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# ACADEMIC PAPER

## Marketing capabilities and firm performance in fashion retailing

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**Keywords** Retailing, Competitive strategy, Marketing management, Fashion industry

**Abstract** Intense competition and short product life cycles in fashion retailing present a number of marketing challenges for retail firms in both the USA and abroad. In order to survive in this industry, it is vital for participants to develop and leverage core marketing capabilities. The current study examines the effectiveness of different marketing capability factors in a cross-section of the US specialty apparel and footwear retailing sector ( $n = 60$  retail firms). Data were collected from marketing executives in a national mail survey. Specifically, marketing capabilities in image differentiation, promotions, external-market knowledge and customer service are examined for their impact on firm level performance. A two-stage structural equation model is used to test the study's hypotheses. Results suggest that the most effective marketing capabilities, in terms of performance, are image differentiation and promotional capability.

### Introduction

As retail competition in consumer markets around the world continues to intensify, marketers are seeking strategies that will capture both the interest and loyalty of consumers. The development and implementation of effective marketing strategy is particularly important in the apparel and footwear (i.e. fashion) sector (e.g. Goldsmith, 2000). Because the business environment within the fashion sector is constantly changing, apparel and footwear firms must succeed in building and using capabilities that support marketing strategies which lead to growth and/or long-term survival.

Among retail companies, marketing strategy typically determines the target market, location(s) and retail mix. The retail mix refers to the combination of merchandise, price, advertising and promotion, customer services and selling and store layout and design that the retailer uses to meet the needs of the target market (Dunne *et al.*, 2002). Retailers tend to stress a combination of retail mix, location and segmentation elements in their marketing strategies. For example, upscale department stores in the USA such as Nordstrom and Neiman Marcus emphasize service in their retail offerings along with exclusive locations for affluent target markets. On the other hand, retailers such as Kohl's and Goody's



department stores stress price as the key element of their mix. Logically, these retailers are successful in stressing key marketing elements because they have the competencies required to deliver these elements to consumers.

Within academia, competencies in marketing are commonly referred to as marketing capabilities. Day (1994, p. 38) defines capabilities as:

... complex bundles of skills and collective learning, exercised through organizational processes that ensure superior coordination of functional activities.

Marketing capabilities are simply organizational capabilities within the marketing context. The purpose of this research is to examine how different contexts of marketing capability affect the performance of apparel and footwear firms in the retailing sector. The specific objective of this inquiry is to measure and evaluate the impact(s) of four different capability contexts on firm level performance, including: customer service, image differentiation, external market knowledge, and company promotions.

Empirical knowledge of the effectiveness of different marketing capabilities on performance within the retail sector will aid practitioners in formulating marketing strategy in dynamic, fashion driven markets. We can identify which marketing capabilities lead to strong performance specifically within the specialty fashion sector. Identifying effective marketing strategies in the fashion industry is valuable to practitioners, who must consider numerous factors (e.g. dynamic markets) when making strategic decisions. From an academic standpoint, this research contributes to the study of retail strategy, which has received considerably less attention compared to issues related to consumer behavior (Berry *et al.*, 1990; Samli, 1998).

### Conceptual framework

Over the past 25 years a great deal of attention has been paid to the general concept and practice of marketing strategy. Indeed, the marketing strategy stream continues to represent an important component of the scholarly marketing literature. Unfortunately, within this literature few researchers have focused efforts on understanding the unique challenges that marketers face in developing and implementing strategy in dynamic retail markets.

A small number of studies in the extant literature have considered elements of marketing strategy in the retailing field (e.g. Conant and White, 1999) as well as elements of strategic management (Kean *et al.*, 1998). However, among this body of work only a single study focuses on the fashion sector. Conant *et al.* (1993) examined strategy and marketing effectiveness in the apparel retailing context. Their research focused on the effect of overall business strategy on marketing capabilities and performance – rather than on the direct relationship between marketing capabilities and performance. Their results indicated that small apparel retailers with focused business strategies tended to exhibit higher levels of marketing competency across a number of capability contexts. Owing to limited empirical attention to retail and fashion specific marketing

strategy, theoretical direction is taken from the general literature on marketing capabilities.

### Marketing capabilities

The general strategic management and marketing literatures suggest that firm capabilities in a number of functional areas can lead to positive performance (Hunt and Morgan, 1996). The concept of capability development and its impact on performance has been an important focus within the marketing field in recent years (Vorhees *et al.*, 1999).

