

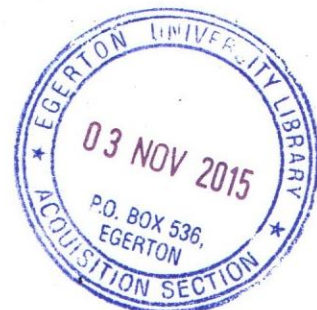
**ANALYSIS OF FACTORS INFLUENCING CUSTOMER LOYALTY IN SELECTED
SUPERMARKETS IN NAIROBI CENTRAL BUSINESS DISTRICT, KENYA.**

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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. Petronilla Oduor

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.

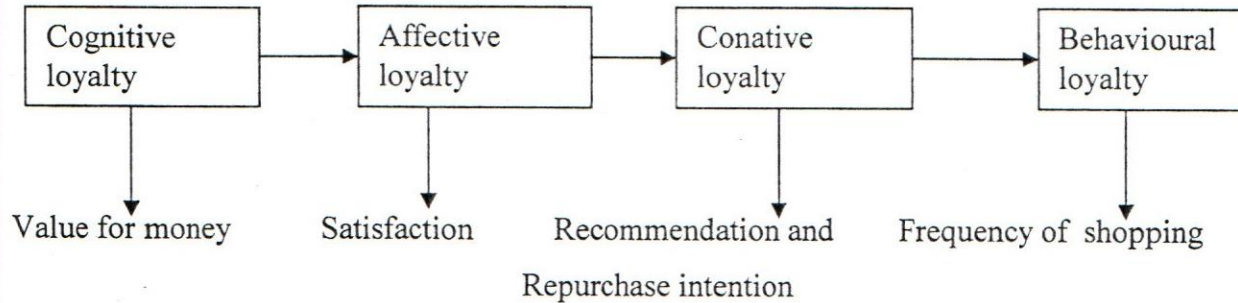


Figure 2.1. Oliver's Model of Loyalty

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 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 (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 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 towards 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.

2.6 Conceptual Framework

In this study the dependent variable is customer loyalty while the independent variables are customer service, price, service quality and product display. The variables and their relationship is shown in the figure below.

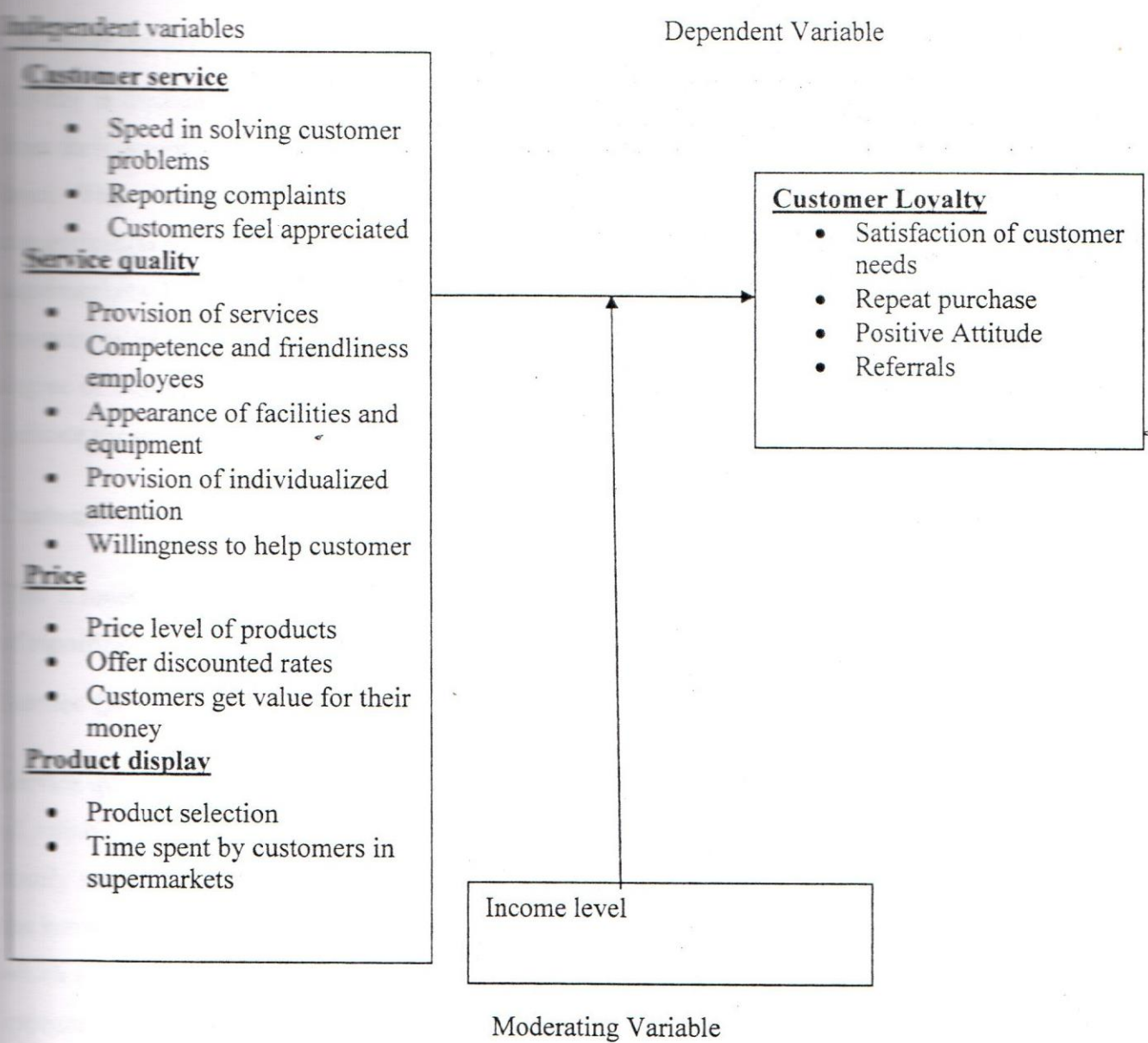


Figure 2.2 Relationship between independent variables and dependent variable

Source: Own Conceptualization

2.7 Operationalization of the variables

In this section, operationalization of the variables is discussed one by one.

Customer loyalty

Loyalty is measured by asking customers about their willingness to continuously buy products from their supermarket of choice in the future and whether they are considering themselves to be loyal. This measures customers' retention intention and it also evaluates their personal categorization in terms of loyalty. Customers are asked to express their opinions about the supermarket's ability to satisfy their needs. This serves the purpose of reflecting a general assessment of the customer's feeling about the supermarket. The last question deals with the degree of customers' recommendation of the preferred supermarket to their friends. Results will indicate the extent to which positive word of mouth is exhibited.

Customer Service

This is measured by the extent to which a supermarket is fast in solving customer problems, ease of reporting complaints and the extent to which a customer feels appreciated by the supermarket.

Service Quality

Service quality is assessed based on five dimensions. The first dimension deals with the element of reliability, which judges the capability of supermarket to provide a promised service in a timely manner, and without error. The second dimension looks at the assurance, and evaluates the knowledge of the employees and their politeness. The third dimension concerns the tangibles, which evaluate the look of the equipment and physical facilities in a supermarket, as well as the appearance of its employees. The fourth dimension concerns the empathy which appraises the level to which individualized attention is offered. The fifth and last dimension concerns the responsiveness which assess the willingness of the supermarket employees to help customers and provide prompt service.

