

Sustainable Competitive Advantage through Disintermediation with Special Reference to Supermarket Chains in Sri Lanka

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Abstract: There has been a significant improvement in the Sri Lankan retail industry over the last ten years. Supermarkets have become increasingly popular, along with other modern retail outlets offering a wide variety of products under one roof. Therefore, the market is becoming highly competitive day by day and it is a common aim of each and every supermarket entity operating in Sri Lanka to increase their profitability mainly by reducing costs and to improve their market share. Disintermediation in supply chain eliminates the position of middlemen between producers and customers, which avoids conventional distribution channels and the business goes direct to the consumers, making the supply chain processes more transparent and straightforward while generating many benefits for both the Supermarket chains and to the customers. This study was conducted to explore how the disintermediation is related to obtaining sustainable competitive advantage by supermarket chains in Sri Lanka. Both quantitative and qualitative studies have been done to achieve the research objectives. A questionnaire comprising of relevant questions has been developed and distributed among 103 respondents and also 5 supermarket managers were interviewed in-depth for greater precision. The results of the multivariate analysis found that social impact has the highest influence towards disintermediation on sustainable competitive advantage. Further, disintermediation can be

recommended for supermarkets as an efficient and effective practice to adapt with the modern market conditions, and it has many benefits towards stakeholders in achieving sustainable competitive advantage in the industry.

Keywords: Disintermediation, Sustainable Competitive Advantage (SCA), Cost reduction, Value creation, Social impact

Introduction

The supply chain consists of manufacturers, wholesalers, distributors and customers. Disintermediation eliminates the position of middlemen between producers and avoids conventional distribution channels with intermediates such as distributors, dealers, brokers or agents. In the case of disintermediation, one step is eliminated, e.g. the manufacturer goes directly to the customer, thereby removing the need for the wholesaler. Simplified, business goes in direct to the consumers, although the elimination of any single point within the supply chain can make the process more transparent and straightforward (Moore, 2001). Companies and also manufacturers can deal directly with consumers or end-users, which is a significant factor in reducing the cost of service to customers. Disintermediation leads to a high market visibility which allows customers to pay less as they deal directly with the supplier, bypassing the entire distributor and the retailer. Additionally in another way consumers can also purchase directly from wholesalers. Supermarket industries

around the globe therefore regarding direct sourcing as one of the best tactics to achieve sustainable competitive advantage (Ritchie & Brindley, 2000). The primary objective of this study is to explore how the disintermediation related to sustainable competitive advantage. The Secondary objectives of this study is to identify which factor is most influence on disintermediation, to identify the benefits of disintermediation for the supplier and buyer and to recognize the issues with the disintermediation of supplier in the supermarket chain. Attributes of disintermediation are as follows,

A. Cost Reduction

Cost reduction can be defined as a reduction in the unit cost of goods and services provided by the company, most importantly without sacrificing its performance or suitability for the projected use, with the aid of new and improved approaches. Many firms use it in a systematic and preventive manner to reduce the inessential costs of goods produced solely in order to increase the overall profits. There are several intermediaries engaging in the supermarket industry all across the supply chain. They create different kinds of costs for their added value. Such costs may be removed or further minimized by disintermediation (Stevenson & Spring, 2007).

B. Value Creation

Value creation can be defined as an upgrade in overall performance by analyzing each connection or node of the entire food supply chain systematically to see how the overall speed, cost effectiveness and reliability and can best be enhanced. Now a days, supermarkets are introducing goods and services under their own labels as a strategy in value creation. The phrase ' own-label ' brands often referred to as '

personal brands', ' store brands', ' retailer brands ' or ' home brands ' is described as consumer products manufactured by or on behest of distributors and selling under the distributor's own name or trademark via the distributor's own outlet. Removing intermediary parties and direct sourcing practices has an impact on this value creation. Most supermarkets are committed to offer its valuable customers quality product at affordable prices through this. Supermarkets can design their goods to have a standard design, plain, clear packaging while ensuring that all cost savings from disintermediation are passed on to the Customer. In the selling of own-label brands, supermarket entities has number of advantages such as increase the customer attraction towards their companies while promoting healthy eating and lifestyles which will generate many sales toward their companies (Riera, 2002).

