

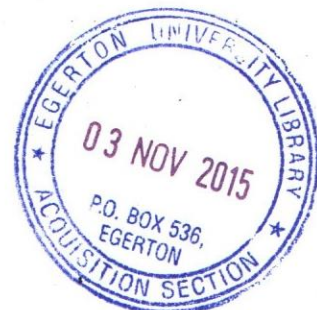
**ANALYSIS OF FACTORS INFLUENCING CUSTOMER LOYALTY IN SELECTED  
SUPERMARKETS IN NAIROBI CENTRAL BUSINESS DISTRICT, KENYA.**

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**A research project submitted to the Graduate School in partial fulfillment of the  
requirements for the award of the degree of Masters of Business Administration of Egerton  
University.**

**EGERTON UNIVERSITY**

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## DECLARATION AND RECOMMENDATION

### Declaration

I declare that this research project is my original work and has not been submitted before to any other university for the award of a degree.

Signature. Lilian Muriithi

Date 29/4/2015

Lilian Muriithi,

CM 16 /0022/11

### Recommendation

This research project has been submitted with my approval as the candidate's university supervisor.

Signature. P. Muriithi

Date 30/04/2015

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## DEDICATION

I dedicate this work to my father, mother, husband and children. Their love, care, encouragement and support have been exemplary.

## ACKNOWLEDGEMENT

First and foremost, I thank the Almighty God for his abundant grace, inspiration, encouragement and providence during the period. I wish to sincerely thank my supervisor, Ms Petronilla Oduor of Egerton University for her competence, guidance and help. She went through my work most thoroughly. I am grateful for the effort of my fellow graduate students for being very helpful. I would like to acknowledge all the respondents for their time and cooperation during this study. I also wish to sincerely thank my husband Mugo Mureithi for his encouragement, support and understanding throughout my study. I also owe much gratitude to my children Joseph Mugo, Joy Mugo and Phoebe Mugo for their understanding and support. I wish to thank my family members and friends for all the support and encouragement they accorded me throughout my studies.

## ABSTRACT

Customer loyalty is one of the most important issues organizations face today. Creating loyal customers has become important due to significant increase in competition and concentrated markets. The purpose of this study was to examine the factors influencing customer loyalty in selected supermarkets within the Nairobi Central Business District, Kenya. The specific objectives were to examine the influence of customer service on customer loyalty of supermarkets, to determine the influence of service quality on customer loyalty of supermarkets, to determine the effect of price on customer loyalty of supermarkets, to determine the effect of product display on customer loyalty of supermarkets and to determine the combined effect of customer service, service quality, price and product display on customer loyalty in selected supermarkets in NCBD. The study used a descriptive research design. Descriptive research design is used to obtain information about the current phenomenon and describe associations among variables. The target population was customers aged 18 years and above visiting the five selected supermarkets in the NCBD, namely; Nakumatt, Uchumi, Tuskys, Naivas and Ukwala. The study targeted a sample size of 384 respondents and 331 respondents participated in this study. The researcher used stratified and systematic random sampling techniques. The data was collected using structured questionnaires and analyzed using linear regression with the aid of Statistical Package for Social Science (SPSS). The results were presented in tables, bar graphs and pie charts. The findings of this study indicate that there was influence of customer service, service quality, price and product display on the customer loyalty to supermarkets. The study revealed that customer service has a positive and the most influence on customer loyalty followed by service quality and then price. Further the study found that product display had the least influence on customer loyalty. The study therefore recommends that supermarkets owners should improve on mechanisms to make it easy for customers when reporting complaints. The management of supermarkets should continually expose their employees to customer service programs so as to enhance customer service and care. Focus should be given to enhancing the quality of service by providing its services with accuracy. This will enhance customer service in terms of care and individualized attention. Supermarkets should ensure their prices are competitive and in the same range with their competitors. Finally, the management in supermarkets should be in a position to focus on enhancing the attributes (customer service, service quality and price) that have greater and more positive influence on customer loyalty.

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## LIST OF ABBREVIATIONS AND ACRONYMS

**NCBD** Nairobi Central Business District

**SERVQUAL** Service Quality

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Today, as markets become more aggressive and competitive, many organizations realize the significance of retaining existing customers in addition to acquiring new ones and they have come up with a number of activities to build long term relationship or loyalty with their customers. The ability of an organization to attract and retain customers is vital to its success. With increased competition and low customer switching costs, building customer loyalty is now a critical goal for organizations (Wallace et al., 2004). Organizations have to act in a manner to identify and satisfy customer needs and wants by providing products that satisfy customers better than that of competitors (Burnett & Hutton, 2007).

Customer retention is a more effective business strategy than continuously trying to acquire new customers in order to replace the defective ones (Anderson & Narus, 2004). Reinforcing this position Rosenberg & Czepiel (1984) advocated that customer retention is of paramount important to organizations since attracting new customers costs as much as six times more than keeping the current ones.