Price

Price is measured by the extent to which a supermarket offers affordable products, often offers discounted rates for their products and the extent to which customers feel that they get good value for their money.

Product Display

This is measured by extent to which products selection is made easier and faster by well displayed products and reduction in amount of time a customer spends in the supermarket due to products display.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures and methods that the researcher used to carry out the research. It outlines the research design chosen. It also identifies target population, sample chosen to provide data as well as the sampling procedure used. The data collection methods and data collection instruments are outlined. The chapter also gives a description of the data analysis methods that were used to present the findings of the study. The study was guided by the research objectives laid down in chapter one.

3.2 Research Design

The study used a descriptive research design. According to Cooper and Schindler (2001), a descriptive research design is concerned with establishing or providing answers to questions of the what, where, who, when and how of a phenomenon. The study is descriptive in the sense that it gives more information on variables concerned and it also shows the relationship between these variables. Descriptive research design is used to obtain information about the current status of a phenomenon and describe associations among variables.

3.3 Target Population

Population refers to the total collection of elements about which we wish to make inferences (Cooper & Schindler, 2001). The target population in research is the specific population about which information is desired. A population is a well defined set of people, services, elements, events, group of things or households that are being investigated. The target population of this research is supermarket customers in the Nairobi Central Business District aged 18 years and above based on the fact that this category of people is composed of those who can make independent decisions and choices. The researcher contacted the managers of the supermarkets and obtained the number of customers that visit the selected supermarkets per week as indicated in table 3.1.

3.4 Sampling Procedure

The study gathered data from sampled customers visiting the selected supermarkets in Nairobi in order to get first hand information about the phenomena and answer the research problem. The main focus of this study was quantitative. However some qualitative approach was also used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. According to Cooper and Schindler (2001), the sampling frame describes the list of all population units from which the sample is selected. The researcher used stratified sampling technique which is a probability sampling method. Probability sampling was used to give every supermarket customer a chance of being included in the sample. According to Malhotra (2007), stratified sampling is a method that uses a two-step process to divide the target population into sub-populations or strata, elements are then selected from each stratum by a random procedure. Random sampling allows the researcher to estimate the characteristics of a population with precision while controlling for selection bias (Tuckman, 1999)

The target population was divided using supermarket store brands as the strata which are five for this research. The store brands are Nakumatt, Uchumi, Tusksys, Naivas and Ukwala. Respondents were selected from each stratum by a systematic random sampling technique whereby every 5th customer visiting the selected supermarkets were interviewed until the required number is reached for that particular stratum. The researcher followed a sampling schedule and randomly selected customers from the selected supermarkets at different times of the day i.e. morning, midday and afternoon /evening on different days of the week (week days and weekends).

The formula applied to get the sample size is: (Fischer et al., 1998) as cited by Mugenda & Mugenda, (2003).

$$n = z^2 pq / d^2$$

Where:

n = the desired sample size if the target population is greater than 10,000 (infinite)

z = the standard normal variate at the required confidence interval which at 95% is 1.96.

p = the proportion in the target population estimated to have the characteristics being measured q = (1-p)

d = the level of statistical significance set

Therefore; $1.96 * 1.96 * 0.5 * 0.5 / 0.0025 = 384$ respondents

After getting the sample size, then the figure was proportionately distributed among the five supermarkets based on their percentage representation as indicated in the table below.

Table 3.1: Nairobi Central Business District Supermarket Customers

	Target Population (No. of customers per week)	Percentage Representation	Sample Distribution
Nakumatt	33,600	22.86	88
Uchumi	31,500	21.42	83
Tuskys	35,000	23.80	91
Naivas	22,400	15.25	58
Ukwala	24,500	16.67	64
Total	147,000	100	384

Source: Author 2014

3.5 Data Collection Instrument

The researcher used primary data which was collected from respondents by use of questionnaires. Questionnaires were used to collect data from the sample population. The questions were linked to the objectives of the study and were easy short questions to ensure the respondents understand and find them easy to answer. The researcher started with easy questions and moved on to the harder questions so as to motivate and encourage the respondents to answer the questions. The researcher organized and worded the questionnaire in such a way as to encourage respondents to provide accurate, unbiased and complete information.

The questionnaire designed in this study comprised of two parts. The first part was designed to determine fundamental issues and capture respondents' bio data and demographic characteristics, while the second part consisted of questions where the four variables or research objectives focused. Structured close-ended questions were used and a few open-ended questions were included so as to encourage the respondent to give an in-depth and felt response without feeling held back in revealing of any information.

3.6 Data Collection

The method of administering the questionnaire was one-on-one (face to face) where the researcher gave the questionnaires to respondents who filled them and left them with researcher/interviewer. The potential participants were intercepted at the entrance of supermarkets and were given questionnaires after explaining to each respondent the purpose of the research and requested to participate in the study. A systematic random sampling technique was used to interview respondents – every 5th customer was interviewed until the required number was reached for that particular supermarket.

A Likert scale was used to rate respondents' opinions about the variables under study. Each determinant was tested on a five point scale from strongly agree on one end, to strongly disagree on the other. Likert scale is a widely used rating scale that requires respondents to indicate a degree of agreement or disagreement with each series of statements about the stimulus objects (Maholtra, 2007)

3.7.1 Validity of instrument

A pilot test was done before embarking on actual data collection activity. The purpose of a pilot test is to enable validity and reliability of research instruments to be determined. Validity is the degree at which data collecting instrument measures what it was supposed to measure. The study used content validity as a validity test. Content validity was established using content experts to make judgments on the process followed. The supervisor's opinion was sought in judgment procedure of assessing whether the data collection tool was likely to provide contents valid data. This helped to improve the questionnaires before proceeding to the field for final data collection. The researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. The researcher selected a pilot group of customers from the target sample of the customers visiting selected supermarkets in Nairobi Central Business District to test the reliability of the research instrument. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents is necessary so as to enhance the instrument's validity and reliability. The aim is to correct inconsistencies arising from the instrument, which ensured that they measure what was intended. The purpose of pre-testing the questionnaires was to determine: whether the questions as they were worded achieved the desired results, whether the questions have been placed in the best order, whether the questions were understood by all classes of respondents, whether additional questions were needed and whether some questions were to be eliminated.

3.7.2 Reliability of instrument

Reliability is the extent to which a measure, procedure or instrument yield the same result on repeated trials. The most common internal consistency measure known as Cronbach's alpha (α) was used. It indicates the extent to which a set of test item can be treated as measuring a single latent variable; Cronbach's alpha reliability coefficient that ranges between 0 and 1. 0 implies that there is no internal reliability while 1 indicated perfect internal reliability. Cronbach's alpha reliability coefficient value of 0.7 or higher is considered sufficient (Sekaran, 2009). The recommended value of 0.7 was therefore used as a cut-off of reliability. Reliability results for all the set of variables in the questionnaires gave a Cronbach alpha statistics of more than 0.7, thus the threshold value of 0.7 were met.

