prices (Slywotzky and Morrison, 1997). In general, a leader tends to perform well financially because consumers are alert to fashion obsolescence and regularly seek variety and innovations (Workman and Johnson, 1993). A leader enjoys enhanced store image and favourable and influential word-of-mouth exchanges about new fashions from early adopters to later adopters (Flynn *et al.*, 1996) and from opinion leaders and heavy users in the product category (Goldsmith, 2002). We hypothesize:

H3. Fashion leadership skills of retailers in clothing clusters are positively related with store financial performance.

Our two customer orientation variables are CS orientation and CRM orientation. We choose to discount a third possible component of customer orientation in the form of a marketing research variable. Such a variable might describe retailer beliefs about conducting investigations into the wants, needs, and satisfactions of targeted customer segments. However, our depth interviews showed no indication that retailers under study performed such investigations, relying instead on close, day-to-day contacts with customers for such information. Further, during the depth interview process, the interviewer observed that almost all retailers under study targeted a single, relatively homogeneous segment of women between the ages of 18 and 35.

We define CS orientation as the clustered retailer's ability to provide courteous support to customers in terms of merchandise-related information, advice, and solutions to problems. Customer service provides fashion retailers with a basis for competition and a way to differentiate themselves from competitors, thus enhancing financial performance (Berry, 1986) and shareholder value (Wiles, 2007).

Customer service is positively associated with retail sales performance (Moore and Fairhurst, 2003) and ultimately should lead to increased store profits. We hypothesize:

H4. CS orientation of retailers in clothing clusters is positively related with store financial performance.

Further, to examine whether or not customer service predicts financial performance after accounting for merchandising competencies, we hypothesize:

H5. CS orientation of retailers in clothing clusters incrementally predicts store financial performance beyond merchandising competencies.

We define CRM orientation as the clustered retailer's ability to establish and maintain long-term relationships with its customers, especially with its most valuable ones. Our definition reflects a customer centric perspective because of the relevancy of this perspective to our retail population of interest. Customer centric CRM focuses on developing personal, profitable, and long-term relationships with key customers to increase organization performance (Payne and Frow, 2005; Krasnikov *et al.*, 2009). CRM can lead to superior firm performance, even with simple, non-technology CRM implementation (Ryals, 2005) and often shows a positive relationship with firm performance (e.g. Payne and Frow, 2005). We hypothesize:

H6. CRM orientation of retailers in clothing clusters is positively related with store financial performance.

To examine whether CRM orientation predicts financial performance after accounting for merchandising competencies, we hypothesize:

H7. CRM orientation of retailers in clothing clusters incrementally predicts store financial performance beyond merchandising competencies.

In sum, all hypotheses are stated as expectations of positive relationships between our independent and dependent variables of interest.

All hypotheses are tested in models that contain store location in the clothing cluster as a control variable. Effects of store location on retail financial performance have been recognized managerially for almost 100 years (Hayward *et al.*, 1922), with foot traffic volume and other variables used to identify preferred locations. However, in contrast to a number of studies focused on building foot traffic, only two studies have addressed the outcomes or effects of foot traffic (Drèze and Hoch, 1998, Perdikaki *et al.*, 2012). Both studies indicated positive relationships between foot traffic and store sales or profits, results supporting the usefulness of foot traffic as a control variable in this study.

Research design

We used a self-report survey of clustered clothing stores in Bangkok to collect data. Store owners were contacted personally and asked to respond to a survey form given to them at their stores. Collected data were analysed to compare whether financial performance of small retailers is explained better by CS orientation and CRM orientation or by skills in fashion trend forecasting, merchandise assortment, and fashion leadership. Details on our research design follow in the next several sections.

Sampling plan and survey questionnaire

We identified women's clothing stores in Bangkok clothing clusters as our population of interest, defining a clothing cluster as a spatially concentrated group of retailers whose major product line is women's clothing and who compete in a common building. A clothing store in these clusters was defined as a speciality store that sells only (or primarily) women's clothing to end consumers. We sampled this population in two stages. Our first-stage sampling frame of 22 clothing clusters was compiled from mass media advertisements, interviews with target customers, and interviews with cluster property managers. Order of clusters in this frame was alphabetical and we used simple random sampling to select ten clusters. Our second-stage frame consisted of maps of store locations and we used systematic sampling to select approximately 30 stores in each cluster.