The present research focuses on contexts of capability within marketing strategy that are relevant to the fashion retailing sector. Mentioned previously, firms within this industry tend to focus on various combinations of retail/marketing mix elements. In practice, these elements are ideally combined in a unique manner that adds value for end consumers. To gain an initial understanding of the effectiveness of different marketing capabilities in the fashion industry, each context is examined individually. Four contexts of marketing capability are examined:

- (1) customer service capability;
- (2) store image differentiation;
- (3) external (market level) knowledge; and
- (4) promotional capability.

Each of these areas of capability has been acknowledged as important to success in either general retailing (e.g. Dabholkar *et al.*, 1996; Sharma *et al.*, 2000; Wileman and Jary, 1997) and/or in fashion retailing (e.g. Deeter-Schmelz *et al.*, 2000). Within the study, customer service capability refers to the degree to which retailers deliver quality service, provide quality products and handle customer complaints. Capability in store image differentiation refers to the degree that a retailer's external store image and its merchandising image are unique. External market knowledge (capability) refers to the extent of a retailer's understanding of current/potential customers, competitors and industry trends. Promotional capability is defined within the study as the degree to which retailers are effective in differentiating their stores through advertising and promotions. Given the competition that fashion retailers face from season to season, capabilities in each of these areas should help them win business in the heavily saturated US retail market through more focused promotions, research, service delivery and operations.

Researchers in the marketing field typically depict the relationship between capabilities and performance as direct and positive (Moorman and Slotegraaf, 1999). As a first step toward understanding the impact of different contexts of marketing capability on performance, we take direction from the marketing literature and posit that each of the different contexts positively impacts on the focal outcome variable (i.e. performance). This theoretical position is also supported on a broad level by the marketing orientation literature which

asserts that active integration of the marketing concept across all business functions can result in positive market performance (Kohli and Jaworski, 1990). Based on extant research/thought on both organizational capabilities and marketing orientation, the following hypotheses are set forth:

- H1.* There is a positive, significant relationship between the degree of customer service capability and retailer performance.
- H2.* There is a positive, significant relationship between the degree of image differentiation and retailer performance.
- H3.* There is a positive, significant relationship between the degree of external market knowledge and retailer performance.
- H4.* There is a positive, significant relationship between the degree of promotional capability and retailer performance.

### Methodology

A mail survey was used to collect data for the study. The methodology was designed to gain objective, timely information from key informants within retail firms (i.e. corporate headquarters) in the US apparel and footwear sector. Marketing directors/executives were selected as key informants for the study. Using a mailing list with named informants, a concerted effort was made to effectively reach the appropriate key respondent and elicit their participation in the study.

#### *Pretest*

Prior to the initial survey mailing, a series of pretests were performed with a variety of executives and managers (i.e. seven sets of interviews) with large national retail chains headquartered in southeastern USA. Each executive/manager was administered a single survey to complete in isolation. After completing the survey, respondents were asked to discuss the ease with which they could answer the questions, what the questions meant to them and how they might change wording in ambiguous cases. A final revised version of the survey was examined and approved by two of the original seven pretest subjects. In addition, pretest subjects confirmed that informants at the marketing manager level and above would be capable of accurately answering survey questions.

#### *Sample*

A mailing list of 360 US specialty apparel and footwear retailing chains was generated from two sources: Chain Store Guide's Datashark Database and *Plunkett's Retail Directory*. Inclusion in the sample was based on three major criteria:

- (1) specialty apparel or footwear format (i.e. no multi-line department stores);
- (2) five or more stores with regional and/or national presence; and
- (3) a minimum of \$2 million in total annual sales.

The mailing list provided each subject's position and first and last name so that they could be contacted directly. One key informant per firm was contacted for participation in the study.

#### *Data collection and response rates*

The data collection process took place over a two-and-a-half month period following a modified version of Dillman's (1978) total design method. Data collection took place beginning the second week of January, due to slower retail work loads during this period. An initial survey was sent to respondents the second week of January. After two weeks, a postcard reminder was sent to all key informants on the list. This wave generated 45 completed surveys. Three weeks after the initial mailing, a final replacement survey was sent to non-respondents. An additional 15 surveys were returned following the third mailing wave.

A total of eight companies contacted us by phone and e-mail explaining that they were not allowed to participate in surveys, reducing our potential sample to 352. An additional 14 surveys were returned as "undeliverable". After all mailing waves, a total of 60 surveys were returned for a 17 percent response rate. A 17 percent response rate is not uncommon among organizational research, particularly within the retail industry (e.g. Conant and White, 1999).