Table 3.2: Summary of Reliability Test

Variable	Cronbach's Alpha	N of Items
Product display	.871	3- questions
Price	.836	3- questions
Customer service	.838	3- questions
Service quality	.812	5-questions
Customer loyalty	.884	5-questions

3.8 Data Analysis and Presentation

The data collected in this study using the instruments mentioned earlier was cleaned and validated before analysis. Data was edited to ensure legibility, consistency and completeness. The researcher used Multiple regression analysis technique to determine the relationship between the independent variables and the dependent variable. Statistical Package for the Social Sciences (SPSS) was used to conduct the regression analysis. According to Mugenda and Mugenda (2003) multiple regression attempts to determine whether a group of variables together predict a given dependent variable.

The multiple regression model is of the form:

$$Y = a_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + e$$

Where:

Y = Customer loyalty

a_0 = Constant or intercept

β_{1-n} = Coefficients

X_1 = Customer service

X_2 = Service quality

X_3 = Price

X_4 = Product display

e = Error

The results were presented in figures, tables, bar graphs and pie chart where appropriate.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The number of respondents who participated in this survey totaled to 331 out of the 384 questionnaires distributed. This is a response rate of 86%. Respondents' characteristics are presented in the first part of this chapter. The second part involves descriptive statistics to determine the factors that influence customer loyalty of supermarkets in Nairobi Central Business District, Kenya. The results are presented in pie chart, tables and figures with brief comments on the findings.

4.2 Respondents Profile

Majority of the respondent (61.9%) were female while 38.1% of the respondent were male, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias. Majority of the respondents (61%) were in the age bracket of 25-44 years while the minority (0.9%) were 65 years and above. These results show that the study sample was sensitive to the age of the respondents capturing opinions across all the age groups. Most of the respondents (36.9%) had university degree while a significant number (35.6%) had college education. More than half of the respondents (55.9%) were married. This is presented in table 4.1

Table 4. 1: Respondents profile

	Frequency	Percent
Gender		
Male	126	38.1
Female	205	61.9
Age		
18-24	38	11.5
25-34	101	30.5
35-44	101	30.5
45-54	73	22.1
55-64	15	4.5
65 and above	3	0.9
Level of education		
Secondary school	23	6.9
College	118	35.6
University graduate	122	36.9
University Post-Graduate	68	20.5
Marital status		
Married	185	55.9
Not married	142	42.9
Others	4	1.2

Source: Field data, 2014

Respondents were asked to state their employment status. Majority of them (73.6%) were employed while 18.2% were self employed and the remaining 7.9% were not employed. Respondents were also asked to estimate their monthly income. Majority of them (31.8%) earned between Ksh 20000-50000 per month while a minority (11.3%) earned between Ksh. 80000 and Ksh.100000 as shown in figure 4.1

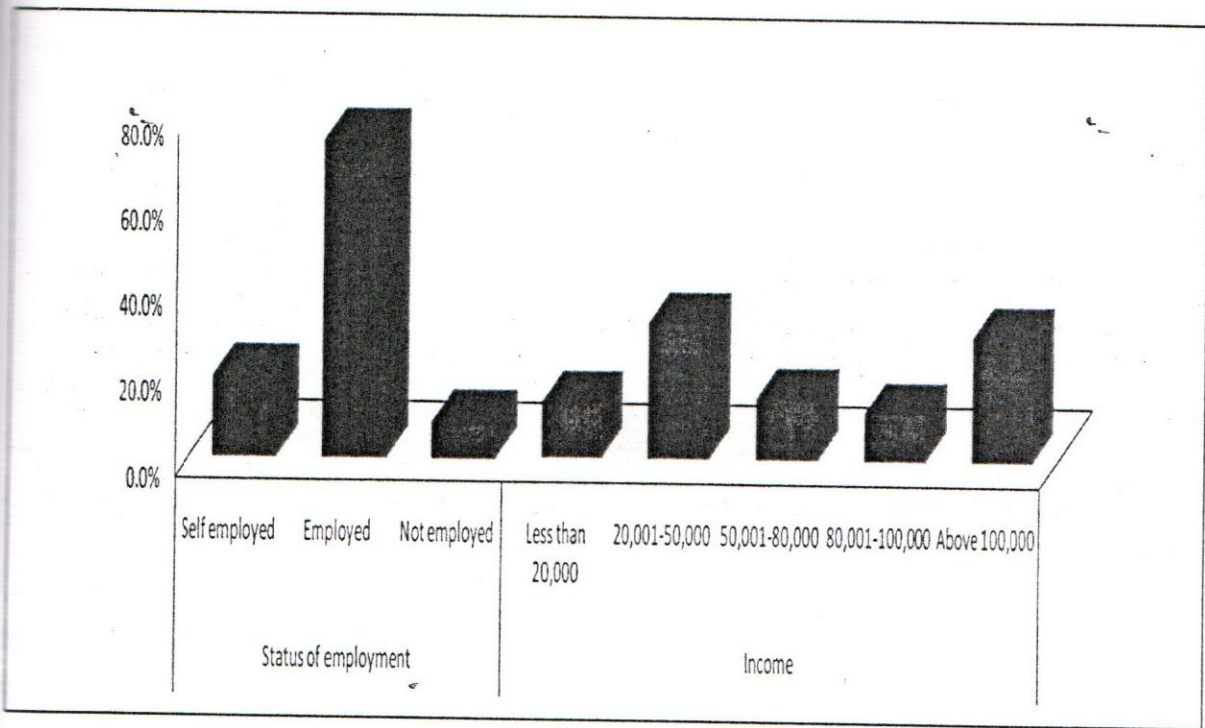


Figure 4. 1: Monthly income and state of employment

Source: Field data, 2014

Respondents were categorized into their supermarkets of choice. Most of the respondents shopped at Tusky's supermarket (30%) followed by Nakumatt (25%) and Uchumi (22%) with the least respondents sampled from Ukwala (11%) and Naivas (12%) supermarkets as indicated in figure 4.2.

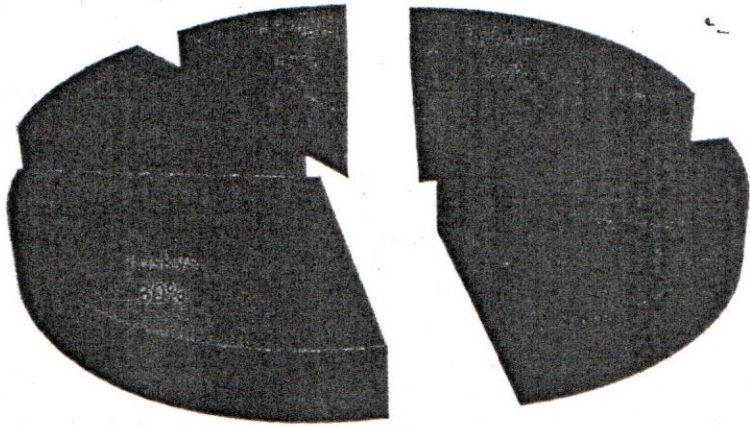


Figure 4. 2: Supermarket of choice

Source: Field data, 2014

4.3 Customer Loyalty

Respondents were asked to state whether they had loyalty cards for their supermarket of choice. Majority (70%) reported to own loyalty cards. Most of the respondents (80%) from Nakumatt supermarket reported to have loyalty cards as compared to the others. Ukwala supermarket had the most respondents (43%) who did not have loyalty cards as shown in figure 4.3.