In Kenya for the last fifteen years, the number of supermarkets has continued to increase from the initial two – Uchumi and Nakumatt which had dominated the Kenyan market. This means that the level of competition has intensified since these supermarkets are operating in the same environment and targeting the same customers. Customer retention is of great significance to each of the supermarkets and, therefore, to cultivate a culture of customer loyalty which ensures that the customer is consistently buying its products is of great essence. Furthermore, retention of customers would ensure repeat buying of products and, therefore, continuous profitability while loss or diminishing of customer base also means lower profits or even losses

### 1.1.1 Customer Loyalty

There are several definitions of customer loyalty by different authors. Oliver (1997) defined loyalty as a deeply held commitment to re-buy or re-patronize a preferred good or service consistently in the future despite situational influences and marketing efforts having the potential to cause switching behavior. Customers exhibit customer loyalty when they consistently purchase a certain product from the same store over an extended period of time. Customer loyalty means a customer would return or continue to use the same product or other products of the same organization, make business referrals, and intentionally or even unintentionally provide positive word-of-mouth references and publicity.

According to Chaudhuri and Holbrook (2001) customer loyalty refers to a customer's repeated same brand purchase within a given category, based on a favourable attitude toward and preference for the particular brand. For the purpose of this study, customer loyalty means that the customer voluntarily chooses a particular supermarket against others for his or her needs. When a loyal customer makes significant purchases repeatedly from the same supplier, then it is termed as company loyalty. Loyal customers are predisposed to stay with one supplier, resisting competitive offers and also recommend the supplier to others.

Dick and Basu's (1994) definition of customer loyalty combines both attitudinal and behavioral measures. They propose that loyalty is determined by a combination of relative attitude (attitudinal loyalty) and repeat purchase levels (behavioral loyalty). Attitudinal loyalty considers consumers' preferences and disposition. Behavioral loyalty is determined by the number and frequency of purchases. Customer loyalty with its high repeat patronage and high relative attitude would be the ultimate goal for businesses. Keeping a large base of loyal customers gives a competitive advantage to any business. Thus customer loyalty is very significant for supermarkets. It indicates the degree to which their clients would maintain a long term relationship with them and it has the capacity to strengthen this association.

A loyal customer generally behaves better than a satisfied one and prefers to repurchase the goods and services continuously to an extent that his patronage is retained for a long period of time. Reichheld and Sasser (1990) stated that a growth of five percent in customer retention can result in an increase in profitability of between twenty five and eighty five percent depending on

e type of the industry. Supermarkets that promote and maintain good customer loyalty are able to enhance and enlarge their market share in this industry. Customer loyalty, therefore, constitutes a competitive advantage. It can be achieved through marketing efforts (Dick & Basu, 1994) and can further be utilized as publicity to attract new customers. Loyal customers tend to commend the supplier to their friends.

Customers are becoming harder to please. They are smarter, more price conscious, more demanding, less forgiving and are approached by many more competitors with equal or better offers. The challenge faced by the supermarkets is to have delighted and loyal customers. It is certain that well-managed customer retention programs through rewarding customers for repeat business are sure to give the ultimate customer loyalty. Customers who are targeted by a retention program demonstrate higher loyalty to a business. Therefore, such customer retention programs should include regular communication with customers and provide them opportunities to remain active and choose to do business with the supplier.

Supermarkets have come up with diverse methods as an attempt to retain customers and to win their loyalty. The researcher will therefore look into the factors influencing customer loyalty and the methods and ways which these supermarkets are using to retain customers.

### **1.1.2 Benefits of customer loyalty**

With loyal customers, companies can maximize their profits. Loyal customers are willing to purchase more frequently, try the firm's new goods and /or services, recommend goods and services to others and give companies suggestions (Reichheld & Sasser, 1990)

According to Kotler (1994) customer loyalty constitutes an underlying objective for strategic marketing and market planning and represents an important basis for developing a sustainable competitive advantage. Reichheld (1996) argued that an increase in customer loyalty generates a high net present value for companies and it has the capacity to strengthen this association. Therefore the retention of customers is an important objective and requires the management to understand the factors that influence customer loyalty toward a particular store.

## 1.2 The Statement of the Problem

According to Akhter et al., (2011) customer loyalty is one of the most important issues organizations face today. Developing a network of loyal and satisfied customers is critical for the survival of many businesses (Gould, 1995). Thus customer loyalty and retention is of paramount importance since it has implications for profitability, competitiveness, sustainability and even survival in the market. This means that businesses have to keep on adjusting their strategies to meet consumer needs and wants better than their competitors.

Reichheld and Sasser (1990) argue that customer loyalty is considered to be an important factor for increasing profitability and maintaining the position of the organization. According to their research, reducing the defection rate of customers by 5% generates between 25 % and 85 % more profits for the organization depending on the industry. They therefore concluded that the organizations should keep hold of their loyal customers as a competitive asset.