#### *Measures*

The measures used to capture information from key informants were adopted from existing scales. Marketing capabilities were measured using the Conant *et al.* (1994) scale. This scale was originally designed to measure marketing capabilities across the entire marketing function in apparel retailing firms and, as such, fits the needs of this study. The scale requires key informants to rate how well their companies performed a number of marketing activities on a scale from 1 (very poor) to 7 (excellent). Three items were eliminated from the 20-item scale due to lack of relevance to the current research (i.e. 17 items constituted the scale used in our survey).

Performance was also measured using a previously existing scale (Conant and White, 1999). A total of eight items were used to investigate firm performance along financial and operational dimensions. Key informants were asked to indicate their retailer's performance, 1 (very poor) to 7 (excellent) degrees, across eight items:

- (1) return on investment;
- (2) return on assets;
- (3) general profitability;
- (4) sales per square foot;
- (5) effectiveness of cost control;
- (6) sales per employee;
- (7) total sales growth over the past three years; and
- (8) overall company performance.

Use of the subjective performance measure was favored over an objective approach due to the difficulty associated with estimating performance indicators for US specialty retailers. Because the majority of retailers in the sample constitute one of a number of divisions within a large corporate structure or are privately held, objective performance indicators are not available. Given these constraints, we followed Venkatraman and Ramanujam's (1986) recommendation for measuring performance using a subjective approach.

### *Analysis*

A two-stage structural equation model was used to evaluate the latent measurements and to test the study's hypotheses. Prior to evaluating the measurement model, an exploratory factor analysis (EFA) was performed on the marketing capability items to examine the dimensions of each construct. Descriptive statistics were used to evaluate the characteristics of the sample and the non-respondents.

## **Results**

### *Sample characteristics*

The sample ( $n = 60$ ) comprised 40 apparel specialty chains and 20 specialty footwear chains. Characteristics of the sample are presented in Table I. A total of 67 percent of the overall sample comprises apparel retailers, while the remaining 33 percent comprises footwear retailers. The responding footwear retailers were smaller across all sample characteristics (e.g. average sales volume and average number of stores, etc.) compared to the apparel chains. Likewise, a greater percentage of footwear retailers reported that they were privately held (85 percent) compared to apparel retailers (65 percent).

The key informants who responded to the study indicated a great deal of retail experience at or above the marketing director level. They reported an average of 21.3 years experience within their respective companies, indicating their fitness for answering the survey questions.

Using information from the original mailing list, the non-respondents ( $n = 300$ ) were compared to the final sample. The breakdown between apparel

Characteristic	Retail sectors	
	Apparel chains ( $n = 40$ )	Footwear chains ( $n = 20$ )
Average sales volume (\$ million)	30	12
Average number of employees	3,767	1,324
Average number of stores	187	106
Average regions of operation	3.05	2.10
Percentage publicly held	35	15
Percentage privately held	65	85

**Table I.**  
Sample characteristics

and footwear companies in the final sample versus the non-respondents was nearly identical (i.e. non-respondent apparel firms totaled 68 percent and non-respondent footwear firms totaled 33 percent). Descriptive statistics indicated that the non-respondents were slightly smaller compared to the respondents in terms of number of employees (i.e. average non-respondent total apparel employees, 2,564 non-respondent footwear employees, 880). No additional distinctions between the respondents and the non-respondents were evident in the data.

#### *Exploratory factor analysis*

A preliminary EFA was performed on items from the marketing capabilities scale to ensure that the dimensions intended to reflect each of the different capability contexts loaded on common factors. A principal factor method with a Varimax rotation was applied to the scale. Based on eigenvalues greater than one, an evaluation of the scree plot, and minimum factor loadings of 0.6, the analysis indicated a four-factor solution for the marketing capability scale (Johnson, 1998). Two cross-loaded items were eliminated from the full 17-item scale. This preliminary factor model was subsequently used in the CFA.

#### *Confirmatory factor analysis*

Confirmatory factor analysis was performed to evaluate measurement of the exogenous variables (i.e. marketing capabilities). During the confirmatory factor modeling process several iterations were performed. Three items were eliminated from the scale, due to excessive inter-correlation between factors and kurtosis. The final confirmatory factor model indicated very good fit with a non-significant chi-square of 50.629 ( $p < 0.30$ , 48 df). Indices of both absolute and relative fit also presented support for the measurement model (GFI = 0.879, TLI = 0.984, CFI = 0.988). The root mean square error of approximation (RMSEA) associated with the confirmatory model produced an acceptable value of 0.03, well below the maximum acceptable value of 0.07 (Byrne, 2001). All loadings on the latent constructs (lambda paths) were significant ( $p = 0.000$ ) (Table II). Examination of the standardized residuals reflected values less than 2.58, indicating no evidence against discriminant validity (Joreskog and Sorbom, 1988).