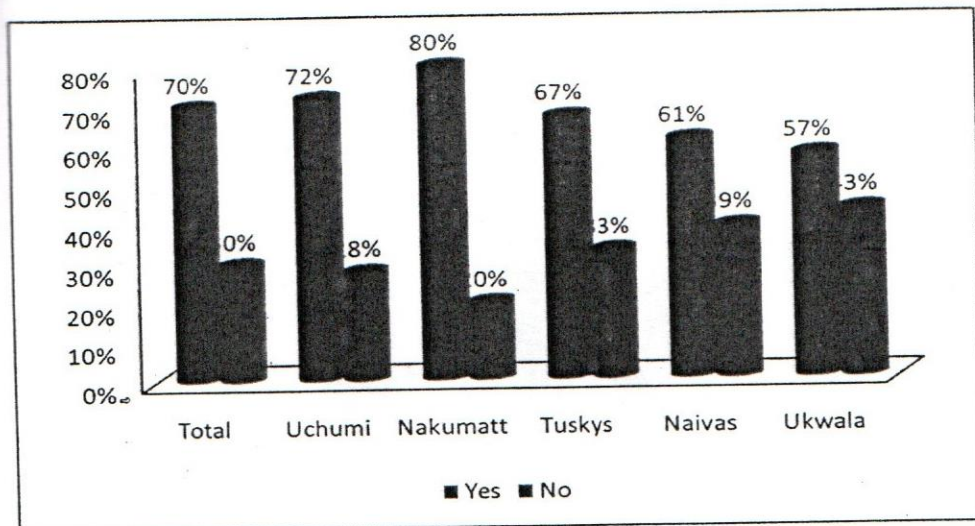


Figure 4. 3: Possession of loyalty card

Source: Field data, 2014

Respondents were also asked to state the length of time they have been shopping at their preferred supermarket. Most of the respondents (42%) had been customers at their preferred supermarket for a period between 5 to 10 years while 19% had been customers for a period of more than 10 years, 35 % a period of 2 to 4 years with remaining 5% for less than 2 years as shown in table 4.2.

Table 4. 2: How long have been a customer at this supermarket?

	Supermarket of choice					
	Total	Uchumi	Nakumatt	Tuskys	Naivas	Ukwala
Total	329	72	82	97	41	37
Less than 2 years	5%	6%	2%	4%	10%	5%
2-4 years	35%	36%	21%	38%	61%	24%
5-10 years	42%	42%	44%	45%	27%	46%
More than 10 years	19%	17%	33%	12%	2%	24%

Source: Field data, 2014

Respondents were asked to state how often they shopped from their preferred supermarket. More than half of the respondents (54%) shopped weekly with 21% shopping daily.

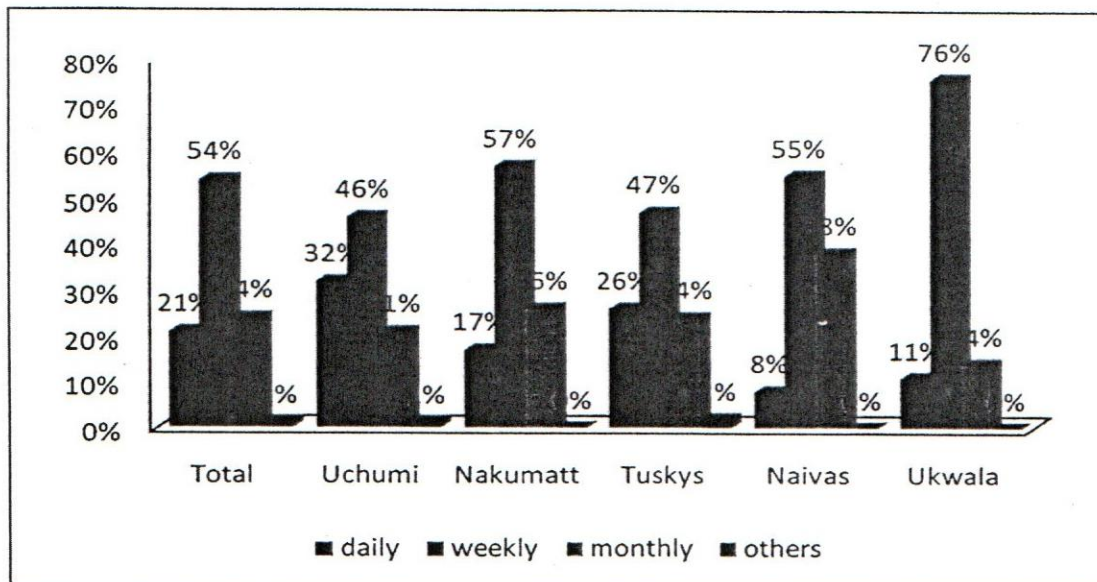


Figure 4. 4: Shopping frequency

Source: Field data, 2014

When asked whether they shopped from other supermarkets, majority of the respondents (94%) reported yes. Uchumi supermarket had the most of the respondents who did not shop elsewhere at 9% mention.

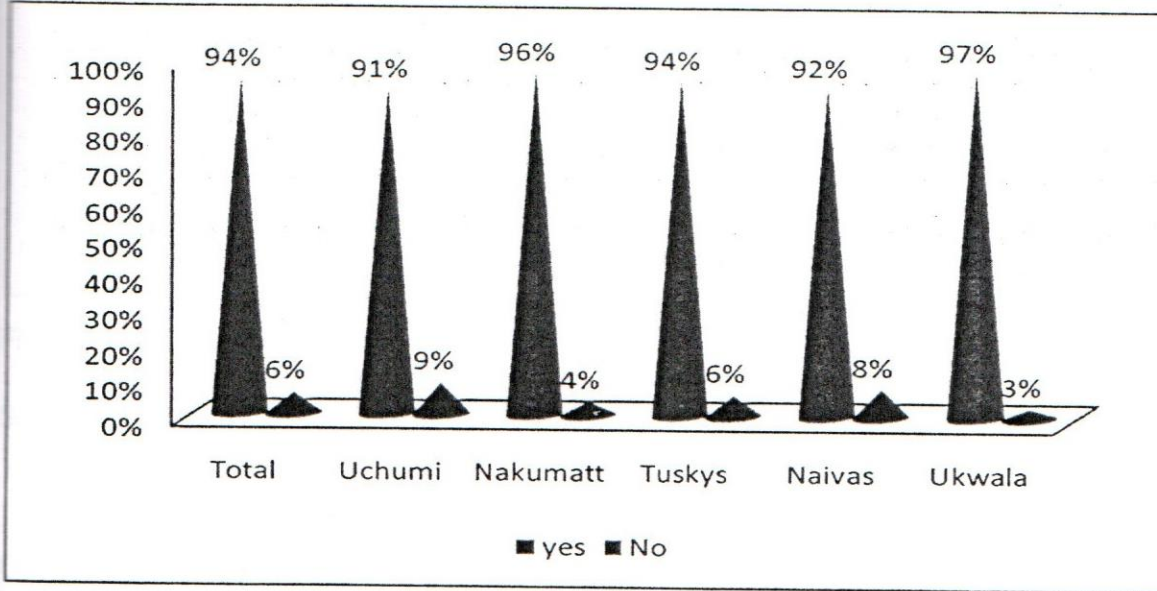


Figure 4. 5: Shopping at other supermarkets

Source: Field data, 2014

To measure customer loyalty respondents were presented with five statements on Likert scale and asked to state how much they agreed or disagreed with each statement. The statements were on a scale with responses ranging from 1-strongly disagree through 3-neutral to 5-strongly agree. Respondents agreed with most statements with an average score of 82%. Majority agreed that they will shop at their preferred supermarket next time (84%) and that their preferred supermarket is satisfying their needs (86%) while the statement that they always shop at their preferred supermarket scored 78%.