Nairobi's population is surging at an increasing rate creating demand for consumer products. This has led to an increase in the number of supermarkets and each seeks to outdo their rivals in the scramble for market share. This means that the level of competition has intensified since these supermarkets are operating in the same environment and targeting the same customers. Creating loyal customers has become important due to significant increase in competition and concentrated markets. There is therefore, great need for supermarkets in Nairobi Central Business District to understand the factors influencing customer loyalty given these dynamics and changes brought about by continuous influx of new entrants into the market, especially in Nairobi where these new entrants have been established seeking to capture a market share of the established supermarkets.

A study conducted by Ndwiga (2012) on factors influencing customer loyalty in supermarkets in Kenya focused only on Nakumatt holding limited shopper's whose patronage to the store is over a period of two years. He did not include other chains of supermarkets. There is need to include other chains of supermarkets and this study included five store brands. This study therefore, seeks to examine the factors that influence customer loyalty of supermarkets in Nairobi Central Business District.

### **1.3 Objectives of the study**

The general objective of this study was to examine the factors that influence customer loyalty in selected supermarkets in Nairobi Central Business District (NCBD). The specific objectives were as follows:

- i) To examine the influence of customer service on customer loyalty of supermarkets in NCBD.
- ii) To determine the influence of service quality on customer loyalty of supermarkets in NCBD.
- iii) To determine the effect of price on customer loyalty of supermarkets in NCBD.
- iv) To determine the effect of product display on customer loyalty of supermarkets in NCBD.
- v) To determine the combined effect of customer service, service quality, price and product display on customer loyalty of supermarkets in NCBD.

### **1.4 Research Hypotheses**

This study will be guided by the following hypotheses

- $H_{01}$ : Customer service has no significant influence on customer loyalty of supermarkets in NCBD.
- $H_{02}$ : Service quality has no significant influence on customer loyalty of supermarkets in NCBD.
- $H_{03}$ : Price has no significant effect on customer loyalty of supermarkets in NCBD.
- $H_{04}$ : Product display has no significant effect on customer loyalty of supermarkets in NCBD.
- $H_{05}$ : The combined effect of customer service, service quality, price, product display have no significant on customer loyalty of supermarkets in NCBD.

### **1.5 Significance of the study**

The following will benefit from the study:

The findings will benefit the management of supermarkets to understand the factors, and to what extent they influence customer loyalty. Businesses are always searching for ways on how to

compete more effectively for consumers and loyalty to their stores and in doing this; they need to know what makes customers loyal to their store.

The findings will provide knowledge and information to respective supermarkets on which aspects of customer loyalty to be addressed for their retention which is critical for sustainability of supermarket business and profitability. The study will serve as a source of reference in future for researchers and scholars in the field of marketing undertaking similar or related studies.

#### **1.6 Research Scope**

The scope of this study was confined to Nairobi Central Business District and supermarkets operating within were evaluated in relation to the subject of study. Focus was on customers visiting five selected supermarket stores in NCBD, namely Nakumatt, Uchumi, Tuskys, Naivas and Ukwala. Nairobi has been chosen as the area of study since most supermarkets have their headquarters based in Nairobi with branches in other regions of Kenya. Thus the results and views of customers in Nairobi were generalized to represent other areas in Kenya. These supermarkets were selected on the basis that they serve the general shopping population in Nairobi and they are also well established retail stores. The selected supermarkets provided a representation of customers in the market.

#### **1.7 Assumptions of the study**

The assumptions made in this study were: that customers make a decision to shop at a particular supermarket without influence of incentives such as sales promotion, the selected supermarket stores are located and operate in NCBD and that the selected supermarkets stock the same kind of products.

#### **1.8 Limitations of the study**

The study focused on Nairobi based supermarket shoppers. The study also focused on five selected supermarkets located in NCBD. Perhaps in future a similar study can be extended beyond Nairobi to cover peri urban other towns, in order to investigate and analyze the determinants that influence customer loyalty for other towns supermarket customers in comparison to urban customers. Another limitation of the study is reluctance of the respondents to participate in the survey and to give information. To overcome this limitation, the researcher explained to both the management of the selected supermarkets and respondents that the

information gathered was to be treated with utmost confidentiality and was to be used specifically for the purpose of the study.

### **1.8.1 Delimitations of the study**

Delimitations are those characteristics selected by the researcher to define the boundaries of the study. Participation in this study was delimited to supermarket customers who are 18 years and above. The study was delimited to five selected supermarkets operating within NCBD, namely Nakumatt, Uchumi, Tusky's, Naivas and Ukwala. The researcher delimited the study to four factors of customer loyalty as outlined earlier in this chapter.

### **1.9 Operational Definition of Terms**

The study dealt with several key concepts or terms which are defined by the researcher as used in the study and as understood.

#### **Customer**

A person who buys products repeatedly from his preferred supermarket.

#### **Customer loyalty**

In this study customer loyalty means a deeply held commitment to re-buy products from the same supermarket consistently despite situational influences and marketing efforts having the potential to cause switching behavior.

#### **Customer Service**

Customer service is a system of activities that comprises customer support systems, complaint processing, speed of complaint processing, ease of reporting complaints and friendliness when reporting complaints.

#### **Price**

Price is the amount of money charged for a product. It is the value that customers place on a product to obtain it.

