

**Examining the role of value offering in creating competitive advantages for street food vendors against restaurant owners in Mumbai, India**

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**Abstract**

This paper assesses the value offering and competitiveness of street food vendor stalls against larger restaurants in India. A survey based research design is adopted to gather data from 180 street food vendors and 120 restaurant owners. The findings using factor and regression analysis suggest that street food vendors gain competitive advantage through their price based value offering while, whereas restaurant owners compete against street vendors by offering superior performance value. However, both firms seek advantages by maintaining close relationship with their customers. The managerial implication of the finding for both micro and large business is discussed in the paper.

**Key words:** micro-business, value offering, competitive advantage and India

## Introduction

A firm's competitiveness is based on its distinctive capabilities that allow it to maintain an advantageous position in the market (Porter, 1990; Hunt and Morgan, 1995; Fiol, 2001; Srivastava, Fahey and Christensen 2001). However, much of the research to-date is focused on developing corporate strategies for large firms, small and medium enterprises and small firms, providing little if any attention to competitive advantages of micro-businesses. The importance of micro-businesses to most economies is evident from the fact that numerically, micro-businesses are greater than the number of medium sized and large corporations in both advanced countries (Urquhart, 2009) and in emerging economies like India (Ravi, 2009). However, studies have claimed that micro business share a dilemma of low capital, poor labour support, poor network capability and competition from large firms. Hence, there have been multiple calls to study micro-firms in their own right (Devins, Gold and Johnson, 2005; Roberts and Wood, 2001).

Within the array of micro business this paper concentrates on street food vendors of Mumbai, also known as *dhaba* in India. In a street business "goods are offered for sale to the public on streets without having a permanent built-up structure for selling purposes" (Bhowmik, 2005, p 2256). The peculiarity of street food business is its incredibly low pricing along with quick service and food prepared in the open air with small seating arrangement for customers to enjoy the snack. However, street food vendors often face fierce competition from local restaurant owners that operates in their place of business who lure their customers with expensive advertising, up-market locations and attractive packaging, adding to the competition fierce in the food industry (Reddy, 1997; Vepa, 2004). Given the array of challenges faced by street vendors discussed above, identifying avenues that can avail them to survive in the market is a priority issue. Hence, to explore this issue we develop a theoretical framework on the value offering of street food vendors and restaurant owners to understand their positional advantages and realized outcomes they achieve.

## Literature review

The premise of this study is embedded in the theory of competitive advantage and firm performance. Till date an extensive body of work has been published on competitive advantage (for e.g. Bharadwaj, Varadarajan and Fahy, 1993; Fiol, 2001; Koh, Lee and Boo, 2009). The common theme that emerges from this large body of work is that competitive advantage results from either implementing a value creating strategy by a firm or through superior execution of the same strategy to improve firm performance. Paralleling this literature is the body of work by scholars that consider entrepreneurial core competencies and skill sets as a potentially viable means for small and micro firms to gain superior firm performance (Brookshire, 2009) and improve its competitiveness (Chen and Hambrick, 1995). However, not much attention has been given to the role of value offering of small and micro-firms to gain competitive advantage in the market.

Value offering has been viewed as a source of firm performance for large firms (Matthyssens, Vandenbempt and Weyns, 2009) whereby firms either add new value to their products (Kaipia, Holmstrom and Hellstrom, 2007) or engage their customers in the co-creation of its product offering (Pralhad and Ramaswamy, 2004). While customers are the final arbiter of value or value offering (Vargo, Maglio and Akaka 2008) it is the firm's role to explore, interpret and deliver value based on what they believe customers are seeking (O'Cass and Ngo, 2010). Hence, to understand how street vendors differentiate their value offerings against restaurant owners, three measures of values are explored in the study: price, product

performance and relationship building value. Since extant literature evidences that these three measures of value offering can significantly influence a firm competitiveness in the market (Woodruff 1997; Wiklund 2008; Ulaga, 2003; Priem, 2007)

Following conventional standards, the competitive advantage of street and restaurant owners is assessed through their overall business performance (OBP) and profitability (Bharadwaj, Varadarajan and Fahy, 1993; Day and Wensley, 1988). OBP is assessed through owner's self-perception on their OBP against their business objectives. As per Bilkey (1985), when businesses operate under situations where they have to make decisions with limited information on the market, their 'perceived' evaluations on business performance is an important and relevant performance measure. Based on this overview we propose to test the following research questions in the study:

RQ1: To what extent are value offerings based on product performance value, relationship value and price value positively related to street vendors' overall business performance?