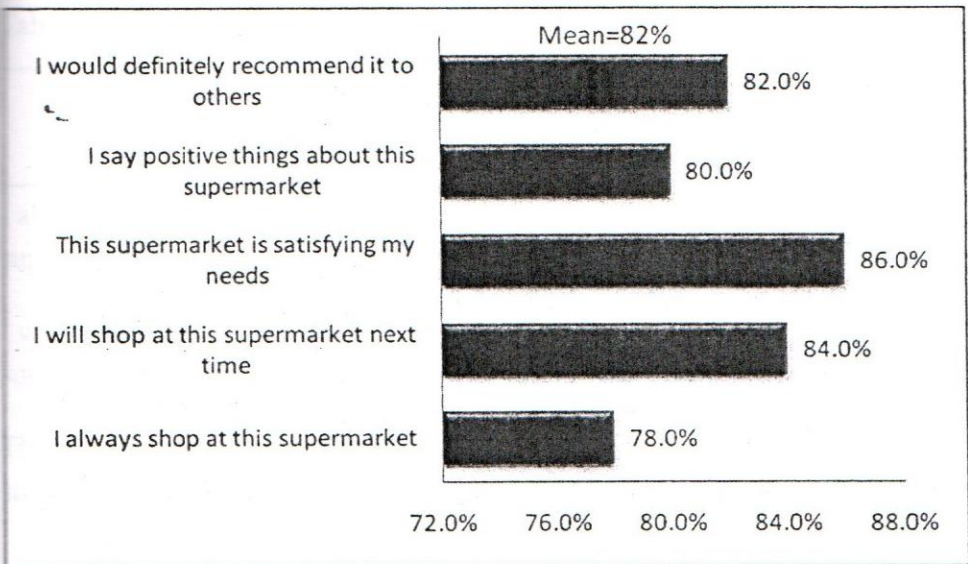


Figure 4. 6: Customer Loyalty

Source: Field data, 2014

On customer loyalty, the findings indicate those who strongly agreed ranged from 29% to 31%, agree ranges from 48 % to 57%, neutral ranges from 6 % to 18 %, the ones who disagreed ranges from 1% to 8% while those who strongly disagreed was insignificant as shown in table 4.3. From these findings it shows that most customers are loyal to their preferred supermarket.

Table 4.3: Customer Loyalty

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
I always shop at this supermarket	2%	8%	13%	48%	29%	3.9
I will shop at this supermarket next time	0%	3%	7%	57%	33%	4.2
This supermarket is satisfying mu needs	0%	1%	6%	56%	37%	4.3
I say positive things about this supermarket	0%	3%	18%	51%	28%	4.0
I would definitely recommend it to others	1%	3%	12%	53%	31%	4.1
Average						4.1

Source: Field data, 2014

4.4 Customer Service

To measure customer service respondents were presented with three statements on Likert scale and asked to state how much they agreed or disagreed with each statement. The statement were on a scale with responses ranging from 1-strongly disagree through 3-neutral to 5-strongly agree. Respondents rated most of the statements moderately with an average score of 75%. Respondents agreed with the statements that the supermarket is fast in solving problems of customers and that they are appreciated as customers at their respective supermarkets scoring 76%. The findings indicated that the statement that the there is ease of reporting complaints scored 74% as shown in figure 4.7.

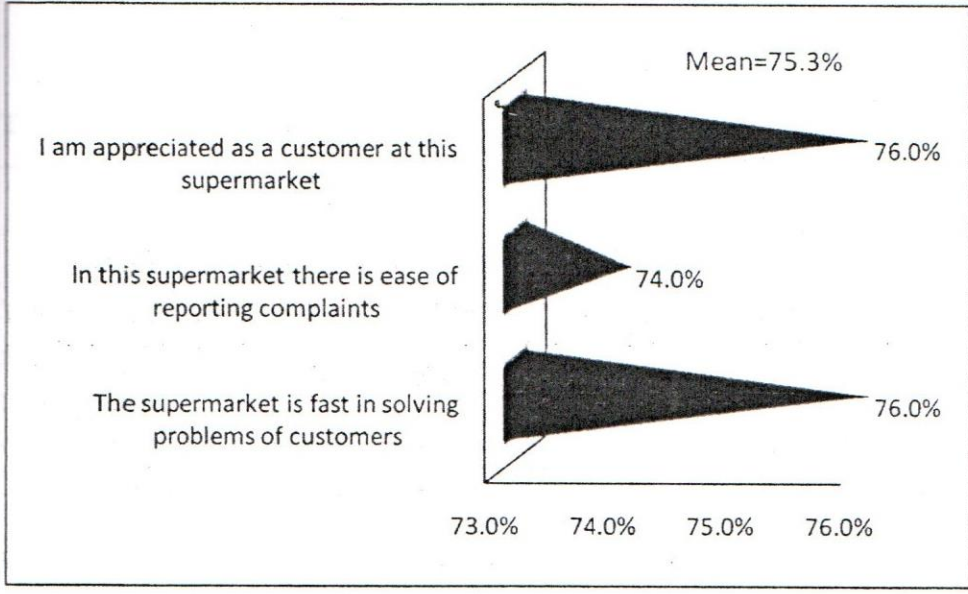


Figure 4.7: Level of Customer Service

Source: Field data, 2014

Pertaining to customer service offered by the supermarkets, the number of those who strongly disagreed was low, with the number of those disagreeing falling below 10 %. Those who were neutral ranged between 26% and 34%. The ones who agreed are just below 50 % with those who strongly agreed ranging between 19% and 21%. This is shown in table 4.4. These findings indicate that customers are fairly satisfied with customer service offered at their preferred supermarket. However, a sizeable number are neutral and if combined with those who disagreed, it comes to almost 30 % giving an indication that this should be an area of concern and improvement.

Table 4. 4: Customer Service

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
The supermarket is fast in solving problems of customers	0%	6%	27%	48%	19%	3.8
In this supermarket there is ease of reporting complaints	1%	5%	34%	40%	19%	3.7
I am appreciated as a customer at this supermarket	1%	5%	26%	47%	21%	3.8
Average						3.8

Source: Field data, 2014

4.5 Service Quality

To measure service quality respondents were presented with five statements on Likert scale and asked to state how much they agreed or disagreed with each statement. The statements ranging from 1-strongly disagree through 3-neutral to 5-strongly agree. The study findings showed that respondents agreed with most statements with an average score of 80%. Respondents agreed that their supermarket provides its services in a timely manner and with accuracy, employees are competent and friendly, their preferred supermarket has modern looking equipment and facilities. Respondents felt that employees are willing to help customers and provide prompt service and rated it at 82% while those who felt that their supermarket is caring and provides individualized attention scored 74% as shown in figure 4.8.