Based on depth interviews described earlier and our review of the literature, a first draft of the questionnaire was written in English and translated into Thai by a bilingual, native Thai speaker. Two bilingual university lecturers in business then translated the draft back to English. Original and back-translated versions were examined for discrepancies that were resolved during meetings with the translators. A cover page on university letterhead described study purpose as "understanding and improving store performance in Bangkok clothing clusters".

Items measuring merchandising competencies, customer orientation, and subjective assessments of financial performance appeared as Likert scale statements. Responses were given by circling among seven-point response categories anchored by "strongly disagree" and "strongly agree". Items measuring merchandise assortment quality and variety were adapted from a measure of service quality for retail stores (Dabholkar *et al.*, 1996); all other items were developed by the authors based on results of the depth interviews and a review of prescriptive retail management literature. Items measuring return on investment, probability of survival, and the foot traffic control variable asked each store owner to enter a number on a blank placed at the end of each question. A pretest of the form was administered to 16 store owners in two clothing clusters (again, not among the ten clusters chosen for data collection). Based on this feedback and on basic statistical analyses (descriptive statistics, exploratory factor analysis, item-to-total correlations, coefficient α), many items were refined and eight eliminated.

Data collection

Property managers at the ten sampled clothing clusters readily gave permission to collect data from store owners, based on personal and written assurances of the study's academic purpose, confidentiality, and relevancy to store and cluster operations. Many managers offered insights beyond expectation, commenting about conduct and performance of store owners in their clusters and suggesting best days and times to collect data. Managers often supplied maps of store locations, useful in sampling clustered stores.

All but two per cent of contacted store owners agreed to cooperate. If a store owner refused, the closest similar store was selected as a replacement. A small gift and an offer to receive a summary of research results were used as incentives. Cooperating owners were told the academic purpose of the study, promised confidentiality, instructed briefly on how to complete the questionnaire, and asked to give accurate responses. Questionnaires were left with owners, along with requests for completion by the following day. Stores were visited the next day and completed questionnaires scanned for missing and extreme responses. Owners were asked to complete

unanswered questions, explain extreme estimates of store daily foot traffic, and adjust these estimates to more realistic values. Stores were visited on ensuing days until the questionnaire was completed or the owners refused. This procedure resulted in 285 completed questionnaires of the 300 distributed for a 95 per cent response rate.

Data analysis and results

Data from returned questionnaires were entered into an SPSS data file. After an audit of 50 cases for data entry errors, we conducted exploratory and confirmatory factor analyses to develop satisfactory measurements for constructs under study. Measurement analyses (SPSS 17, Amos 17) yielded expected results except for merchandise assortment where results indicated a two- rather than a one-factor solution. We identified the two subscale variables as merchandise assortment quality and merchandise assortment variety, each having two measurement items. Inspection of item communalities, factor loadings, and standardized residuals indicated that reliability of several scales could be improved by deleting six items. Content of these items and the 25 retained items appears in Table I.

Summary statistics for scales in Table II describe satisfactory measurement properties except for merchandise assortment variety, where reliability is slightly below the often noted standard of 0.70. Values for skewness and kurtosis for all scales show no substantial departures from normality. Average values for subjective performance, return on investment, and probability of survival were 24.8, 22.5, and 69.7 per cent, respectively. Minimum and maximum values for these variables in the same order were 5 and 35, −99 and 141, and 0 and 100 per cent. Distributions of values for these variables also showed no substantial departures from normality. However, a check for out of range values indicated six outlier cases for return on investment (more than three standard deviations above the mean) and these stores were removed from further analysis. Four additional cases were removed as outliers in multiple regression analyses described later in this section. Thus, Table II and all following tables are based on analyses of responses from 275 store owners.

Store owners in our study were females between the ages of 20 and 50 (estimated by the interviewer during data collection). In responses to questions at the end of the questionnaire, owners reported a range of retailing experience from two months to more than 30 years. Store sizes ranged from 2 to 80 square metres and monthly rents ranged from $200 to $6,000 (USD). The youngest store was two months old and the oldest was 21 years.