#### *Structural equation model*

The structural equation model also indicated very good fit with a chi-square of 90.723 (81 df) and a non-significant  $p$ -value ( $p < 0.216$ ) (chi-square/df ratio = 1.120). Absolute and relative fit indices also supported the structural model (GFI = 0.853, NFI = 0.849, CFI = 0.980, TLI = 0.975). In addition, the RMSEA estimate (0.045) fell within the acceptable range. Based on the goodness of fit criteria, the structural model was deemed acceptable and the analysis proceeded with interpretation of the hypothesis tests.



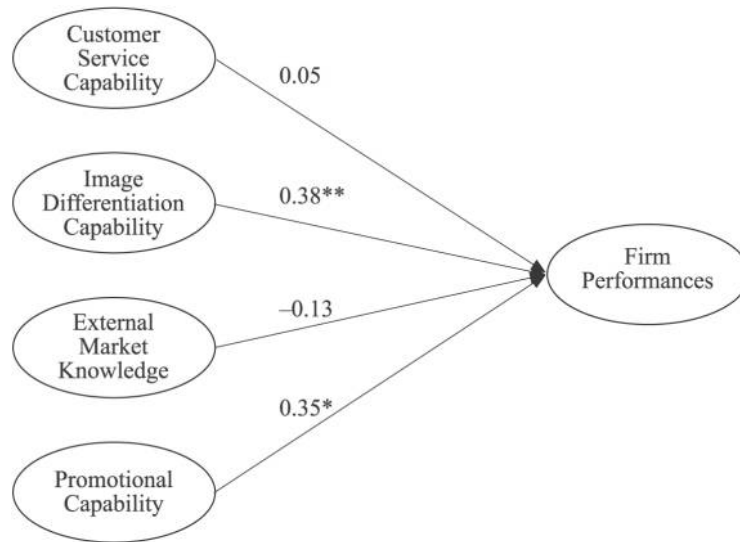
	Estimate	SE	CR	<i>P</i>
<i>Regression weights</i>				
EMK1	Set to 1.00 <sup>a</sup>			
EMK2	1.287	0.320	4.022	0.000
EMK3	1.112	0.289	3.853	0.000
EMK4	0.997	0.263	3.798	0.000
PC1	Set to 1.00 <sup>a</sup>			
PC2	0.839	0.179	4.686	0.000
PC3	0.914	0.200	4.580	0.000
CSC1	1.748	0.413	4.229	0.000
CSC2	1.404	0.340	4.130	0.000
CSC3	Set to 1.00 <sup>a</sup>			
IC1	Set to 1.00 <sup>a</sup>			
IC2	1.275	0.284	4.489	0.000
<i>Covariances</i>				
External market knowledge ↔ promotion capability	0.460	0.185	2.483	0.013
External market knowledge ↔ customer service capability	0.203	0.096	2.116	0.034
External market knowledge ↔ image differentiation	0.314	0.146	2.159	0.031
Promotional capability ↔ customer service capability	0.281	0.142	1.987	0.047
Promotional capability ↔ image differentiation	0.721	0.260	2.770	0.006
Customer service capability ↔ image differentiation	0.276	0.126	2.183	0.029
<i>Variances</i>				
External market knowledge	0.517	0.235	2.198	0.028
Promotional capability	0.346	0.470	2.866	0.004
Customer service capability	0.404	0.169	2.382	0.017
Image differentiation capability	0.970	0.349	2.781	0.005
<b>Note:</b> <sup>a</sup> AMOS requires that a single lambda path for each construct be set to one (Byrne, 2001)				

**Table II.**  
CFA parameter estimates

### *Hypothesis tests*

All hypotheses were expected to reveal a positive relationship between the specific contexts of marketing capability and firm performance. Path estimates indicated strong support for one of the four hypotheses and marginal support for a second hypothesis. The final model is presented in Figure 1.

*H1* examined the relationship between image-based marketing capabilities and firm performance (Table III). Results indicated a positive estimate with a significant critical ratio (standardized estimate = 0.501, CR = 1.983,  $p < 0.047$ ), providing support for *H1* at a 0.05 level of significance. The SEM indicated non-significant path estimates for both *H2* (external capability) and *H4* (customer service capability). Therefore, neither of these hypotheses was supported. Marginal support was found for *H3*, which examined the effect of promotionally-based marketing capability on firm performance. The path



**Figure 1.**  
Structural equation model

Regression weights	Estimate	SE	CR	<i>P</i>
Customer service capability → firm performance	0.093	0.299	0.313	0.754
Image differentiation → firm performance	0.501	0.253	1.983	0.047
External knowledge capability → firm performance	-0.235	0.305	-0.768	0.442
Promotional capability → firm performance	0.376	0.236	1.596	0.110

**Table III.**  
Hypothesis test

estimate for *H4* was positive (standardized estimate = 0.376, CR = 1.596, *p* < 0.110).