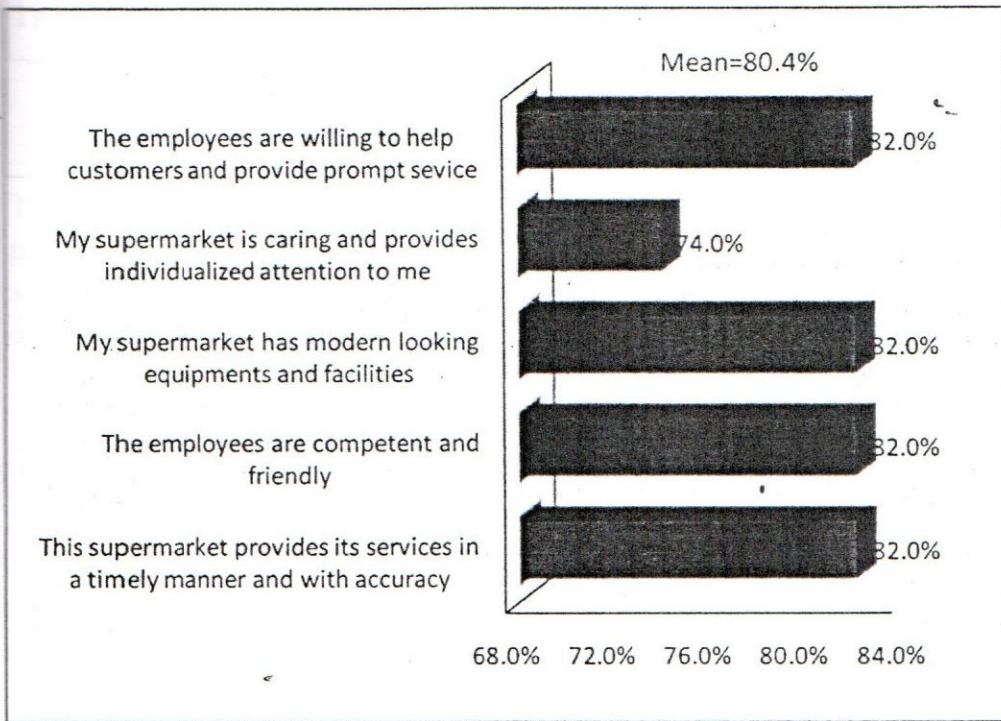


Figure 4. 8: Service Quality

Source: Field data, 2014

With regards to service quality, the ones who strongly agreed ranged from 12% to 34 %, with the ones who agreed ranged from 47% to 60% while those who were neutral ranged from 10 % to 27%. The ones who disagreed ranged from 1% to 8% with those who strongly disagreed falling below 5 % as per table 4.5. The findings indicate that supermarkets do strive to provide quality service to their customers.

Table 4. 5: Service Quality

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
This supermarket provides its services in a timely manner and with accuracy	1%	1%	14%	57%	27%	4.1
The employees are competent and friendly	0%	2%	9%	60%	29%	4.1
My supermarket has modern looking equipments and facilities	1%	4%	14%	47%	34%	4.1
My supermarket is caring and provides individualized attention to me	1%	8%	27%	52%	12%	3.7
The employees are willing to help customers and provide prompt service	1%	2%	10%	58%	29%	4.1
Average						4.0

Source: Field data, 2014

4.6 Price

To measure price respondents were presented with three statements on Likert scale with responses ranging from 1-strongly disagree through 3-neutral to 5-strongly agree and asked to state how much they agreed or disagreed with each statement. The responses were averaged per statement. The respondents agreed with most statements with an average score of 74%. Respondents agreed with the statements that the supermarket provides good value for money and the prices at their preferred supermarket are affordable both scoring 78% with the statement that their supermarket often offers discounted prices scoring 68%.

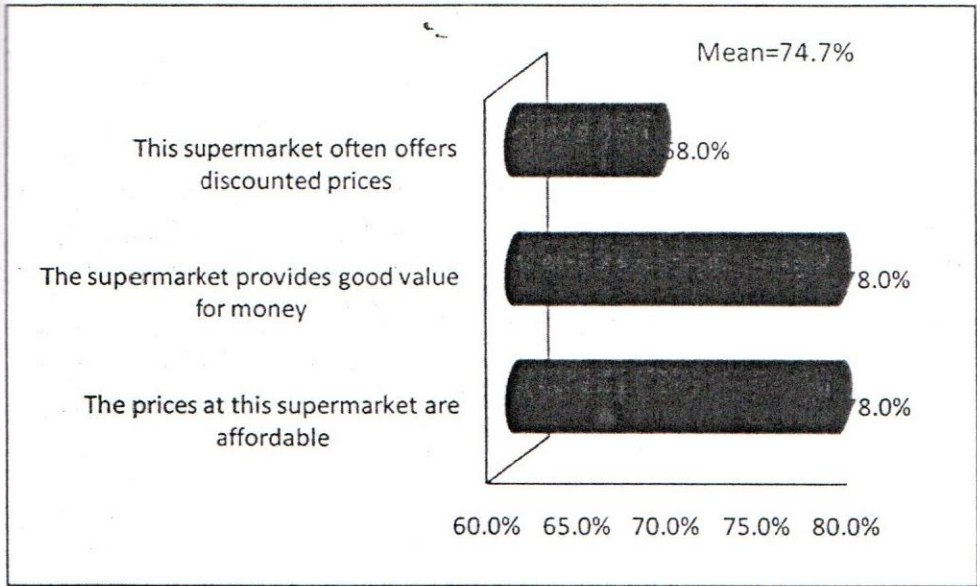


Figure 4. 9: Price

Source: Field data, 2014

On price, the aspect of affordability and value for money appear to have generated varying responses with over 50% agreeing that the prices are affordable and that supermarket provide good value for money. With regard to supermarkets offering discounted prices, 38 % agreed that supermarkets often offer discounted prices. 20% were in disagreement while 27% were neutral as shown in table 4.6. In strengthening customer loyalty, price discounting is an aspect which needs to be addressed.

Table 4. 6: Price

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
The prices at this supermarket are affordable	2%	5%	18%	54%	21%	3.9
The supermarket provides good value for money	1%	5%	18%	56%	21%	3.9
This supermarket often offers discounted prices	3%	17%	27%	38%	14%	3.4
Average						3.7

Source: Field data, 2014

4.7 Product Display

To measure product display respondents were presented with three statements on Likert scale with responses ranging from 1-strongly disagree through 3-neutral to 5-strongly agree and asked to state how much they agreed or disagreed with each statement. Respondents agreed with most statements with an average score of 85%. Respondents agreed that the products are well displayed (88%) and that selection of products is made easier by the display (86%). The statement that time spent at their preferred supermarket is reduced by the products display scored 82%.