Correlation values in Table III support all hypotheses of bivariate relationships between independent variables and subjective store performance. Values support hypotheses between the merchandising competency variables and return on investment but fail to support *H4* and *H6* for the CS and CRM orientation variables, respectively. Values support hypotheses *H1*, *H2* (merchandise assortment variety only), *H3*, and *H4* for probability of survival. Values in the bottom three rows of Table III presage incremental contributions of the CS and CRM orientation variables in testing *H5* and *H7*. Namely, fashion merchandising competencies are generally more highly correlated with performance measures than are CS and CRM orientations. Also noteworthy in Table III are correlations among the three performance measures, indicating that the measures are not equivalent and represent different aspects of store performance.

Multiple regression analyses

At issue now are abilities of the independent variables to predict store performance in testing *H5* and *H7*. We used multiple regression as our basic analysis method in the

Item ID[b]	Item content (standardized factor loading from confirmatory factor analysis)
FTF1	I can predict new fashion trends with good accuracy (0.79)
FTF2r[c]	I usually buy a small number of each fashion trend rather than try to forecast fashion trends
FTF3[c]	I usually can time my new product introductions just right
FTF4	I usually have a good guess about how long a fashion trend will make a good profit for my store (0.67)
FTF5	I usually can foresee when fashion trends will be declining (0.56)
MAQ1	My store offers clothing products at different price ranges (0.70)
MAQ2	My store offers clothing products of various qualities to customers (0.79)
MAV1	My store offers clothing products for different purposes of usage (0.65)
MAV2	My store provides various fashion styles to customers (0.69)
FL1	My store offers clothing products that are currently in style (0.65)
FL2[c]	My store's products often are copied by other stores
FL3	My store keeps up with current fashions, styles, and colours (0.92)
FL4	My store is a fashion leader at _____ (0.60)
CS1	My customers believe that I know enough about clothing to answer all their questions (0.55)
CS2[c]	I am never too busy to respond to most customer requests
CS3	When a customer has a problem with something they bought from my store, I try extremely hard to solve it (0.69)
CS4	My customers know that when I promise to do something by a certain time, I will do so (0.61)
CS5[c]	My customers can make returns and exchanges very easily
CS6	My customers always are treated very courteously (0.72)
CRM1[c]	At least half of my store's sales come from repeat customers
CRM2	My store tries very hard to build long-term relationships with its good customers (0.51)
CRM3	My store provides extra services to good customers (0.63)
CRM4	I try hard to remember clothing preferences of my good customers (0.72)
CRM5	I almost always can recall what my good customers bought last time (0.72)
FTRAFF	The approximate number of people walking by my store per day is _____ people
SP1	Compared to other stores at _____, my store probably was more profitable in the last year (0.85)
SP2	Compared to other stores at _____, my store probably had higher sales in the last year (0.93)
SP3	Compared to other stores at _____, my store probably had higher sales growth in the last year (0.94)
SP4	Compared to other stores at _____, my store probably had higher ROI in the last year (0.88)
SP5	Compared to other stores at _____, my store probably was more successful in the last year (0.91)
ROI	In the last 12 months, my store had an ROI of about ___ % (e.g. if you invested 100,000 baht in stock, displays, signage, and decorations to begin your store and you made a profit of 14,000 baht, your ROI would be 14,000/100,000 or 14 %)
POS	The probability of survival for my store over the next three years is about ___ %

Notes: [a]Names of the ten clothing clusters appeared in the blanks, except for FTRAFF, ROI, and POS; [b]item ID codes indicate (in order) measurement items for fashion trend forecasting, merchandise assortment quality, merchandise assortment variety, fashion leadership, customer service, customer

Table I. Measurement item content[a]

