

## **MIND THE GAP! ARE LOCAL RETAILERS MISINTERPRETING CUSTOMER EXPECTATIONS REGARDING DIGITAL SERVICES?**

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### **ABSTRACT**

Local owner operated retail outlets (LOORO) are in a phase of intense transformation. Digitalization and e-commerce are questioning the traditional retail business models. A survey conducted in a mid-sized German city points out that local retailers are aware of the importance of digitalization for their businesses in future, but nonetheless do not think that their customers actually expect sophisticated digital services by them. In contrast to these findings, another recent study for the same city just revealed that 45% of all asked customers have already changed their buying behavior towards online retail. Shopping-convenience (e.g. time saving) is a known key factor for the buying decision and for the channel choice of customers, but local retailers do not seem to be fully aware about the opportunities of digital shopping convenience for their own business. If so, they run the risk of losing sight of the continuously developing digitalization-based business model innovations and the accordingly changing customer expectations, which would inevitably weaken their competitive position. In this context, this paper uses the SERVQUAL Gap-Model by Zeithaml et al. (1985) to classify and interpret these observations and offers examples of digital capabilities for LOORO to facilitate the Customer Journey.

### **KEYWORDS**

Local Commerce, SERVQUAL, Gap-Theory, Shopping-Convenience, Buying Decision

## 1. INTRODUCTION

In a low growth market environment, the local owner operated retail outlets (LOORO) represented the group with the highest revenue losses in 2014 (HDE 2015, p.7). The continued digitalization and further development towards chain stores threatens the very existence of local retail outlets run by their owners. In contrast to this, online retail has been expanding at a growth rate of 17.8 % in 2014 (HDE 2015, p.9). According to the German Retail Federation (Handelsverband Deutschland e.V. - HDE), online retail will continue to have good growth prospects in the future, especially due to its pioneering digitalization work. But so far, retail is still dominated by in-store sales. Despite the huge growth rates, the turnover share of e-commerce of retail is still only 11.1% in Germany (Statista 2014). The biggest changes in store-based retail in the last 20 years have been a tendency towards market concentration and chain stores and specialist retailers winning more market share from LOORO. The share of LOORO among German businesses is down from 30% in 1995 to now at only 14% (Collier International 2015).

This leads us to the question whether the digitalization, which is the key ingredient of online retail but also is an important aspect of chain stores, specialist stores and big retail companies, can also open a new development perspective for LOORO. As most of the research into digitalization in retail has concentrated on strategies for implementing digital applications in big organizations, there is a major gap in research into digitalization of small owner-run businesses. In order to address this gap, the authors of this paper have conducted a survey on the current state of digitalization of LOORO in a medium-sized town in Germany. In addition to providing information about the state of digitalization of LOORO, the survey's findings indicate a misalignment or mismatch between the perceived importance of digital services in the future on the one side, and the current implementations and availability of digital services – or even the willingness of LOORO to engage in digitalization – on the other side. This paper aims at analyzing this mismatch and presents the hypothesis that owner-run business are in danger of being alienated from the expectations of their customers and that they seem to underestimate the relevance of service convenience for customers who have changed their buying behavior in the context of digitalization.

The remainder of this paper is organized as follows: In section 2 we provide the results of a literature review on the current state of literature with regard to digitalization, business models, service quality and the importance of convenience. In the third section, we define the field of research and derive a focal action-set based on the Technology-Organization-Environment Framework. In the fourth section, we focus on customers and describe the relevance of convenience for their buying and channel decisions. In the fifth section, we introduce the SERVQUAL approach and the Gap-Model as frameworks for the discussion of the survey findings provided in the following fifth section. Next to these results of our own survey on retailer expectations regarding digitalization and digital services, the sixth section also contributes findings of a separate study about the change in the customers buying behavior. In the last section, we summarize our findings, provide new research questions and outline exemplary options to digitally support the customer journey.