C. Social Impact

Nowadays customers and consumers are increasingly concerned about the social and environmental effects of production and consumption. This has led businesses to renew their interest in matters related to reverse logistics, greener supply chains, environmental conservation and sustainable supply chains. Greener supply chains and sustainable supply chains are frameworks embraced by many supermarket chains today that reflect the overall environmental footprint of the supply chain on resources and ecological footprints are Greening the supply chain can lead to many benefits, such as saving money by minimizing or reducing waste, while at the same time improving efficiency and competitive advantage (Porter & Linde, 1995). Also Corporate Social Responsibility (CSR) is a well-known concept implemented by supermarket chains which reflects the attitudes and beliefs about the

nature of the relationship between business and society vary from day to day with the relevant issues arising due to the disintermediary practices conducted within the supply chain. Practices like empowering farmers and their families to engage in more cultivation, providing latest technological equipment with proper technological knowledge to improve their cultivation, providing loans at low interest rates for cultivation purposes facilitated by supermarket chains can be identified as current actively engaged CSR practices. In addition to CSR, other values supermarkets can develop includes business ethics, sustainable development, corporate citizenship, responsible entrepreneurship and the triple bottom line etc (Marrewijk, 2003).

D. Sustainable Competitive Advantage

A sustainable supply chain approach incorporates the connection between upstream and downstream. Focusing on buyers and sellers, you can see how each will have an impact on the processes and practices of the supply chain. In reducing middlemen, reduced costs are typically the result, supply chain management must concentrate on leveraging the skills, resources and strengths of the companies that make up this strategic network. Supermarket managers have recognized the importance of getting closer to their main customers. So, they can understand the needs and desires of the consumers and what they are actually looking for. The relevant upgrades can then be made to meet the needs of the customer. (Rossetti & Choi, 2008). This reasoning has also been applied downstream, and it is also important to forge close ties with one of the main suppliers. Therefore a supply chain approach must be built after disintermediation by recognizing the elements of the sourcing process, internally and externally generated knowledge flows,

new product Management, parallel procurement, partnering arrangements, commodity / component approaches, long-term demand planning, business cooperation and staff creation in order to obtain sustainable competitive advantage (Pepe, Abratt & Dion, 2012).

Methodology

E. Research Design

The purpose of this study is to know the impact of disintermediation in the supermarket chains. An inductive research approach with a qualitative method has been used to examine the relationship of variables. Researcher has followed mix method. The research was conducted in a longitudinal manner. Research theory and hypothesis are developed and tested according to positivism approach. In this research the target population comprises of the super markets in Colombo metropolitan area. The researchers focus on identifying the impact of disintermediation towards sustainable competitive advantage in the supermarket chain; the target population is identified as super markets managers. Considering the topic of the research, it has been narrowed down to Rathmalana, Kiribathgoda and Maharagama areas. Hence, the sample size consists of 100 Supermarkets. Snowball sampling technique is being used to create a sample which is a non-probability sample. This sampling method is convenience to create strata or layers that are highly representative in the population. Both primary data and secondary data collection tools used in the study. When collecting the primary data, a questionnaire which included only close ended questions is used and in-depth interviews with managers has been conducted. The questionnaire was distributed among the selected sample area's supermarket outlets. When collecting the secondary data related to this

study, previous literature from journal articles, web sites and books has been thoroughly studied and referred.

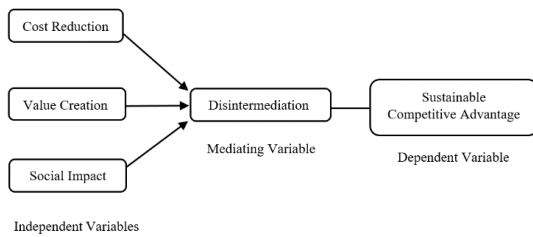


Figure 1 Conceptual Framework
Source: Developed by Authors (2020)

F. Hypotheses of study

H1: Disintermediation mediates the impact of cost reduction towards sustainable competitive advantage.