Summated scale	No. of items	Coefficient. α	Comp. rel	AVE	Mean	SD	Skewness	Kurtosis
Fashion trend forecasting	3	0.71	0.72	0.46	15.68	3.10	−0.24	−0.45
Merchandise assortment quality	2	0.73	0.74	0.56	11.10	2.60	−0.92	0.24
Merchandise assortment variety	2	0.64	0.64	0.45	11.33	2.11	−0.60	0.14
Fashion leadership	3	0.76	0.77	0.54	16.42	3.11	−0.66	0.23
CS orientation	4	0.73	0.75	0.42	23.94	3.37	−1.02	1.08
CRM orientation	4	0.74	0.75	0.43	23.44	3.69	−0.93	0.55
Subjective store performance	5	0.95	0.96	0.81	24.77	6.97	−0.54	−0.26
Return on investment (%)	1	na	na	na	22.51	47.46	−0.89	0.95
Probability of survival (%)	1	na	na	na	69.73	27.29	−0.69	−0.26

Table II.
Scale summary statistics

Note: $n = 275$

Summated scale	FTF	MAQ	MAV	FL	CS	CRM	FT	SSP	ROI	POS
Fashion trend forecasting	1.00									
Merchandise assortment quality	0.30	1.00								
Merchandise assortment variety	0.45	0.46	1.00							
Fashion leadership	0.61	0.37	0.60	1.00						
CS orientation	0.50	0.43	0.56	0.53	1.00					
CRM orientation	0.42	0.28	0.40	0.43	0.66	1.00				
Foot traffic	0.06	0.00	0.00	0.14	−0.04	−0.09	1.00			
Subjective store performance	0.41	0.37	0.37	0.55	0.37	0.27	0.15	1.00		
Return on investment (%)	0.11	0.16	0.10	0.17	0.07	0.03	0.25	0.29	1.00	
Probability of survival (%)	0.14	0.08	0.19	0.31	0.10	0.06	0.24	0.28	0.35	1.00

Table III.
Scale correlations[a]

Notes: $n = 275$. [a]Correlation values 0.10 and larger are significant at $p < 0.05$, one-tailed test

form of two models. Predictors in Model 1 contained the four fashion merchandising competency variables and the owners' estimates of daily foot traffic as a surrogate for store location. Model 2 added CS and CRM orientations to the Model 1 predictors. Both models were fit separately for the three performance measures. Coefficients for each set of predictor variables were estimated and tested for significance, with the extra sum of squares principle applied to test coefficients for the customer orientation variables. Results appear in Tables IV and V.

Multiple regression Models 1 and 2 show substantive ability to predict all three dependent variables. Effect sizes for both models can be described as large, medium, and medium (Cohen, 1992, p. 157) for subjective performance, return on investment, and probability of survival, respectively. Merchandise assortment quality, fashion leadership, and foot traffic are significant predictors, somewhat dependent on identity of the dependent variable. Fashion trend forecasting and merchandise assortment variety are not significant predictors in either model. The most consistent predictor is the foot traffic control variable, while fashion leadership is the strongest.

Standardized regression coefficients for the merchandising competency variables are essentially identical in Models 1 and 2, as are values for sum of squares regression. Thus, values for F differ for the two models primarily because of fewer degrees of freedom for mean square regression in Model 1 than Model 2 (being based on five rather than seven degrees of freedom). Most importantly, Table V indicates no significant relationships between the two customer orientation variables and any of the three performance measures, given that the model already contains merchandising competency variables and the control variable. CS orientation approaches significance only for subjective performance. Extra sums of squares from adding CS and CRM orientations to Model 1 are significant at p values of 0.56, 0.88, and 0.68 for subjective performance, return on investment, and probability of survival, respectively. In sum, we find no support in our data for hypotheses *H5* and *H7*.

Hierarchical linear model (HLM) analyses

From a concern for lack of independence of errors in our regression analyses, we conducted a last analysis on variables in Model 2 using HLMs. Because our variables of interest describe a clustered population, residuals in our regression analyses may depend on clothing cluster identity in addition to their usual interpretation. HLMs have no assumption of error independence and are appropriate for a clustered population such as ours. The need for HLM analysis is indicated by the intraclass correlation