RQ2: To what extent are value offerings based on product performance value, relationship value and price value positively related to street vendors' business profitability?

RQ3: To what extent are value offerings based on product performance value, relationship value and price value positively related to restaurant owners' overall business performance?

RQ4: To what extent are value offerings based on product performance value, relationship value and price value performance value positively related to restaurant owners' business profitability?

### Methods

Survey based data from street food vendors was collected during a convention of street vendors held in a local place in Mumbai city. This convention consisted of about 200-250 vendors who operated their business within a small locality in Mumbai. These vendors were involved in selling different types products on street such as, groceries, stationary, women's traditional jewelry and street food. The convention was invited by the local municipal councilor to discuss possible plans for their re-location to new place due to changes in the city planning. A drop-off-and-collect technique as explained by Smith (2007) was employed to collect surveys from street food vendors. Similarly, the restaurant managers' data was collected from a list of 200 restaurant owners obtained from the local municipal council office in Mumbai that operated in the same vicinity as the street vendors in the study.

The surveys consisted of descriptive data and informants' responses to statements on a 7 point Likert scale, where 1 stands for disagree and 7 for strongly agree. The survey items were translated from English to Marathi, the local language of Mumbai and back from Marathi to English by two certified translators. The data analyses involved factor analysis and regression analysis in SPSS software. The items for performance, price and relationship building value were generated from prior work in the extant literature by O'Cass and Ngo (2010); Ulaga and Chacour (2001) and Ulaga (2003). The measures for product performance value were developed capturing firm's effort to deliver superior product performance that customers are seeking in the offering (e.g. better access to fast food products and services, introducing new ranges of fast food, deliver fast food that is to suitable customer taste and help customers obtain their service requirements). The pricing value component was measured via firms' efforts to exercise pricing practices that customers are willing to pay for the offering (sample item: 'The prices we charge for our food items are fully justified'). The relationship building value component was measured via firm's efforts to provide customers with hassle-free purchase experience and beneficial relationships (sample item: 'It is easier for the customers to deal with us'). The OBP measures were developed using firm's

performance on their stated objective of, delivering customer value, customer satisfaction, customer retention, service delivery and product innovation. The profitability of the firms was measure using their annual income on five categories <200,000 Rs (equivalent to <5000AUD) as category 1 to > 8 00,000 Rs (equivalent to >20,000 AUD) as category 5. In addition, considering the competitive differences between street and restaurant owners operating as small and large firms we used their highest price charged on food items as a control variable to assess their OBP and profitability.

In total, 180 street food vendors and 122 restaurant owner surveys were collected in the study, generating a response rate of 72% and 60% respectively. Both, the street vendors and restaurant owners expressed high confidence in taking the survey (74% and 69.7%). Majority of the vendors had high school education (75.6%) and did not receive any formal training in cooking (83%). However, 62% of the sample learned this business by working as interns (53%) or through their family members (38%). Alternatively, majority of the restaurant owners had either a high school education (30.6%) or an undergraduate degree (31.1) or received specialized training in cooking and hospitality (32.8%). The restaurant owners had more families (80.3%) or working professionals (60.4%), as customer, while the street vendors had customer who were either college students (70.4%) or working professionals (40%). Both street and restaurant owners sold similar type of food items classified as; Chinese food, *chats* also know as spicy Indian snack and lunch menu. However, the restaurant owner had more variations in their food items (80-100 items) on their menu list than street vendors (8-10 items). This is because, almost 90% of the restaurant owners had either engaged in or had launched innovative food items within the last 5 years of their business operation. While only 12% of the street vendors had launched innovative food items in the last five years of their business operation.

## Results

Factor analysis with varimax rotation was undertaken on all the variables in the study: product performance value, relationship building value, price value and OBP using two separate data sets of street vendors and restaurant owners. The results for street vendors' data yielded a four factor structure with eigenvalue > 1 and 62.2 % variance explained. Each items loaded highly on their respectively factors suggesting good discriminant validity (Diamantopoulos 2005). The reliability scores for the four factors ranged from 0.78 to 0.86, suggesting a good reliability of the measures (Nunnally and Bernstein 1994). The restaurant owners' data revealed a five factor structure with eigenvalue > 1 that collectively explained 74.6% of the variance. The first four factors represented items of product performance, relationship, price value and OBP. However the items under fifth factor were deleted either due to low factor loading <.30 (Hair et al., 2006) or because the items cross loaded with items on other factors. The reliability for the four factors ranged from .76 to .82. Based on the results composite scales for all the factors were developed for further testing.