## 2. LITERATURE REVIEW

The following structured literature review based on Webster and Watson (2002) helps to better understand the current state of research on the use of digitalization in LOORO. The literature analysis thereby indicates a clear research gap with not a single paper from the considered scope of journals addressing the exact topic of digitalization of LOORO. So far, according research rather focused on the different channel strategies of retailers and their evolution, from “Brick and Mortar” to “Click and Mortar”, followed by “Bricks and Clicks”, “Multi-Channel” and finally “Omni-Channel”. Specific challenges and limitations of LOORO, like e.g. organizational, educational and financial aspects, were not covered.

### (1) Digitalization and Business Models in Local Commerce:

With the spread of e-commerce in the end of the 1990s, Enders and Jelasi (2000) started a discussion of the advantages and disadvantages of traditional store-based retail and pure e-commerce. They expected that both models would converge in the future. Among many others, Gommans, Krishan and Scheffold (2001) saw with the rapid growth of e-commerce the importance of the topic and the upcoming challenges for both, pure e-commerce and traditional stores. They developed a conceptual framework of e-loyalty with strategic implementations for pure “e-businesses” and “bricks to clicks”, which coined the term “Clicks and Bricks” (cf, Lazaris and Vrechopoulos 2014). Burt and Leigh (2003) recognized that retailers that started using the internet as first or as early movers had managed to achieve competitive advantages. In the following years, the term “Clicks and Bricks” was stepwise replaced by “Multi-Channel Retail” (cf. Lazaris and Vrechopoulos 2014). Sonneck and Clirk (2006) stated that only retailers who truly understand their customers in the purchase process, communicate positively, and offer the right product range, would be able to succeed as multi-channel retailers. They expected that single-channel companies had already reached the limit of their growth potential and would now lose ground against multi-channel retailers. Addressing the question of the adaption of technology in retail, Watson (2011) explained that technology implementation is rarely determined by the technology itself, but more often by social and political rules, and that future platforms, such as web-based or mobile commerce, should be expected to follow similar social or political logics. Starting in 2011, the term “Multi-Channel Retail” became more and more replaced by “Omni-Channel Retail”. With technology and growing experience now enabling customers to combine several consumer-store interaction channels in their transactions (e.g. use of mobile internet access within the physical retail store to search for information and / or compare product prices), physical and online shopping now started to merge (cf, Lazaris and Vrechopoulos 2014).

### (2) Service Quality, Customer Expectations and Convenience in Local Commerce:

In 2000, within the e-service context, Roth warned of the Customer-Service-Paradox (the more powerful and sophisticated the technology gets, the more likely it will be more complicated to customers) and tried to dispel the myth of hybrid services (bricks and clicks) being inherently “unfocused” and hence competitively disadvantaged against pure brick-and-mortar or pure e-commerce. Sousa (2002) developed a framework for analyzing e-service quality issues. This framework distinguishes between parts of services which require human intervention and parts of services which are automatically provided by the channel. Minjoon, Yang and Kim (2004) explained that internet companies should focus on such service quality dimensions as reliability, personalization, ease of use and access. Choudhury et al. (2008) explained that, according to Innovation Diffusion Theory, customers make

adoption decisions based on their perceptions of the relative advantages of the innovation. The relative advantages of electronic channels are a multidimensional construct of three dimensions: convenience, trust and efficacy of information acquisition. Verhagen und van Dolen (2009) showed that offline and online store perceptions directly influenced online purchase intention and that offline store impressions were used as references for their online shop counterparts. Maity and Dass (2014) stated that consumers prefer channels with medium (e.g. e-commerce) and high (e.g. in store) media richness for carrying out complex decision-making tasks and prefer channels with low (e.g. mobile commerce) media richness to undertake simple decision-making tasks.

Focusing on the importance of convenience, Bhatnagar et al. (2000) characterized risk and convenience as key factors for buying decisions. With low risk and high convenience, people are more likely to buy online. Bednarz et al. (2010) also mentioned the importance of convenience, regardless of the chosen shopping format (in-store or online shopping), supporting the view of convenience as a construct consisting of access, search, transaction and possession convenience. Jiang et al. (2013) extended that view to access, search, evaluation, and transaction and possession convenience.