Independent variable	Subjective performance (p)	Return on investment (p)	Probability of survival (p)
Fashion trend forecasting	0.10 (0.07)	−0.01 (0.52)	−0.09 (0.88)
Merchandise assortment quality	0.18 (0.00)	0.13 (0.03)	−0.04 (0.72)
Merchandise assortment variety	0.00 (0.47)	−0.03 (0.67)	0.05 (0.25)
Fashion leadership	0.42 (0.00)	0.11 (0.09)	0.32 (0.00)
Foot traffic	0.10 (0.03)	0.22 (0.00)	0.23 (0.00)
Effect size (R)	0.60	0.30	0.39
$F(p)$	29.18(0.00)	5.29 (0.00)	9.86 (0.00)

Notes: ($n = 275$). [a]One-tailed test of hypothesized positive relationship between the indicated IV and DV pair

Table IV.
Standardized coefficients, significance levels[a], and effect sizes for regression Model 1

Independent variable	Subjective performance (p)	Return on investment (p)	Probability of survival (p)
Fashion trend forecasting	0.09 (0.09)	0.01 (0.47)	−0.07 (0.84)
Merchandise assortment quality	0.17 (0.00)	0.14 (0.03)	−0.03 (0.67)
Merchandise assortment variety	−0.02 (0.61)	−0.02 (0.51)	0.07 (0.20)
Fashion leadership	0.41 (0.00)	0.12 (0.09)	0.33 (0.00)
CS orientation	0.08 (0.15)	−0.02 (0.51)	−0.04 (0.68)
CRM orientation	−0.05 (0.76)	−0.02 (0.51)	−0.03 (0.66)
Foot traffic	0.10 (0.03)	0.22 (0.00)	0.22 (0.00)
Effect size (R)	0.60	0.30	0.40
$F(p)$	20.94 (0.00)	3.79 (0.00)	7.12 (0.00)

Notes: ($n = 275$). [a]One-tailed test of hypothesized positive relationship between the indicated IV and DV pair

Table V.
Standardized coefficients, significance levels[a], and effect sizes for regression Model 2

coefficient (ICC), with values calculated here for subjective performance, return on investment, and probability of survival at 0.005, 0.18, and 0.11. The very small ICC value for subjective performance indicates that our regression results describe relationships reasonably well. However, some authors (Tabachnick and Fidell, 2007, p. 822) recommend that analyses regularly be done both ways "to see whether results differ substantially and then report the simpler analysis in detail if results are similar".

Following this advice, we performed HLM analyses for the three dependent variables using the full set of predictors identified in Table V. As expected, the intercept variance for subjective performance was not significant ($p > 0.96$) and our ordinary regression results are preferred. However, the intercept variance for return on investment was significant ($p < 0.03$), while that for probability of survival approached significance ($p < 0.08$). Inspection of HLM results for these two variables indicated no substantive differences from values of regression coefficients in Table V and only one substantive difference in significance levels. Specifically, the significance level for merchandise assortment quality with respect to return on investment changed from $p < 0.03$ in multiple regression to $p < 0.08$ in HLM. A final set of HLM analyses for the dependent variables again included the full set of predictors but allowed all possible two-way interactions. Coefficient sizes and significance levels again were similar to those in Table V, with only two of the 45 interaction terms significant. Given these small differences in results, we prefer regression results in Table V.

Discussion

As review of our findings, the assessment of financial performance of any store in our sample depends on how performance is measured. This result is indicated by the relatively small correlations between the three performance measures in Table III. Performance of any store depends on store location within a cluster, as measured by our foot traffic control variable. Performance of any store is more strongly related to fashion merchandising competencies than to customer orientation variables. This result holds regardless of whether performance is measured as a summed subjective scale, as estimates of return on investment, or as probability of survival. An obvious question then arises – why did we find no substantive relationships between financial performance and either CS orientation or CRM orientation? Our comments follow.