### **Retailing stores**

These are business enterprises that sell products directly to customers.

### **Service quality**

Service quality is the customer's overall impression of the relative superiority or inferiority of a supermarket and its products.

### **Store loyalty**

Store loyalty is the degree to which a customer consistently visits the same supermarket when shopping.

### **Supermarket**

This is a large self service retail store that sells a wide variety of household products.

### **Word of Mouth**

This refers to personal communication about a product between target buyers and neighbors, family member and associates.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter highlights key areas in customer loyalty and the theory that the study is based on. The researcher gives background information about customer loyalty in supermarket businesses in Nairobi and the factors that influence it. Based on empirical review, conceptualization of the study is presented through the conceptual framework. Details of how each variable was measured is also given. The conceptual framework brings out the relationship between the variables that are highlighted in the chapter.

#### 2.2 Theoretical perspective

This study is based on Oliver's theory. Oliver (1997) came up with a theory on customer loyalty. He defined loyalty as a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts that have the potential to cause switching behavior. According to him loyalty is a learning process that highlights relationships between attitude and behaviour. He observed that loyalty develops in four stages.

The first stage is cognitive sense (belief). It refers to people's thoughts about the attitude object. At this stage various attributes such as price, quality of the goods and services influence peoples' loyalty. Henceforth it is considered as the weakest in the four stage model. The consumer may switch from his existing brand once he is informed about or if he perceives alternative offerings as superior with respect to the value for money. To be loyal, the customer confirms that his or her expectations about the goods or services are met.

Second is the affective sense (favored attitude) in which consumers are repeatedly satisfied from purchasing decisions. Affect refers to the emotional (according to attitude studies, the affect is different from behavioural component. Behavioural refers to the intention to act or the action itself) responses such as feelings, moods and other emotional factors that can be interpreted from verbal reports or from their physiological actions. Affective loyalty relates to a favorable attitude towards a specific brand or product. Attitude can be considered as a function of cognition.

Whenever expectations are met or conformed, it will lead to satisfaction, which in turn induces affective loyalty.

Third is the conative stage that consumers have a behavioral intention – committed deeply to buy. Conation is the behavioural intention or willingness to act. Bagozzi (1978) stated that “The conation dimension is said to depict the action tendencies one has to approach or avoid an object or perform some response”. This implies the attitudinal loyalty should be accompanied by a desire to act. A typical example is the desire to repurchase a particular brand of product. It is stronger than the attitudinal (affective loyalty) but, it is also prone to certain weaknesses. Service failures, poor way of handling complaints are some of the strong reasons that diminish conation. The customer may opt for alternative brands when they frequently encounter mismatch in their expectations, such as inappropriate service.

According to Oliver (1997) these three loyalty states leads to readiness to act (action). This readiness is accompanied by consumers’ willingness to search for the favorite offering. In this search, competitive offerings are not considered as alternatives even if considerable efforts are put forward by competitors.

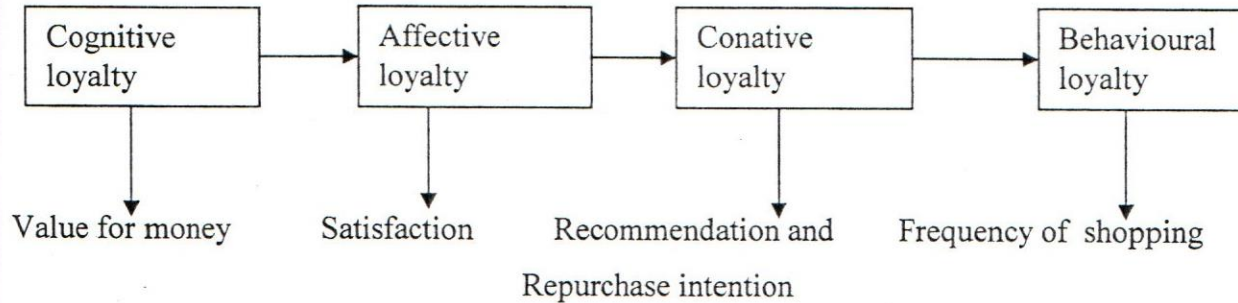


Figure 2.1. Oliver's Model of Loyalty

Source: Murale (2007)

The theory suggests that once a customer has found a product that he or she enjoys (meeting with expectations of cost, quality and benefits) and continues to use, he or she becomes less concerned with seeking alternatives and does not respond to advertising or competitive threats (Oliver, 1999; Newman & Werbel, 1973; Sambandam & Lord, 1995). Provided the product does

not cause dissatisfaction the consumer is likely to continue purchasing the same brand due to loyalty (Oliver, 1999) time, money, lack of alternatives and switching costs (Bitner, 1990)

In review of literature, reference has been made to past studies done in this field.