### **3. MAPPING THE LOCAL COMMERCE INNOVATION NETWORK**

In the age of digitalization, the retail sector is experiencing major changes. Established structures are eroded, business models are questioned, information asymmetries shift, and power structures among competitors and also between retailers and customers change. Furthermore, limitations of time and space are put into question, and new entrants from other industries introduce innovative ideas and new solutions to customers. The many technology and non-technology-driven changes triggered intense retail business research in general, but the digitalization of LOORO has captured only little attention so far. LOORO are no part of any large retail association or chain store and are very hard to classify as they encompass different owner personalities, different business sectors, different target groups, and different business strategies.

To overcome the obstacles of the heterogeneity of LOORO, we started with designing a conceptual framework of this special field of research. To do so, we used the focal action-set approach of Conway and Steward (1998), which guides researchers through the process of selection (abstraction) of specific aspects of the total (social) network surrounding the field of interest, to focus the attention on the actors of innovation (in this case also transformation) and their relationships to each other. Following the approach of Conway and Steward, two decisions were necessary: The first decision was about the rules of inclusion (which actors to include in the framework) to find a definitional focus. To make this decision, we searched for a well-established theoretical model with regard to the adaption of technologies in comparable companies. Ramdani and Kawalek (2007) developed a well-structured overview of the most used models in the context of adaption of technologies and innovation in SME:

- Technology – Organization – Environment Framework (TOE-Framework)
- Technology Acceptance Model (TAM)
- Theory of Planned Behavior (TPB)

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- Combined TAM and TPB
- TAM2
- Diffusion of Innovations Theory
- Resource-Based View
- Stage Theory
- Unified Theory of Acceptance and Use of Technology (UTAUT)

They summarized that the listed models typically examine the categories of technology, organization and environment, which also represent the basis categories of the TOE-Framework. Hence, for our definitional focus, we chose the Technology-Organization-Environment Framework (TOE-Framework) of Tornatzki and Fleischer (1990) as the theoretical foundation for our coming focal action-set.

The second decision concerned the manner in which the abstraction of the definitional focus is anchored or centered, termed nodal-anchoring. The nodal-anchoring of our network is centered on the technological and innovational decision making by LOORO, which is termed an ego-centered anchoring (Conway 1998). The graphical output of these thoughts is termed “Actor Positioning Template” and is depicted in Figure 1.

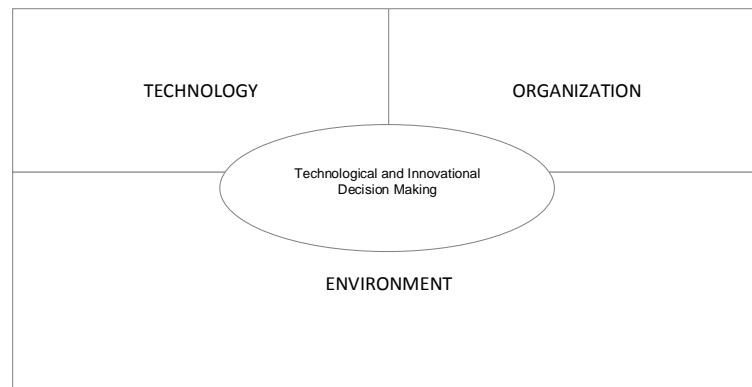


Figure 1. TOE-Framework based Actor-Positioning Template

The last step in designing the local commerce focal action-set was to place the actors (i.e. transformation drivers) on the Actor-Positioning Template. Therefore, we translated the indicators of the TOE-Framework of Tornatzki and Fleischer (1990) into categories of LOORO transformation drivers: Technology, Owner, Competition, Customers, Suppliers, Urban Infrastructures and Politics. All were placed around the focal actor, the decision-making LOORO (Figure 2). With the help of the focal action-set, it was now possible to focus on specific fields of interest in this wide range of drivers.