H2: Disintermediation mediates the impact of value creation towards sustainable competitive advantage.

H3: Disintermediation mediates the impact of social impact towards sustainable competitive advantage.

H4: Disintermediation mediates the impact of cost reduction, value creation and social impact towards sustainable competitive advantage.

G. Data Analysis Method

The analysis of data is done through multivariate analysis through the SPSS software. Findings of the researchers will be evaluated and analyzed using quantitative and qualitative methods. In this task of analyzing data, correlation and multiple regression measures are calculated by using the collected data. To use the correlation Statistical, represent liner relationship between two variables that is expressed numerical value and relationship of variables. And also, the studies that wish to use Multivariate analysis are focused on the dimensionality of the problem. Such problems are often resolved by the use of alternative models, which are highly accurate approximations

of the physics-based approach. Therefore, Multivariate analysis (MVA) was selected to analysis the data.

Results

Based on the study, the result for social impact is identified as the highest impact to the mediating and the dependent variable. The findings that was interpreted in the fourth chapter shows a linear relationship with a significant value of ($p < 0.05$) and a confidence level of 95%. Therefore, we can conclude that social impact has the highest impact on disintermediation towards sustainable competitive advantage. As per the linearity analysis the R square value which is 0.828 (82%) affects the disintermediation and sustainable competitive advantage. Furthermore, the result of the coefficient of the independent variable, mediating variable and the dependent variable has an influence of 0.910, which means it has a strong positive relationship among the variables. Furthermore, when looking at the sobel test, all independent variables were accepted by the mediate variable. As a result, cost reduction has 2.0916, value creation has 1.9643 and social impact has 2.1813 respectively at 95% confidence level. Among them it can be concluded that social impact has a higher influence on disintermediation towards sustainable competitive advantage. Finally, with the use of the data analysis it was proven that the social impact has the highest influence on the disintermediation.

Table 1 Sobel test

Variable	P value	Sobel test
Cost reduction	0.00075	2.09161351
Value creation	0.00024	1.96436597
Social impact	0.00086	2.18136396

Source: Developed by Authors (2020)

When looking at the B values of the coefficient analysis, we can conclude that if the cost reduction variable increases by one unit while all other factors are held constant, then the effect of disintermediation will increase by 0.13 resulting a positive relationship. Likewise, when value creation increases by one unit while the other factors are constant, the effect of disintermediation will decrease by -0.010 resulting a negative relationship. This is due to value generated throughout the supply chain will reduce when there are more intermediary parties involved. Next, the effect of social impact (b=0.918, p=.000) is significant and its coefficient is strongly positive out of other variables, indicating that, greater the social impact, the higher the disintermediation. Thus social impact variable is highly related to disintermediation and functions more as a proxy for sustainable competitive advantage.

Table 2 Coefficient Analysis

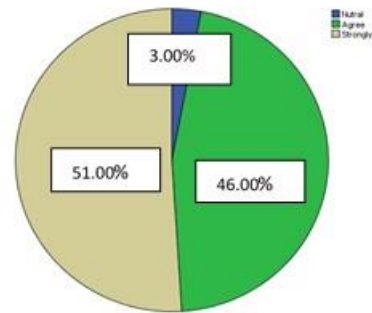
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	1.795	1.040		1.726	.088
cost reduction	.013	.062	.012	.205	.838
Value creation	-.010	.062	-.009	-.155	.877
Social impact	.918	.059	.908	15.593	.000

Source: Developed by Authors (2020)

$$\text{Effect of disintermediation} = a + 0.013(\text{cost reduction}) - 0.01(\text{value creation}) + 0.918(\text{social impact}) + e$$

Additionally when concerning the in-depth interviews of the research sample, the majority of 51% strongly agreed that supermarket is the best way to satisfy customers as a retailer market, while 46% agreed and 3% remained neutral.