Null results for CS orientation are consistent with findings of a study of somewhat larger apparel and footwear retailers in the USA (Moore and Fairhurst, 2003). With a similar measure of subjective financial performance and a somewhat broader measure of customer service, that study showed a standardized coefficient of 0.05 (compared to our value of 0.08) for the relationship between these two measures. The explanation given in that study was that item measures of customer service (before sale service; after sale service) differed little among retailers in the studied population. However, we rule out this explanation in our results, noting the substantial variance in our measure of CS orientation (Table II). Null results for CRM orientation are consistent with a recent review of 12 studies of loyalty programmes in retailing, resulting in the conclusion that "limited and contradictory evidence challenges the efficacy of loyalty programmes" (Meyer-Waarden, 2007, p. 224). Although there is little doubt that a superior CRM orientation leads to increased customer loyalty, the ultimate benefits of loyalty programmes in terms of financial performance are not clear:

> [I]n a competitive market, good programs will be imitated, which means that the end result will be a return to the initial situation but with increased marketing costs, a highly inefficient situation (Meyer-Waarden, 2007, p. 224).

Such situations often are described as "red queen" competitions (Barnett and Hansen, 1996) where rivals quickly note and imitate innovative behaviours of each other. Indeed, the dense agglomerative clusters in our study greatly facilitate information spillover among rival retailers.

An alternate explanation for the absence of substantive relationships for CS and CRM orientations is based on characteristics of fashion goods and fashion goods shoppers. Motivations and buying behaviours of fashion goods shoppers differ substantially from those of convenience and shopping goods shoppers. Fashion goods shoppers regularly seek variety and uniqueness in their purchases, compare offerings within and between stores before purchasing, and buy merchandise that closely matches their personal and social identities. If shoppers cannot find desired merchandise at one store, they often take pleasure in shopping around. Compared to their purchases in many other product categories, fashion goods shoppers incur insignificant switching costs at times of purchase and use. Such characteristics likely diminish the effectiveness and importance of customer service and CRM – customers find that customer service and CRM create less value than a retailer's merchandising competencies. Further, in the dense, agglomerative clusters under study here, customers can easily browse and shop several stores before purchasing. Low search costs deter customers from relying on one or two retailers, even those having superior customer service or superior CRM.

As a last explanation, our study's operationalization of CRM – although at a level appropriate to our speciality retailer population – taps only customer relationship maintenance and not relationship initiation or termination. Our operationalization also ignores the role of information technology in CRM. Perhaps these unstudied aspects of CRM would be substantively related with store financial performance.

Limitations

We identify several limitations in our study. Our scales for merchandise assortment quality and variety each contain only two items; additional items would better represent relevant content domains and improve scale reliability. Our results suffer from a survivorship bias because data represent beliefs only of existing retailers – failed retailers could not be located and their responses to variables of interest are necessarily excluded. A consequence of these two limitations is a restriction in range condition that attenuates reported relationships from true values. This implies that some insignificant results in Tables III and IV would be significant in studies where this condition is absent.

Because of the cross-sectional nature of our design, reported associations may or may not represent causal effects. To illustrate, stores having superior financial performance may be more likely than stores with inferior performance to forecast fashion trends, offer a wide merchandise assortment, and attain a leadership position. Lastly, relationships between our independent and dependent variables include some degree of common method variance. Size and direction of this bias depend on unknown true correlations between pairs of variables and between pairs of methods and on per cents of trait and method variance in each measurement (Cote and Buckley, 1987; Podsakoff *et al.*, 2003). Given a true correlation between method pairs of 0.60, estimates of common method bias range from $+0.30$ for a true correlation between variables of 0.00 to -0.30 for a true correlation of 1.00. A true correlation of 0.40 between variables (the average of our correlations between subjective performance and the six merchandising competency and customer orientation variables in Table III), is

upwards biased by 0.06. A true correlation between variables of 0.15 (typical for return on investment and probability of survival in Table III) is upwards biased by 0.07.

Because of the study's focus on small fashion goods retailers competing in dense, highly competitive environments in Bangkok, results may or may not apply to other retail settings. Results would seem to extend most easily to small retailers of fashion goods competing in similarly clustered environments in Southeast Asia, east Asia, and south Asia. With greater caution, results might extend to other retail environments in these regions. For example, results might extend to retail clusters such as shopping or strip malls where retailers of diverse product categories compete intensively on a share of wallet basis (Meyer-Waarden, 2007).

Managerial implications and future research

Our findings suggest that clustered fashion goods retailers wishing to improve store financial performance should focus on their merchandising competencies rather than their customer orientation activities. If we were to offer one piece of prescriptive advice to clustered fashion goods retailers in Bangkok from our findings, it would be:

> Attempt to achieve a fashion leadership position in your target segment's consideration set of competing retailers. Build foot traffic.