The last step in mapping an innovation network based on the work of Conway and Steward is to describe the relationships between the drivers and the focal actor. In this paper, we first want to focus on the relationship between customers and LOORO. We want to get a better understanding of how customer decision-making works and what opportunities evolve in this process. Therefore, we will demonstrate that today’s customers have changed their shopping behavior and that shopping-convenience is a key factor for shoppers to make their buying decisions and their choice of channel. Using digital services to increase shopping-convenience

could be promising for LOORO, and, regarding to the TOE-Framework and the identified transformation drivers, the change in shopping behavior should influence the digitalization of LOORO.

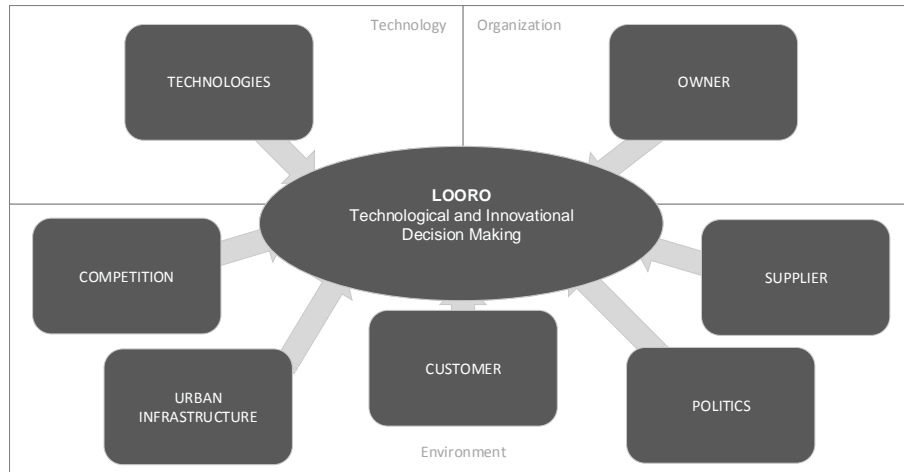


Figure 2. Local Commerce Focal Action-Set

#### 4. CONVENIENCE AS KEY FACTOR INFLUENCING BUYING AND RETAIL CHANNEL DECISIONS

According to Seiders et al. (2007), shopping convenience reflects consumers' perceived time and effort in purchasing or using a service. A number of studies has shown that shopping convenience (e.g. time-saving) has a major influence on buying decisions (cf. Wolfinbarger 2001; Berry et al. 2002; Gupta 2004; Bednarz 2010; Jiang et al. 2013 ) and retail channel decisions of customers (cf. Rohm, Vanitia 2004; Chang 2005; Choudhury 2008; Maity 2014). If the products are very similar or even the same, the customer weighs pros and cons (convenience / risk) of different retail channels and then takes his buying decision and channel choice, which is thereby influenced by his personal background (education level, experience) (Bhatnagar 2000).

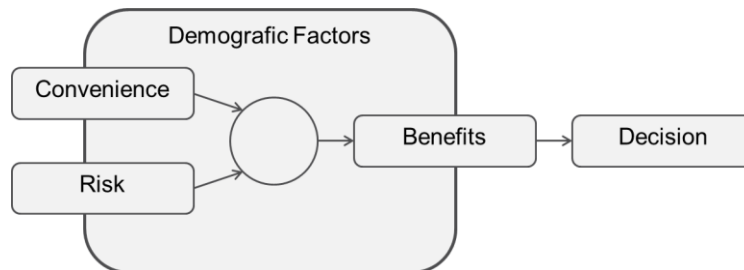


Figure 3. Convenience, risk and Internet shopping behavior (Bhatnagar 2000).