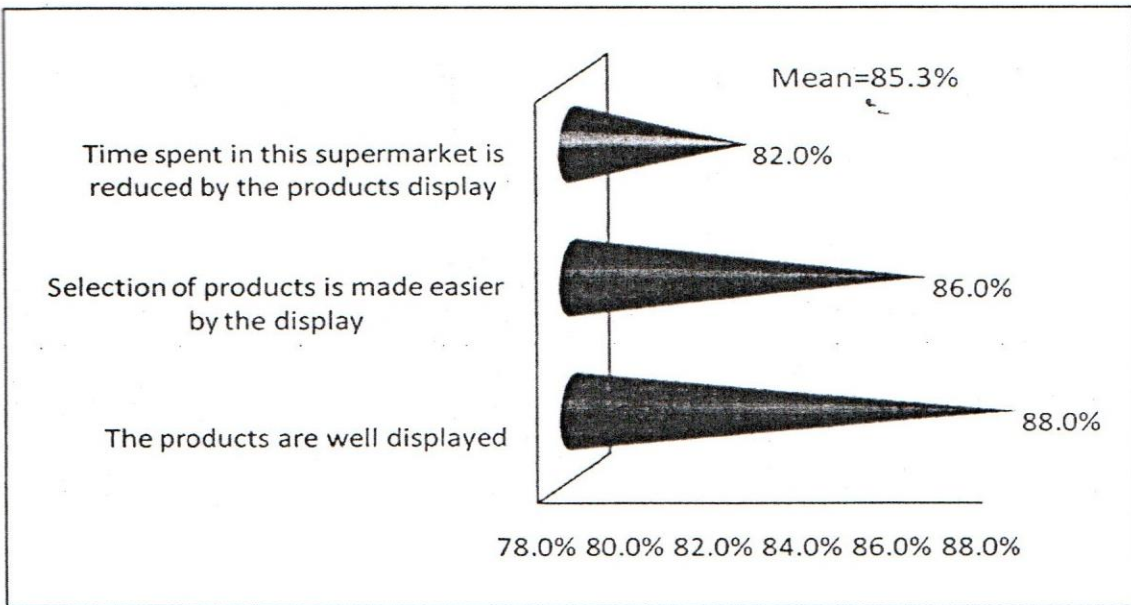


Figure 4. 10: Product Display

Source: Field data, 2014

Majority of the customers agreed that products are well displayed, with only 8% remaining neutral. Majority of customers agreed that selection of products is made easier by the display with 6% remaining neutral while 1% disagreed. However, the aspect of time spent in the supermarket having been reduced by products display has varying responses with 46% agreeing, 12 % neutral, 4% disagree and 1% strongly disagreeing as indicated in table 4.7.

Table 4. 7: Product Display

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean
The products are well displayed	0%	0%	8%	46%	46%	4.4
Selection of products is made easier by the display	0%	1%	6%	51%	42%	4.3
Time spent in this supermarket is reduced by the products display	1%	4%	12%	46%	37%	4.1
Average						4.3

Source: Field data, 2014

4.8 Hypotheses testing

To quantify the strength of the relationship between the variables, the study used Karl Pearson's coefficient of correlation. The Pearson correlation coefficient is a measure of the strength of a linear association between two variables and is denoted by r . The Pearson correlation coefficient, r , can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases. In this section, the study presents the research finding on the Pearson product moment correlation. Pearson product moment correlation was conducted to determine the strength of relationship between the variables.

Results from table 4.8 show that there was positive linear relationship among all the variables i.e. Customer loyalty, Customer service, Service quality, Price and Product display all significant at 95% level of confidence. Therefore, the collected data could be used for further inferential statistics.

Table 4. 8: Summary of Correlations

		Customer loyalty	Customer service	Service quality	Price	Product display
Customer loyalty	Pearson Correlation	1	.513**	.418**	.304**	.313**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	331	331	331	331	331
Customer service	Pearson Correlation	.513**	1	.552**	.234**	.463**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	331	331	331	331	331
Service quality	Pearson Correlation	.418**	.552**	1	.283**	.528**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	331	331	331	331	331
Price	Pearson Correlation	.304**	.234**	.283**	1	.247**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	331	331	331	331	331
Product display	Pearson Correlation	.313**	.463**	.528**	.247**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	331	331	331	331	331

** . Correlation is significant at the 0.01 level (2-tailed).

H0₁: Customer service has no significant influence on customer loyalty of supermarkets in NCBD.

From Table 4.8 the results reveal that there was a significant positive relationship between customer service and customer loyalty ($r= 0.513$, $p< 0.01$). H0₁ which stated that customer service has no significant influence on customer loyalty was rejected and the alternative hypothesis which states that there is a positive relationship between customer service and customer loyalty is accepted. This suggests that customer loyalty is high for supermarkets that embraces customer service.

H0₂: Service quality has no significant influence on customer loyalty of supermarkets in NCBD.

The study sought to establish whether service quality had a significant positive influence on customer loyalty of supermarkets in NCBD. The results in table 4.8 showed that there was a significant positive relationship between service quality and customer loyalty of supermarkets in NCBD ($r =0.418$, $p <0.01$). H0₂ which stated that service quality has no significant influence on customer loyalty of supermarkets in NCBD was rejected and alternative hypothesis which stated that there was a positive relationship between service quality and customer loyalty is accepted. This suggests that customer loyalty increases when service offered by supermarkets is of high quality.

H0₃: Price has no significant effect on customer loyalty of supermarkets in NCBD.

The study sought to establish whether price had a significant positive effect on customer loyalty of supermarkets in NCBD. The results in table 4.8 showed that there was a significant positive relationship between price and customer loyalty of supermarkets in NCBD ($r =0.304$, $p <0.01$). H0₃ which stated that price has no significant effect on customer loyalty of supermarkets in NCBD was rejected and alternative hypothesis which stated that there was a positive relationship between price and customer loyalty is accepted. This suggests that customer loyalty increases for supermarkets that have competitive prices.

H0₄: Product display has no significant effect on customer loyalty of supermarkets in NCBD.

The study sought to establish whether product display had a significant positive effect on customer loyalty of supermarkets in NCBD. The results in table 4.8 revealed that there was a significant positive relationship between product display and customer loyalty of supermarkets in NCBD ($r = 0.313$, $p < 0.01$). H0₄ which stated that product display has no significant effect on customer loyalty of supermarkets in NCBD was rejected and alternative hypothesis which stated that there was a positive relationship between product display and customer loyalty is accepted. This suggests that customer loyalty increases for supermarkets whose products are well displayed.

4.9 Influence of Customer Service, Service Quality, Price and Product Display on Customer Loyalty.

H0₅: The combined effect of customer service, service quality, price, product display have no significant on customer loyalty of supermarkets in NCBD.

A regression model containing the four independent variables (Customer Service, Service Quality, Price and Product Display) was ran to predict Customer loyalty.

An R² value of .562 indicates that 56.2% of the variation in Customer loyalty can be explained by the model. Hence Customer Service, Service Quality, Price and Product Display can explain 56.2% of the variation in Customer loyalty while other factors not discussed in this study can explain 43.8%.