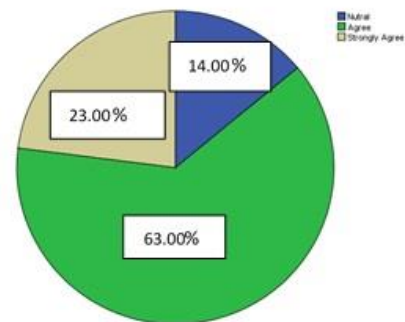
Figure 2: Supermarkets as a mode of customer satisfaction



Source: Developed by Authors (2020)

According to the survey, 63% agree on that the entity is currently reducing suppliers in its supply chain. Nearly 23% strongly agree and only 14% remain neutral.

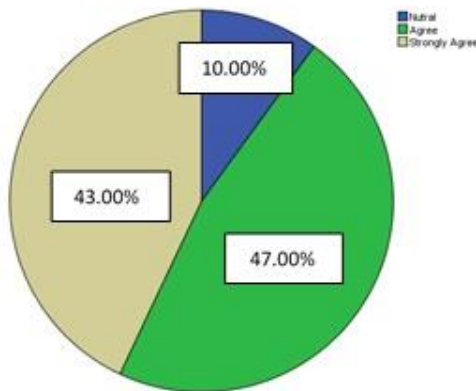
Figure 3: Reduction of suppliers in the supply chain



Source: Developed by Authors (2020)

Majority of the respondents (47%) agreed that the company is focused more on producing goods under their own brand name. A considerable proportion of (43%) strongly agreed while a minority of 10% remained neutral.

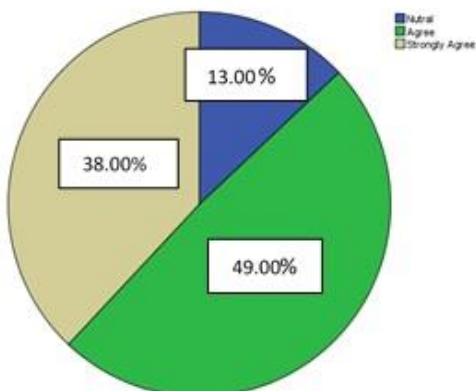
Figure 4: Company produces under its own brand name



Source: Developed by Authors (2020)

According to the survey results, almost half of the respondents (49%) agree on the fact that their company aims to increase quality of goods while reducing suppliers. However, 38% agree on this while only 13% are neutral.

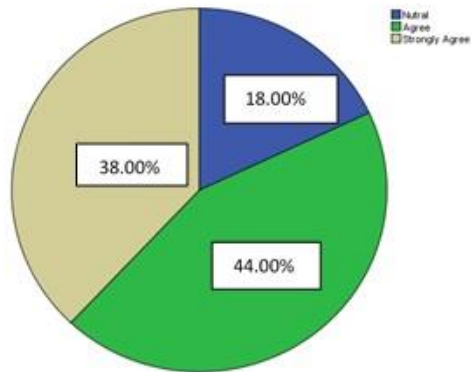
Figure 5: Increase the quality by reducing the suppliers



Source: Developed by Authors (2020)

The majority of respondents (44%) agreed that there is high customer attraction towards the products which is producing under the company's own brand name. 38% of them strongly agreed while the minority of 18% remained neutral.

Figure 6: Customer attraction towards the products under own brand name



Source: Developed by Authors (2020)

Discussion

Sri Lanka is a developing country which is now highly concerned about social welfare and environmental friendliness. When discussing the hypotheses of this study, it was identified that there is a positive influence of the social impact on disintermediation towards sustainable competitive advantage with regard to supermarket chains in Sri Lanka. Therefore that hypothesis is clearly accepted. The cost reduction and value creation variables are rejected since one party has to bear the cost while the other party enjoys the benefit. Therefore, due to the lack of benefits supermarkets are moving towards the social impact as it is a win-win situation for both the parties which is recommended by this study. Considering the study, it is possible to recommend the supermarket entities to be more focused on social and environmental effects of production and consumption. In order to enhance the Social impacts, activities such as corporate social responsibility (CSR) can be put into practice which will benefit both the society and the entity in many ways. Supermarket chains can embrace frameworks like Greener supply chain and Sustainable supply chain that reflects the overall environmental footprint of the supply chain on resources and ecological

footprints. Greening the supply chain can lead to many benefits, such as saving money by minimizing or reducing waste, while at the same time improving efficiency and achieving competitive advantage (Marrewijk, 2003).