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In the context of retailing, Seiders et al. (2000) suggest four dimensions of convenience, which will guide the further discussion in the following sections:

- (1) Access. Consumers may reach a retailer.
- (2) Search. Consumers can identify and select products they wish to buy.
- (3) Possession. Consumers can obtain desired products.
- (4) Transaction. Consumers can effect or amend transactions.

We adapted this classification of shopping convenience for our survey and developed it into a set of digital shopping convenience categories as follows:

- (1) Online Visibility (Access)  
This category comprises all questions that refer to visibility online, like through a website (e.g. addressing also search engine optimization (SEO) activities), through search engines, or on digital markets.
- (2) Digital In-Store Applications (Search)  
This category refers to all questions related to the product management, like the digitalization of stock management, etc.
- (3) Delivery and Pick up (Possession)  
This category deals with delivery services and pick-up options for sold products.
- (4) Payment and Customer Relationship Management (Transaction)  
This category refers to questions that focus on e.g. payment methods or customer loyalty efforts, such as customer databases and loyalty schemes.

In the following presentation and discussion of survey results, the mismatch between expectations of the relevance of digitalization and the visible implementation efforts is revealed. Thereby, only a small set of questions / results which is in particular related to the above mentioned categories of digital shopping convenience, will be considered.

## 5. LOCAL COMMERCE AND THE SERVQUAL GAP-MODEL

Service quality research has spawned a number of approaches and models (cf. Cardozo 1965; Powers 1988) during its long tradition, such as the SERVQUAL model by Zeithaml et al. (1985). SERVQUAL offers a framework for measuring and managing service quality that encompasses both customer expectations as well as the actual service experience and also defines specific types of gaps that can cause a mismatch between expected and experienced service quality. SERVQUAL allows to conduct research into causes of over- or under-fulfilment of customer expectations using the confirmation / disconfirmation-paradigm amongst other tools. Figure 3 shows the SERVQUAL Gap-Model with the several defined types of gaps (Zeithaml et al. 1985).

We argue that the findings of the two following surveys indicate the existence of Gaps 1 and 2 of the SERVQUAL Gap-Model, increasing the risk of poor service quality in terms of under-fulfilled digital convenience expectations (Gap 5). According to Zeithaml et al. (1985), Gap 5 stands for the "expected service – perceived service gap" and needs to be interpreted as a function of the other gaps: "The quality that a consumer perceives in a service is a function of the magnitude and direction of the gap between expected service and perceived service." (Zeithaml et al. 1985) Gap 1 then represents the "consumer expectation – management perception gap". This gap represents the discrepancies between executive perceptions of and the actual consumer expectations, leading to improper service decisions and thus contributing to a Gap 5, which would mean negative impact on the service quality from the consumers' viewpoint. Gap 2 finally stands for the "management perception – service quality specification gap". It represents the difficulties of the management to match or exceed with their service specifications the expectations of the consumers, for example due to a lack of awareness, understanding or willingness, and thus also contributes to Gap 5. We neglect the other gaps at this point as they do not refer directly to the focus of this paper.