A more integrative recommendation for these retailers is:

> Attempt to achieve a fashion leadership position in your target segment's consideration set of competing retailers. Build foot traffic. Begin your advance to a leadership position by sharpening your fashion trend forecasting skills. Provide assortment variety in terms of fashion styles and consumer usages; offer limited assortments in terms of different price points and merchandise qualities.

A last piece of prescriptive advice for these retailers concerns CS and CRM orientations:

> Offer customer services in forms and degrees consistent with customer expectations and competitive practices. Undertake CRM programs paying close attention to costs, benefits, competitors, and customers.

Support for these recommendations comes primarily from interpretations of bivariate correlations in Table III.

For clustered fashion goods retailers particularly interested in improving return on investment, we recommend again pursuit of a fashion leadership position along with efforts to build foot traffic. Further, an emphasis on merchandise assortment quality should be preferred over assortment variety, allowing fashion goods retailers to offer and price high-quality goods at high margins. For fashion goods retailers concerned with survival, we recommend fashion leadership and foot traffic as key areas of emphasis.

Given the importance of a fashion leadership position, we explore how fashion goods retailers might pursue this condition. These retailers might assess their merchandise assortments critically and regularly and make frequent adjustments. Frequent adjustments to assortments would help retailers earn high margins from sales of new fashions, avoid dead stocks, and reduce inventory carrying costs. They might provide specific information about merchandise assortments, fashion trends, and store promotions to their most valuable customers. Information can be disseminated to targeted customers using conventional and perhaps digital media. This activity should increase customer browsing and purchase activities, as well as stimulate favourable word

of mouth. Fashion goods retailers might bundle coordinated fashion items to illustrate style synergies and style abilities to enhance and complement each other. In in-store interactions with customers, retailers might act less as sales assistants and more as personal wardrobe stylists. As such, these retailers would share their knowledge of fashions and trends, provide advice about merchandise, and suggest styles and items to match customers' tastes, personalities, and social identities. Successful execution of all or many of these recommendations should heighten customer perceptions of a retailer's fashion leadership position and fashion trend forecasting skills, skills that are embedded in a store and difficult for competitors to copy.

Numerous possibilities for future research in fashion goods retailing follow from the present study. To describe these possibilities, we identify four basic characteristics of our research setting: developing country, fashion goods, retail clusters, and small retailers and four basic features of our research design: descriptive, quantitative, cross-sectional, and retailer as the unit of analysis. Combinations of these characteristics indicate interesting future research possibilities. For example, a conjoint-based laboratory experiment to investigate retail service features, CRM activities, assortment quality, and assortment variety would help to understand the relative importance of these independent variables on consumer choices. An ethnographic study of clothing shoppers in clustered and non-clustered settings might describe perceived benefits and costs of search, the importance of merchandise fashion and style on store choice, and nuances in customer service realized at patronized stores. Other research might focus on training and development of fashion goods retailers over time to see what merchandising practices and customer orientation activities yield improvements in store performance. Still other research might address efficacies of merchandising competency and customer service orientation variables in a matched study of clustered and stand-alone retailers – would customer orientation variables be related to financial performance for fashion goods retailers whose nearest competitor is located some distance away?

Conclusions

We conclude that clustered fashion goods retailers that face strong competition should be capable merchandisers – aware of fashion trends, capable of assembling attractive merchandise assortments, and striving to attain a leadership position. Upon attaining this position, these retailers should vigorously protect their leadership status with insightful strategies, creative and effective tactics, market knowledge, supplier relationships, and skilful displays that highlight merchandise assortment quality and variety. Given a sustainable leadership position, we conclude that efforts by a clustered fashion goods retailer to develop long-term enduring customer relationships may be beneficial – particularly if efforts are deeply embedded in the organization. Efforts to provide superior customer service may be beneficial as well – but difficult to achieve when facing capable competitors in a clustered environment. Clustered fashion goods retailers should monitor costs and benefits of their CRM and customer service activities, keeping alert to innovative technologies and best practices of targeted competitors.

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