H. Benefits of Disintermediation

1) *Speed/ability to deliver in a timely manner:* Through disintermediation, supermarket chains may boost their speed and ability to produce in a timely manner through decreasing the intermediary parties involved in the business process and therefore it takes less time for the product or service to reach the final customer or consumer. This can lead to higher sales, earnings, customer loyalty and gain high market share (Yusuf, et al., 2004). Such steps indicate reliability, but quick delivery is not so important unless the organization is highly associated with the reliability of the delivery. Furthermore, supermarket chains that focus on speed can deliver products in a reliable manner as they are promised that they might gain a competitive advantage over others (Hult, et al., 2006).

2) *Flexibility:* Disintermediation helps consumers to meet their needs by improving the ability to deliver personalized goods within a short period of time. Most supermarket chains are offering products / services under their own brand name. Flexibility can be defined as a metric to determine the quality of the supply chain after elimination of intermediaries. There are two cost outcomes within the consistency measures, namely flexibility in orders for extra volumes and flexibility in supplying extra sales points Supermarkets should therefore be flexible enough to meet customer needs and requirements that are always changing with the synchronization of its flexibility and reliability elements which creates value (Aramyan, et al., 2007).

3) *Product quality:* The main objective of the chain of supermarkets should be to offer high-quality products in a reliable manner. Material quality can be addressed with elements such as quality of the raw material, quality of the product manufactured by the company, period of preservation of the product, continuity in the use of the traceability process, processing and performance of the packaging and distribution conditions for the products of the company etc (Ketchen & Hult, 2007). Not as in other industries when it comes to food, customers are seeking increased food safety, improved quality, trustworthiness and convenience compared to other similar demands from rivals (Chow, et al., 2008). Supermarket chains use a traceability program including any step in the food supply chain to maximize food product safety and it is found very beneficial for controlling quality. Usage of good packaging practices, processing and distribution methods can lead to the safe transport of goods from suppliers to the final consumer without compromising the quality of the products (Wognum, et al., 2011).

I. Issues with Disintermediation

It is a complex process to disintermediate a node within the supply chain. The removal of the middle man also means that companies must reproduce the functionality of the intermediary's core expertise and replicate the flow of information, the flow of products and the flow of knowledge, as well as the cash flows of that particular node. The most common example of older versions of intermediation and disintermediation is Outsourcing. It is having the expertise, abilities and technologies of an outside company that makes a certain activity cheaper than working on its own (Pinto, 2000a). A more reasonable view on the influence of disintermediation in

distribution channels is that it will alter, but not eliminate the distribution channels. The producers need to create that value addition which was satisfied by the middleman prior to the disintermediation. Consumers are very demanding in added value to most of items before they can purchase and use them. But producers cannot provide this added value as it does not have the resources needed and may not have all the skills needed. This value must be given by the distribution channel, which is here to remain, but not in its current state. There are many problems that can arise directly from the customer itself, such as minimal order size, refunds, inquiries, delivery and all the issues that make up customer service etc (Pinto, 2000b). In order to cope with these new conditions, the business must have careful access and understanding of the causes and effects and be subject to change. It must find new ways to add value to the businesses of its customers through its engineering and design and financial capabilities in a way that its competitors cannot (Nordin, Brozovic & Holmlund, 2013).

Conclusion

Nowadays, customers and consumers are increasingly concerned about the social and environmental effects of production and consumption. Based on this study, it is possible to recommend the supermarket companies to practice disintermediation within their supply chains to enhance their social impact towards the stakeholders. This will give them Sustainable Competitive Advantage within the operating market. Supermarket chains can renew their interest in matters related to greener supply chains, reverse logistics, environmental conservation and management. Furthermore the companies can think of practices such as corporate social responsibility (CSR), supply chain

sustainability, triple bottom line, business ethics, corporate citizenship and sustainable entrepreneurship in supply chains which are currently receiving an amplifying attention in corporate business world.

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Abbreviations

Corporate Social Responsibility (CSR)

Multivariate analysis (MVA)

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