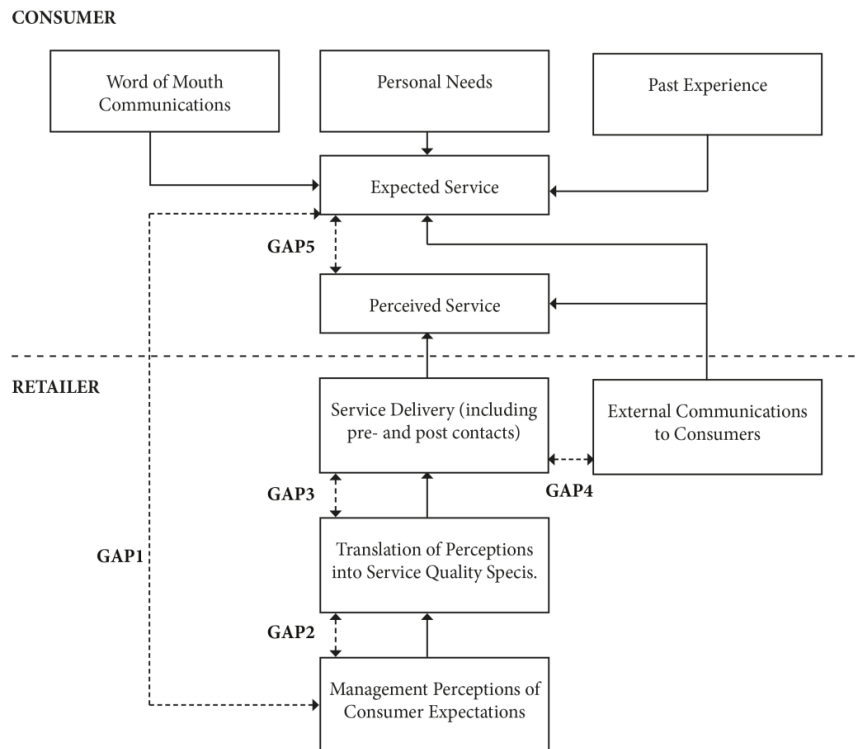


Figure 4. Service Quality Model (Zeithaml et al. 1985)

The following section now focuses on the two studies that reveal clear evidence for changing customer shopping behavior and that LOORO are aware of the importance of digitalization, but that they nevertheless do not feel pressured to take efforts to provide digital-services as they do not seem to be fully aware of the changing digital shopping-convenience of their customers.



## 6. CHANGING SHOPPING BEHAVIOR & RETAILERS' PERCEPTION

In 2014, the Institute for Trade Research (IFH) conducted a survey among 411 customers concerning their shopping behavior. This survey took place in the City of Soest, Germany, the same town that we addressed in our survey. The IFH's survey indicates clear evidence of the change in the shopping behavior of today's consumers. It pointed out that 26% of the 411 interviewees indicated that they had changed their high street shopping habits due to new digital retail outlets and that they did less high street shopping than before. A further share of 19.7% stated that they now shop online, but that they so far continued to visit the high street as often as before. This means that a total of 45% of customers have changed their shopping habits already due to the digitalization and the offers of the online retail market (IFH 2014). This also means that in their opting for the online retail channel rather than the high street channel these customers indirectly give on the one hand a negative assessment of shopping convenience of local retail outlets and on the other hand a signal that there is a need to enhance the competitiveness of local retail outlets with regard to digital/non-digital convenience.

In order to investigate the state of digitalization of LOORO in this context, we conducted a survey of local commerce between 10th and 19th February 2015 in the same medium sized German town (46.000 inhabitants / City of Soest). The survey was supported by the society for economic and market promotion (Wirtschaft & Marketing Soest GmbH - WMS) of the town. The WMS provided us with contacts to 135 local businesses that are listed as owner-operated retail outlets on their database. 85 of these 135 businesses fulfilled our definition of a LOORO (e.g.: retail store open on business days and with focus on consumer goods). The 85 businesses fulfilling our criteria were contacted personally and invited to take part in the survey. 44 of the contacted business completed all questions on the survey (51.8%). The survey was based on the causality model called Technology Acceptance Model (TAM) (Davis 1986) and consisted of 11 categories with 226 questions.

Table 1. Exemplary survey questions

No.	Question	Answer				
		Very high	High	Average	Low	Very Low
1	In your opinion, what importance will digitalization have for your business in the future?	10,8%	51,4%	21,6%	10,8%	5,4%
2	Willingness to work with digital applications?	23,7%	31,6%	31,6%	10,5%	2,6%
3	How much do your customers expect digital service offerings from you (e.g. online store, apps, internet site)?	5,1%	7,7%	23,1%	35,9%	28,2%

The answers of the survey on digitalization in local commerce indicate that there is a gulf between the perception of the relevance of digitalization and the implementation of services or the willingness to consider implementing digital services. This can be illustrated by the following exemplary results: 62.2% of the surveyed retailers stated that digitalization would have a high or a very high relevance for their business in the future (Table 1 / Question 1). 55.3% described their willingness to engage with digitalization as high or very high (Table 1 / Question 2). Thus, most of the surveyed retailers indicated that digitalization is of a high relevance to them and that they are willing to engage with it. On the other hand, 64.1% of the surveyed retailers assumed that customers would only have a low or even very low expectation of digital services for their business. A further 23.1% did not provide an answer on this question (Table 1 / Question 3).