Gakure, (2012) researched on the importance of customer loyalty on fast moving consumer goods in the era of globalization. The general objective of this study was to research on the importance of customer loyalty as a strategy in the era of globalization on fast moving consumer goods (FMCG) in Unilever Company Limited. This research problem was studied through the use of a descriptive research design, with the Nairobi Unilever staff as the target population. The study collected both primary and secondary data. A pilot test was carried out to pretest the validity and reliability of the data collected using a questionnaire. The collected data was analyzed through the use of excel spreadsheet and presented through the use of tables, bar graphs and pie charts. From the findings it was revealed that customer loyalty was important in enhancing customer commitment, product trust, and promotes repeat and referral purchases. The study recommends that Unilever Company implement strategies to recognize and reward its loyal customers to maintain and grow its market share.

Tariq and Moussaoui (2009) carried out a research on the main antecedents of customer loyalty in the Moroccan Banking Sector. The aim of the research was to examine the main antecedents of customer loyalty. Data was collected through a survey from Casablanca, Rabat, Tangier and Marrakech. The Pearson correlation was used to test research hypotheses and the multiple regression analysis helped to find the most important antecedent to customer loyalty. Data analysis revealed that customer satisfaction, trust, corporate image and service quality were important factors affecting customer loyalty, with customer satisfaction emerging as the most important of these. The banking sector needs to develop strategies to increase customer loyalty by enhancing customer satisfaction along with trust level, corporate image and service quality. It is envisaged that this study will set a foundation for future research work concerning this aspect of business activity in Morocco and in general, the broader service industry context.

Majumdar (2005) researched on determinant factors for store loyalty and their effects on store loyalty intentions. The researcher investigated the effects of the determinants in building loyalty for a particular retail store located inside a shopping mall. The study was conducted to identify

the determinant factors for store loyalty and their effects on store loyalty intentions. He looked into store loyalty in a holistic manner incorporating factors like service quality, location factors, value perceptions, and store image. Managerial implications for the management of customer loyalty of the mall store were discussed.

The survey process was conducted in two large metropolitan cities of India: Chennai and Kolkata. The data was collected by intercepting mall shoppers inside the mall when they came out from a particular garment store. "The rationale for our data collection method is based on the theory that respondents will be more attentive to the task of completing the questionnaire and will provide more meaningful responses when they are contextualized in the environment that they are evaluating. Being in the natural environment (i.e. the shopping mall setting) is preferable to sitting at the kitchen table at home amid distractions that take precedence over the task of completing the survey" (Dabholkar et al., 1996: 11).

Reichheld and Sasser (1990) found that loyal customers are willing to: re-buy products despite the fact that there are attractive competitive alternatives to cause switching, spend money on trying products across the firm's product line offerings, recommend the firm's goods or services to other consumers, and give the company sincere suggestions (feedback) as to their needs and expectations. The result of a successful customer loyalty strategy leads to customer retention.

Allaway et al., (2011) in their study of customer based brand equity, equity drivers and customer loyalty in the supermarket industry identified a set of seven key factors; service level, product quality and assortment, programs for rewarding patronage, prices, effort expended in keeping customers, layout and location. These factors serve as the building blocks upon which customer loyalty in supermarkets can be created, improved and sustained.

Caruana (2002) conducted a study of retail banking customers in Malta and concluded that service quality affects customer satisfaction, which in turn affects customer loyalty.

A study conducted by Muturi (2004) on factors that determine customer loyalty to a mobile phone service provider in Nairobi, indicated that service quality, price differentiation and perceived value influence customer loyalty.

### 2.3 Concept of Customer Loyalty

It is important that what is meant by the term customer loyalty is understood before looking at the factors of customer loyalty. The term customer loyalty is defined as a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1997).

According to Dick and Basu (1994) loyalty is measured as the strength of the relationships between an individual's relative attitude and repeat patronage. The authors make a distinction between the relative attitude which is mental commitment and the actual shopping behavior (repeat purchases, repeat patronage). Four forms of loyalty are derived from these considerations: First is no loyalty is 0 given if relative attitude as well as repeat patronage is low. Second is wrong loyalty (spurious loyalty); this happens if only repeat patronage is high while relative attitude is rather negative. In this case the customer continues to make purchases in a store, although he is discontented with certain things. The third one is latent loyalty where customers have a positive commitment to a store, but seldom make their purchases there because maybe the business is too distant from the place of residence. Fourth is real or true loyalty. The customer often makes purchases in his favorite store and he has a positive attitude towards that store. In other words he is loyal.

Dick and Basu (1994) further identified two types of loyalty; behavioural and attitudinal loyalty. Behavioural and attitudinal loyalty are also referred to as "share-of-wallet" and "share-of-heart", respectively. Behavioural loyalty is defined as a customer's intentions for repeat patronage, repeat purchase and actual purchase behavior (Jones & Taylor, 2007; Bove et al; 2009). It reflects the customer actions and involves the measurement of past purchases of the same brand and the measurement of probabilities of future purchase given past purchase behavior (Bandyopadhy & Martell, 2007). Customer loyalty is often examined from a behavioural point of

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### 2.3 Concept of Customer Loyalty

It is important that what is meant by the term customer loyalty is understood before the factors of customer loyalty. The term customer loyalty is defined as a demonstrated commitment to re-buy or re-patronize a preferred product or service consistently in spite of situational influences and marketing efforts having the potential to cause behavior change (Oliver, 1997).