To examine the research questions mentioned above multiple regression analysis is used in the study. Regression analysis is commonly used when assessing the influence of a single dependent variable on a number of independent variables while controlling for the potential confounding effects of other variables in the study (Hair et al., 2006). However, when one dependent variable is based on continues data and the other using categorical, the model becomes more complex. In this study, the profitability of street and restaurant owners was measured through their annual income for the past year (year 2009) based on five categories provided by the study: 1) >200,000 Rs (equivalent to 5000AUD) 2) 200,001 to 4,00,000Rs

3) 4,00,001 to 6,00,000 Rs, 4) 6,00,001 to 8,00,000 and 5) < 8,00,000 Rs (equivalent to < 20,000 AUD). This is because, it was expected that the respondents in the study may not be able to reveal or recall the exact annual income of their business but will be able to choose one of the categories provided by the study. This method was also designed to help reduce incomplete responses (Bello and Williamson, 1985) and standardize the data across two different data sets rather than to measure the descriptive statistics of overall annual income, such as means and standard deviations.

A frequency test was run across all the five categories of income for both the data sets. The street vendors' data reported high frequency of annual income within categories 1 of 42% and 2, 36% with a mean of 1.31 and standard deviation (SD) of .52. The other three categories reported a sum of frequency count which was less than 10% of the data and hence non usable for the study. Following Brookshire (2009) we standardized high response categories 1 and 2 by recoding it with value 1 and redefined the profitability of street vendors to include annual income of not more than 4,00,000 Rs (or 13,000 AUD) based on sample responses. Similarly, the restaurant owner's annual income was better defined through categories 4 (46%) and 5 (48%). Categories 1 to 3 had a total frequency count of >5%. This indicates that on average the restaurant owners in the study earned an annual income of more than 600,000 Rs (or < 15,000 AUD). Hence we recoded categories 4 and 5 with value 2 and standardized the responses on profitability of restaurant owners. A similar procedure was also followed for control variable, highest price charged by both street vendors and restaurant owners on one food item (one plate). The highest price charged by street vendors was in the range of 15 to 35 Rs (equivalent to 1 AUD) while the restaurant owner charged a highest price for one item between 300 to 400 Rs (equivalent to 10 AUD). Based on these redefined categories and summated factor scores a series of multiple regressions given below were used to test the research questions 1 to 4:

$$\text{Model 1: } y_1 = b_0 + b_1X + b_2X_1 + b_3X_2$$

$$\text{Model 2: } y_2 = b_0 + b_1X + b_2X_1 + b_3X_2$$

$$\text{Model 3: } y_1 = b_0 + b_1X + b_2X_1 + b_3X_2 + b_4D_1$$

$$\text{Model 4: } y_2 = b_0 + b_1X + b_2X_1 + b_3X_2 + b_4D_1$$

Where:  $Y$  = dependent variables (OBP and profitability).

$X$  = independent variables (product performance value, relationship value, price value)

$D_1$  = control variable (highest price charged by street vendors or restaurant owners).

$b_0$  = intercept.

$b_1$  = regression coefficients

Table 1: Results of the Regression paths

Regressions	Path	B value		t-value		Adjusted $R^2$	
		Street	Rest	Street	Rest	Street	Rest
$y_1.b_1$	Performance value → OBP	0.22 <sup>NS</sup>	0.41 <sup>S</sup>	0.99	2.09**	0.41	0.43
$y_1.b_2$	Relationship value → OBP	0.32 <sup>S</sup>	0.35 <sup>S</sup>	1.95**	4.84**	0.41	0.43
$y_1.b_3$	Price value → OBP	0.53 <sup>S</sup>	-0.12 <sup>NS</sup>	3.39**	-3.24	0.41	0.43
$y_2.b_1$	Performance value → Profitability	-0.29 <sup>NS</sup>	0.49 <sup>S</sup>	-4.66	4.48**	0.50	0.48
$y_2.b_2$	Relationship value → Profitability	0.10 <sup>NS</sup>	0.31 <sup>S</sup>	1.95	4.41**	0.50	0.48
$y_2.b_3$	Price value → Profitability	0.43 <sup>S</sup>	.05 <sup>NS</sup>	2.20**	1.16	0.50	0.48
	Control variables	Street	Rest	Street	Rest	Street	Rest
$y_1.D_1$	Price charged → OBP	0.29	0.05	1.76**	2.56	0.28	0.11
$y_2.D_1$	Price charged → Profitability	0.14	0.09	1.86	2.01	0.09	0.17