## 7. CONCLUSION

In summary, after defining the field of research, we pointed out that despite the more and more difficult market environment most LOORO see digitalization as a topic rather for the future than for today and do not (yet) feel pressured to really engage with it. Using the SERVQUAL Gap-Model and thereby considering two studies conducted in the same German town covering both the retailers' and the customers' perspective, we identified out a growing mismatch between the (digital) shopping-convenience expected by customers and the according offers and activities of the studied retail outlets.

As we argue that the owner-operated retail outlets, which are a major economic factor for high street retail and the town economy can only retain their competitive edge if they manage to tailor their services and products more towards the service expectations of their customers, our advice is to "Mind the Gap." A closer assessment of customer expectations and a closer alignment of (digital) services with those changing expectations seem to be key ingredients for making progress and halting the increasing market share of e-commerce for local businesses.

To address the variety of opportunities for LOORO in order to increase shopping-convenience through digital services, we need to examine the sales and communication channels. It is almost common business to talk about the seamless integration of all available channels as part of an Omnichannel approach. However, that falls too short in our opinion. In contrast to the company-centric view on channels like web, mobile and in-store, we suggest choosing a customer-centric view that explains the digital state of the customer at the touchpoints with the company. A customer can be met in the following digital states:

1. Offline in-store
2. Offline not in-store
3. Online (fixed) in-store
4. Online (fixed) not in-store
5. Online (mobile) in-store
6. Online (mobile) not in-store

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Customers who are offline and not in-store should be addressed through traditional marketing and advertising channels. Customers who are offline in-store should be digitally enabled through store facilities to reach the online state (fixed or mobile) in-store so that we can focus on the last four customer states of our list. Further, to show direct-use cases, table 2 uses the well-established customer journey to structure exemplary digital options and opportunities for LOORO:

Table 2. Examples of digital capabilities for LOORO on the Customer Journey

Customer Journey	The customer is			
	In-Store		Not In-Store	
	Online Fixed	Online Mobile	Online Fixed	Online Mobile
Awareness / Information Phase				
Learning about new brands and products	<b>Digital Displays</b>	<b>Location-Based In-Store Advertising</b>	<b>Search Engine Marketing</b>	<b>Location-Based Marketing</b>
Consideration / Negotiation Phase				
Searching for additional information on product details	<b>Digital Shelf Extensions</b>	<b>QR-Codes</b>	<b>Search Engine Optimization</b>	<b>Location-Based Recommendations</b>
Purchase / Agreement Phase				
Completing the purchase	<b>Online Stored Value Payment</b>	<b>Mobile Payment with NFC</b>	<b>Digital Currency</b>	<b>Mobile Payment without NFC</b>
Fulfilment / Realization Phase				
Obtaining the product	<b>In-Store Pick-Up</b>	<b>Service App</b>	<b>Same Day Delivery</b>	<b>Service App</b>
Loyalty / Using Phase				
Engaging with the store after sale	<b>Loyalty Cards</b>	<b>In-Store Behavioral Targeting</b>	<b>Customer Relationship Mangement</b>	<b>Social Media</b>

This paper aimed at making a first contribution regarding the challenges faced by local commerce in view of digitalization of retail according to their special background and obstacles. In future, we plan to conduct further research on the options of local retailers to address the discovered gaps between their perceptions of and the actual customers' expectations with regard to digital shopping-convenience. Some examples to be studied include mobile payment, digital shelf extensions, online marketing, and co-operative logistics solutions allowing for same-day delivery and how these could be used for digital business model innovations by local retailers.

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