According to Dick and Basu (1994) loyalty is measured as the strength of the relationship between an individual's relative attitude and repeat patronage. The authors make a distinction between the relative attitude which is mental commitment and the actual shopping behavior (repeat purchases, repeat patronage). Four forms of loyalty are derived from these considerations: First is no loyalty (0) given if relative attitude as well as repeat patronage is low. Second is wrong loyalty (spurious loyalty); this happens if only repeat patronage is high but relative attitude is rather negative. In this case the customer continues to make purchases at the store, although he is discontented with certain things. The third one is latent loyalty; customers have a positive commitment to a store, but seldom make their purchases there, maybe the business is too distant from the place of residence. Fourth is real or true loyalty; a customer often makes purchases in his favorite store and he has a positive attitude to the store. In other words he is loyal.

Dick and Basu (1994) further identified two types of loyalty; behavioural and attitudinal. Behavioural and attitudinal loyalty are also referred to as "share-of-wallet" and "share-of-heart" respectively. Behavioural loyalty is defined as a customer's intentions for repeat purchase and actual purchase behavior (Jones & Taylor, 2007; Bove et al; 2006). It reflects the customer actions and involves the measurement of past purchases of the store and the measurement of probabilities of future purchase given past purchase behavior (Bandyopadhy & Martell, 2007). Customer loyalty is often examined from a behavioural

view by measuring items such as number of repeat purchases, "share of wallet" and purchase frequency. The assumption is that loyalty translates into an unspecified number of repeat purchases from the same supplier over a specified period (Egan, 2004).

On the other hand attitudinal loyalty is defined as a consumers' identification with a particular service provider of a good or service over alternatives (Jones & Taylor, 2007). It is a favourable evaluation that is held with sufficient strength and stability to promote a repeatedly favourable response towards a product or a store. The attitudinal approach infers customer loyalty from psychological involvement, favoritism and a sense of goodwill towards a particular product or service (Kim et al, 2004). The measurement of attitudinal loyalty suggests that consumers form relationships with some of their brands (Uncles et al, 2003). Attitudinal loyalty will through word-of-mouth help to create a positive image of a business to others which indirectly creates a positive result.

According to Green and Li (2010) customer loyalty plays an important and a critical role in an organization's success. Customer loyalty is widely seen as a key determinant of a firm's profitability as loyal customers provide firms with a consistent source of revenue (repeat and increased purchases) and for cost reduction (less promotional expenses), thus increasing profitability. Reichheld and Sasser (1990) found that loyal customers are willing to: re-buy products despite the fact that there are attractive competitive alternatives to cause switching, spend money on trying products across the firm's product line offerings, recommend the firm's goods or services to other consumers, and give the company sincere suggestions (feedback) as to their needs and expectations. The result of a successful customer loyalty strategy leads to customer retention. Depending on the industry, an improvement of five percent in customer retention leads to an increase of twenty five percent to eighty five percent in profits (Kerin, Hartley & Rudelius, 2009; Reichheld & Sasser, 1990).

Businesses with high customer loyalty rates have proven to reach great financial results.

Buchanan & Gilles (1990) identified six reasons explaining why long-term customers are more profitable than others: (i) regular customers place frequent, consistent orders and, therefore, usually cost less to serve, (ii) long-established customers tend to buy more, (iii) satisfied customers are willing to pay premium prices, (iv) retaining customers makes it difficult for the

competitors to enter a market or increase their share, (v) satisfied customers often refer new customers to the supplier at virtually no cost and (vi) the cost of acquiring and serving new customers can be substantial.

A higher retention rate implies that fewer new customers need be acquired and can be acquired more cheaply according to the marketing maxim on customer loyalty that "it costs five times more to acquire a new customer than to retain an existing one" (Gee et al., 2008). Thus it makes commercial sense for a business to develop relationships with its current customers before acquiring new customers. Keeping existing customers satisfied is much more cost effective than acquiring new customers (Parker et al., 2009). Customer loyalty results from committed customers who display repeat purchase behaviour towards the business by purchasing the goods offered by that particular enterprise (Brink and Berndt, 2004).

The reasons causing loyalty are complex as per a study carried out in Germany on food retail chains in 2002. Aspects like prices, quality of products, product variety, customer service, availability of products and accessibility of the store are frequently mentioned (Ehrenberg et al. 2000). The authors' findings indicated that it is not a single factor which determines loyalty but rather many factors influence loyalty. The German food retailing sector is characterized by fierce competition. Reichheld (1996) gives a simple cause: "What keeps customers loyal is the value they receive." Loyalty can only be created in the course of time and can possibly fade away some time later as suggested by Oliver (1996). On the other hand, not to be loyal equally has several reasons such as discontentment due to high prices or the desire for change by the customer in seeking product variety.