**Conclusions and limitations**

Data from the study suggest that key informants from retail firms who report higher capabilities associated with marketing differentiation also report higher performance levels. More specifically, these retailers indicated competencies in projecting their store image and in their store layout and merchandise presentation (i.e. image differentiation). As measured, the promotional capabilities also focused on a dimension of differentiation including: effectiveness of promotions, effectiveness of advertising and differentiation of store and its offerings.

The two clusters of marketing capability that did not impact on performance in the structural model were further examined to understand this outcome. The frequency distribution for the customer service capability factor was positively skewed, indicating that the great majority of respondents answered at the high end of the scale items associated with this construct. A great majority of the respondents indicated a high degree of capability in customer service. Examination of the external market knowledge construct’s distribution

indicated a normal curve. Therefore, no additional knowledge was gleaned to understand the relationship between external knowledge capability and firm performance.

There are several limitations of the study that should be considered when interpreting the results. First, the study uses key informants to report company marketing capabilities and dimensions of performance based on perceptual measures. Using a single key informant to report a firm's capabilities and performance in areas that are relevant to that individual's success introduces the threat of response bias into the data. To reduce this threat partially, objective performance measures were collected for the public firms in the sample ( $n = 17$ ) and correlated with the subjective performance measures for these firms. Results indicated a significant positive correlation between the objective and subjective indicators. A second limitation of the study is associated with the nature of the firms within the sample. Though the respondents were deliberately sampled based on the number of stores in the chain, product offering, specialty format (apparel and footwear), operation in the USA, and sales volume, a degree of heterogeneity remains within the sample. Sample respondents represent a range of sales volumes, both public vs private ownership, and a range of sizes (i.e. total number of stores). Because the study is intended to depict an overall perspective of the marketing capability-performance relationship within the fashion sector, it was important to examine this relationship across the sector. However, systematic differences in the marketing capability-performance relationship may exist between apparel and footwear retailers, small and large firms and firms that target different market segments.

### **Managerial implications**

Findings suggest that executives in the retail fashion sector should focus on differentiation in the marketplace. A concerted strategic effort across marketing capabilities that reinforces the company/store/brand image appears to pay off in terms of company level performance. Recent emphasis on the development of store branding/private label programs among fashion retailers corresponds with this finding.

In the case of customer service, our study suggests that retailers within the apparel and footwear sector consider capability in this area as a standard requirement for doing business. The customer service capability factor was likely insignificant as a driver of performance in our model because the great majority of respondents indicated that they had consistently high degrees of capability in this area. Interpreted in full, our model indicates that differentiation is effective (in terms of performance) in the presence of high service levels. Therefore, fashion retailers should focus on attaining service levels aligned to target market expectations and to differentiate their stores in terms of image, product offering, advertising and promotional efforts.

### Directions for future research

The findings suggest a number of directions for research. The study's sample comprised specialty apparel retailers. How would the relationships between the capability factors and performance change among channels that do not use specialty formats? Because specialty retailers offer narrow/deep lines of merchandise, competition for advertising/promotional resources is not an issue compared to that of mass/discount retailers who offer multiple lines. Further, insignificant capability contexts within this study may be significant in channels outside of the specialty apparel/footwear sector. For example, external market knowledge may be a driver of performance in mass/discount channels.

The results indicate that differentiation is a significant driver of performance in the apparel/footwear sector. This finding is reflected in a number of retailer practices designed to differentiate stores in the mind of the consumer, including: store branding, product development, store cards, etc. Store branding/private labeling has shown promise in generating market growth in the USA and Europe (Wileman and Jary, 1997). Which of these emerging forms of differentiation have the greatest impact on consumers and in turn drive performance?

In addition, there may be important contexts of capability that were not included in our original marketing capabilities scale, such as competencies in relationships with vendors/suppliers and/or relationships with customers. This research focuses on competencies that enable the retailer to serve end consumers rather than channel partners on the supply side of the fashion business. Examination of marketing capabilities on both the supply and demand side of the business would give us a more complete picture of the effective contexts of marketing capability with the complex fashion sector.

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