S= hypothesis supported, NS= not supported \*\* indicates two 2 tail significance value

### Discussion of the results

The results of regression analysis in table 1 reveal that for street vendors price value,  $\beta = 0.53$   $t$ -value 3.39 at  $\rho \leq 0.001$  followed by relationship value,  $\beta = 0.32$   $t$ -value 1.95 at  $\rho \leq 0.001$  (RQ1) were the two important predictors of their overall business performance. However, their product performance value (RQ1) did not contribute to their overall business performance, ( $t$ -value=0.99,  $\rho = 0.323$ ) when price and relationship are in the model. Similarly, price value was also a significant and only predictor of street vendors' business profitability (RQ2) as evidenced by,  $\beta = 0.43$   $t$ -value 2.20 at  $\rho \leq 0.001$ . This effect was also captured in the control variable, price charged which showed a positive relationship with overall business performance ( $\beta = 0.29$   $t$ -value 2.76 at  $\rho \leq 0.001$ ) when price value was in the model. The rest two values product performance and relationship value were either negative or insignificant to street food vendors' business profitability (RQ2). Thus, overall the street food vendors gained competitive advantage primarily through its price value offering. This finding provides support to the proponents of price theory which suggests that, to compete successfully in a value conscious environment, firms often seek to enhance customers' perceptions of the acquisition value relative to its selling price (Mazumdar, Raj and Sinha, 2005; Priem, 2007). Hence, offering competitive prices to customers can be viewed as the source of competitive advantage for not only street food vendors but also micro firms who operate under resource constraints (Raley and Moxey, 2000), limited network capabilities and low market share (Brookshire, 2009).

The restaurant owners in the study showed their product performance value ( $\beta = 0.41$   $t$ -value 2.09 at  $\rho \leq 0.001$ ) and relationship value ( $\beta = 0.35$   $t$ -value 4.84 at  $\rho \leq 0.001$ ) as two important predictors of their overall business performance (RQ3). Similarly, performance was also a significant predictor of owner's profitability ( $\beta = 0.49$ ), followed by relationship value ( $\beta = 0.31$ ) as shown in table 1 (RQ4). However, price value showed poor performance of either a negative beta value ( $\beta = -0.12$   $t$ -value -3.24) on business performance or insignificant variance in profitability ( $t$ -value=1.16,  $\rho = 0.41$ ) (RQ3 and 4). This finding suggests that restaurant owners' competency underlies in their ability to provide superior product performances to its customers. This is because product performance involves not just product quality performance (Prajogo, Laosirihongthong, Sohal, et al., 2007) but also its innovative performance (Luca and Atuahene-Gima, 2007) that matches customers' personal needs. However, both street vendors and restaurant owners claimed their positive customer relationship building benefit them with improved business performance and profitability for restaurant owners. This finding supports the views of Wiklund (2008) and Hogan (2001) who claim that by forming close, collaborative relationships with customers, firms can gain competitive advantage and improve their business performance. It is because relationship value is developed not only through personal interaction with the customers (Ulaga, 2003) but also by firms' assessment on the cost and benefits involved in a relationship (Hogan, 2001).

### **Managerial implications and future research**

The findings in this study suggest managers of micro and small firms (street vendor stall and restaurants) have the capacity to focus on a set of factors that can improve their business performance. There is little doubt that for micro firms their competitive pricing is the source of their competitive advantage, considering their limited network and resource capabilities. Hence, future research can explore the pricing avenue for micro business by understanding the individual, economic and social factors that influences their pricing decision. Similarly, for small firms their competitiveness underlies in their ability to provide better product performance and product quality. However, future research can explore role of product innovation and co-creation theory in improving small firm product performance. Similarly,

our findings strongly promote the use of customer relationship building value for micro and small firms to gain a competitive edge in the market. Based on the findings and implication our study expands the knowledge and understanding on the competitive advantage theory for small and micro firms.

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