To retain loyal customers, Schoell and Guiltinan (1992) advocated that marketers or organizations must communicate with customers who use their products to discourage switching to competitors. This requires the marketer to: remind customers that their products are still available, show customers that their products' benefits are superior to those of rivals, inform customers of changes in their products that make them better than rivals. To enhance the loyalty of customers and to generate more business from existing customers, marketers should use relationship marketing. Customer loyalty is the key objective of customer relationship

management and describes the loyalty which is established between a customer and companies, persons, products or brands.

## **2.4 Determinants of Customer Loyalty**

Since customer loyalty has become paramount for organizations, a major concern is to find out the determinants or drivers of customer loyalty (Kumar *et al.*, 2011). The reasons causing loyalty are complex as per a study carried out in Germany on food retail chains in 2002. Aspects like prices, quality of products, product variety, customer service, availability of products and accessibility of the store were frequently mentioned (Ehrenberg *et al.* 2000). The authors' findings indicated that it is not a single factor which determines loyalty but rather many factors influence loyalty. Based on above reviewed literature and theory, my study focused on the most commonly mentioned factors which are customer service, service quality, price and product display. The following section discusses in details each and every one of them.

### **2:4.1 Customer Service**

According to Innis and La Londe (1994) customer service is a process that takes place between a buyer, a seller, and a third party and can influence demand in the market. The third party may include companies that have been licensed by a marketing company to provide customer service. A service is a process consisting of a series of more or less intangible activities that normally take place in interactions between the customer and service employees, physical resources or goods and systems of the service provider, which are provided as solutions to customer problems. According to Turban (2002) Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation.

Customer service is one of the most important considerations in the evaluation of a supplier (Jackson *et al.*, 1985). Often, customer service takes place while performing a transaction for the customer, such as making a sale or returning an item and can take the form of interaction with a person, a phone call or self-service systems. A supplier's reputation for quality service attracts potential customers and keeps existing customers loyal. Quality service additionally provides protection from price competition (Hartley, 1989). Customer service can produce customer behaviors that can indicate whether a customer will remain with or defect from an organization (Zeithaml *et al.*, 1996). Lucas (2005) is of the opinion that by providing excellent customer

service and dealing with dissatisfaction as soon as it is identified, companies can ensure that customers remain loyal and keep coming back. Many customers do not buy a company's product so much as they "buy" the person who sold it to them.

#### 2.4.2 Service quality

Service quality is the gap between what the customers want and what they actually get or perceive they are getting (Berry *et al.*, 1988). Consequently, many companies attempt to offer a high service quality in order to retain their customers. It has been empirically proved that high service quality motivates positive customer behavioral intention to repurchase, and in turn, promotes customer retention (Zeithaml *et al.*, 1996). This implies that service quality is linked positively to customer loyalty. Studies show that quality is linked to repurchase intention and customer loyalty through customer satisfaction (Yu *et al.*, 2005; Anderson & Sullivan, 1993).

Service quality has been taken from SERVQUAL model which is a service quality framework (Parasuraman *et al.*, 1996). It measures the five service quality dimensions customers care about. The model measures the gap between customer expectations and experience. The basic assumption of the measurement is that customers can evaluate a firm's service quality by comparing their perceptions with their expectations. The five SERVQUAL dimensions also referred to as rater are: (i) Reliability - ability of a firm to perform the promised service in a timely manner and accurately, (ii) Assurance - knowledge and courtesy of employees and their ability to convey trust and confidence, (iii) Tangibles - appearance of physical facilities, equipment, personnel, and communication materials, (iv) Empathy - caring, individualized attention the firm provides its customers, and (v) Responsiveness - willingness to help customers and provide prompt service.

The rater model is a simple and useful model for qualitatively exploring and assessing customers' service experiences and has been used widely by service delivery organizations. It is an efficient model in helping an organization shape up their efforts in bridging the gap between perceived and expected service. Customers use the five dimensions when evaluating quality of service of an organization, and if providers get these dimensions right or if the service they provide is beyond the customers' expectations, then customers will be loyal. This is because they will have received excellent service.

### 2.4.3 Price

Kotler and Armstrong (2010) defined price as the amount of money charged for a product or service. It is the sum of all values that customers give up in order to gain the benefits of having a good or service. They further expounded that, price is the only element in the marketing mix that produces revenue; all other elements represent costs. Price is also one of the most flexible marketing mix elements. Unlike product features and channel commitments, prices can be changed quickly. At the same time, pricing is the number one problem facing many marketing executives, and many companies do not handle pricing well. Pricing should be customer-value oriented. Good pricing begins with a complete understanding of the value that a particular product or service creates for customers.

The price of a product is the value attached to the product. It is the value that customers place on it to obtain it. If customers perceive that a product's price is greater than its value, they will not buy it. If the company prices a product below its costs, profits will suffer. Between the two extremes, the 'right' pricing strategy is one that delivers both value to the customer and profits to the company (Kotler & Armstrong, 2010). In a competitive market, businesses are expected to compete on both price and quality of service, it is also necessary for the businesses to meet the consumers' requirements and expectations in price and service quality (Melody, 2001). Customers seek low prices for the merchandise they buy (Sheth & Mittal, 2004). Customers do not always bother to ensure that the price they are getting is the lowest but rather they want to feel that the price is comparably low and that they are getting value for their money.

Customers tend to be value maximizers and estimate which offer will deliver the most perceived value and act on it (Kotler (2009)). Whether or not the offer lives up to expectations affects customer satisfaction and the probability he or she will purchase the product again from the same firm. Kotler (2009) defined customer perceived value as the difference between the prospective customers' evaluation of all the benefits and all the costs on an offering and the perceived alternatives. The customer gets benefits and assumes costs and he always compares the benefits and costs of a product before purchasing the same.

Onkovist (2008) shares a similar view with Kotler (2009) that a customer who is choosing between two products will compare their customer perceived value and choose the one with higher value. A customer may ignore other options from competitors and instead continue with

the same supplier if he thinks the supplier provides him more value and benefits than others. Such loyal customers tend to spend more money, buy more, buy longer and tell more people about the product or supplier. This type of long-term customer loyalty can only be created by making the customers feel that they are the number one priority with the supplier and getting value for their money. Companies must create a high value relative to competitors at a sufficiently low cost.

According to Onkovist (2008), careful handling of the elements of price can give the organization a competitive advantage in the industry where it operates. Porter (1985) urged companies to build a suitable competitive advantage. Competitive advantage is a company's ability to perform in one or more ways that competitors cannot or will not match. In general, a company that hopes to endure must be in the business of continuously inventing new advantages. Any competitive advantage must be seen by customers as customer advantage. If customers perceive that they get value for their money from the price being charged, then it will deliver high customer value and satisfaction which leads to high repeat purchases and ultimately high company profitability as stipulated by (Xia *et al*; 2004). Offering products at an attractive and affordable price is equally necessary to achieve a competitive advantage in the market.

#### **2. 4.4 Product display /layout**

According to Peter & Olson (2010) store layout is the basic floor plan and display of merchandise within a store. This includes display /layout of products on shelves as well as clear markings or labeling of each section showing which items are found on which shelf. This influences such factors as how long the consumer stays in the store, how many products the consumer comes into visual contact with, and what routes the consumer travels within the store. A customer would spend less time doing shopping if products are well organized on shelves and clearly marked which makes it easier and faster in product selection.

Kolter (1974), Baker (1986), Turley and Milliman (2000) found different store environments and atmospheres will deliver different psychological feelings to a customer. These feelings in turn affect their enjoyment of shopping, the amount of time spent in the store, their intention to purchase and the personal values they attain throughout the shopping experience. Donovan and Rossiter (1982) suggested that emotional responses induced by in-store environments are the major determinants of the amount of money the customers spend. The store environment which

includes product display/ layout is a very important and primary factor to determine customers' purchasing decisions since it affects their shopping experiences directly. If a consumer is satisfied with the store, his/ her intention to visit it again will increase and he will be more loyal to the store. Conversely, if a consumer feels uncomfortable with the store environment, he may not go to the store again. These findings clearly illustrate to retailers that every part of the store environment is a very important tool to communicate and to keep up with their consumers.

A suitable merchandise or products display creates a clear store image to customers which helps position the business in the market and also helps gain the attention of customers over their competitors by positioning it in the minds of the consumers. There will definitely be a comparative advantage when customers are attracted to a store by its products display; this will make customers shop from the supermarket with a suitable and better merchandise display when the thought to purchase something comes into their minds. This is the reason why proper and suitable merchandise / products display is essential.

## **2.5 Customer satisfaction**

According to Peter and Olson (1993), customer satisfaction is a critical concept in marketing thought and consumer research. It is generally argued that if customers are satisfied with a product, they will more likely continue to purchase and use it and to tell others of their favorable experiences with it. If they are dissatisfied, they will be more likely to switch to other products and complain to manufacturers, retailers and other consumers. Customer satisfaction is the extent to which a product's perceived performance matches a buyer's expectations (Kotler & Armstrong, 2010). In general, satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a product's perceived performance or outcome in relation to his or her expectations. If the performance falls short of expectation, the customer is dissatisfied. If the performance matches the expectation, the customer is satisfied. If, however, the performance exceeds expectations, the customer is highly satisfied or delighted.

A satisfied customer is a true asset of the business enterprise and represents the sole justification of the business enterprise's existence (Cant *et al.*, 2006). A highly satisfied customer generally stays loyal longer, buys more as the company introduces new products and upgrades existing ones, talks favorably about the company and its products, pays less attention to competing brands

and is less sensitive to price.

A loyal customer offers product ideas to the company and costs less to serve than new customers because transactions are routine. The perceived value of products relative to price, staff friendliness and willingness to assist as well as the quality and freshness of products, store appearance, and the degree of customer service are some of the factors affecting customer satisfaction (Gomez *et al.*, 2004). According to Clotey *et al.* (2008), the benefits of customer satisfaction to a business include lower acquisition costs of attracting new customers.