Table 4. 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.750 ^a	.562	.502	.07992

a. Predictors: (Constant), Product display, Price, Customer service, Service quality

Source: Field data, 2014

To determine how best the regression model fits our data, Analysis of Variance on the coefficient of determination (R^2) was calculated. An F value of 37.590 (df=4, 326 and $P < .001$) shows that the model is suitable at 95% confidence level.

Table 4. 10: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.632	4	8.658	37.590	.000 ^a
	Residual	75.087	326	.230		
	Total	109.718	330			

a. Predictors: (Constant), Product display, Price, Customer service, Service quality

b. Dependent Variable: Customer loyalty

Source: Field data, 2014

Table 4.11 displays the coefficient of the regression model of Customer loyalty on Customer Service, Service Quality, Price and Product Display. From the table all the coefficients of the

model except Product Display were significant at 5% level of significance. Therefore, Customer loyalty can be predicted using the following equation:

$$Y=1.672+.324X_1+.160X_2+.136X_3$$

This means that one unit increase in customer service there will be 0.324 units increase in customer loyalty.

Table 4. 11: Results of Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.672	.235		7.130	.000
	Customer service	.324	.048	.384	6.771	.000
	Service quality	.160	.064	.151	2.525	.012
	Price	.136	.039	.168	3.479	.001
	Product display	.013	.052	.014	.248	.804

a. Dependent Variable: Customer loyalty

Source: Field data, 2014

The above regression equation revealed that holding Product display, Price and Service quality to a constant zero, a unit increase in Customer service would lead to .324 increase in Customer loyalty. On the other hand holding Product display, Price and Customer service to a constant zero, a unit increase in Service quality would lead to .160 increase in Customer loyalty. Further, holding Product display, Customer service and Service quality to a constant zero, a unit increase in price would lead to .136 increase in Customer loyalty. On the contrary, contribution of Product display was not significant in the model.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary, conclusion and the recommendations as well as suggestions for further research.

5.2 Summary of findings

According to the findings, majority of the respondents (61.9%) were female whereas 38.1% were male. Majority of the respondents (61%) were aged 25- 44 years while the minority (0.9%) were 65 years and above. Majority of the respondents reported to own loyalty cards for their preferred supermarket. Most of the respondents had been customers at their preferred supermarket for over 5 years. Study findings showed that more than half of the respondents shopped weekly with a significant number shopping daily from their preferred supermarket. Majority of respondents shopped from other supermarkets.

The findings on customer loyalty indicate that majority of respondents will shop at their preferred supermarket next time and that their preferred supermarket is satisfying their needs. On the other hand respondents were observed to disagree with the statement that they always shop at their preferred supermarket since a significant number reported that they do shop at other supermarkets.

The findings on the study on customer service showed that respondents agreed that their preferred supermarket is fast in solving problems of customers and that they are appreciated as customers at their respective supermarkets. However, a significant number of respondents felt that there is no ease of reporting complaints.

The findings on service quality showed that majority of respondents felt that their supermarket provides its services in a timely manner and with accuracy, employees are competent and friendly. It was observed that most respondents were in agreement that their preferred supermarket has modern looking equipment and facilities, employees are willing to help customers and provide prompt service. A significant number of respondents felt that their supermarket is not caring and does not provide individualized attention.

Further, the findings on price indicated that respondents agreed that the supermarket provides good value for money and that the prices at their preferred supermarket are affordable. In addition respondents felt that their supermarket did not often offer discounted prices.

Finally the study findings on product display indicated that respondents agreed that the products are well displayed and that selection of products is made easier by the display in their preferred supermarkets. However respondents felt that time spent in their preferred supermarket is not reduced by the products display.

5.3 Conclusion

The main purpose of carrying out this research was to examine the factors influencing customer loyalty to supermarkets in the NCBD. The findings of this study show influence of customer service, service quality, price and product display on the customer loyalty to supermarkets. Customer service was the leading variable, followed by service quality, price and finally, product display.

According to the findings, customer service influences customer loyalty to supermarkets. It can therefore be concluded that supermarkets do strive to solve customer complaints at the same time making customers feel appreciated by the supermarket. It can be concluded that service quality influences customer loyalty. Based on these findings it can be concluded that supermarkets provide their services in a timely manner and with accuracy, their employees are competent, friendly and willing to help customers. Further, the findings show that price has a positive effect on customer loyalty. This indicates that supermarkets are offering reasonable prices for their products, provide good value for money and often offer discounted prices. The results show that product display had the least effect on customer loyalty.

It can therefore be concluded that customer service, price, service quality and product display influence customer loyalty.

5.4 Recommendations

5.4.1 Recommendations for Practitioners

The following recommendations were drawn from the findings of the study.

First and foremost, supermarket owners should not be content with the findings that majority of respondents were satisfied and are loyal but should be concerned about the few who were dissatisfied with certain elements of their preferred supermarket. This is because even 1% of dissatisfied customers is critical and can have negative implications on supermarket earnings and profitability especially through word of mouth and referrals of friends and family members. Supermarket owners should improve on mechanisms to make it easy for customers when reporting complaints.

The management in supermarkets should continually expose the employees to customer service programs so as to enhance customer service and care. Supermarkets should create programs that link to customer needs and corporate objectives and communicate the same to their employees. 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 improve on their pricing strategy to ensure that their prices are competitive and in the same range with their competitors as a way of fostering customer loyalty since it is clear from the study findings that customers are sensitive to price, they look for good value for money and are not willing to spend on what is seen as expensive. It is also recommended that supermarkets should be flexible in setting prices and in pricing decisions.

The management in supermarkets should therefore be in a position to focus on enhancing the attributes that have greater and more positive influence (customer service, service quality and price) on customer loyalty in order to remain competitive in the market and thus be in a position to retain existing customers as well as acquire new ones.

5.4.2 Recommendations for further research

This study was conducted on supermarkets located within the Nairobi Central Business District, Kenya. The study findings provide a foundation for future research on customer loyalty of supermarkets so as to provide greater understanding on the subject matter. There are many interesting areas to investigate further, both within retail sector and more specifically the

supermarkets and in other firms in general. It is recommended that similar studies be carried out in other parts of the country to cover peri urban and other towns in order to investigate and analyze the factors that influence customer loyalty for the other town supermarket customers in comparison to urban customers.

It is recommended that further studies be conducted that incorporate other factors that affect customer loyalty other than the variables included in this study in order to provide a broader perspective. Similar research studies could also be conducted in other sectors.

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APPENDIX 1

**LILIAN MURIITHI
EGERTON UNIVERSITY
NAIROBI CITY CAMPUS
P.O. BOX 20075 - 00200
NAIROBI.**

Dear Respondent,

RE: REQUEST TO RESPOND TO QUESTIONS

I am an MBA student at Egerton University and as part of this course requirement; I am expected to carry out a research thesis on the topic of my choice which is, "Factors influencing customer loyalty of supermarkets in Nairobi Central Business District."

The purpose of this letter is to kindly request for your assistance and cooperation in responding to the questions attached herewith. You are further informed that any information given will be treated with utmost confidentiality and will be used only for the purpose of this study.

Thanking you in advance.

Yours faithfully,

LILIAN MURIITHI.

QUESTIONNAIRE

SECTION A

Part 1: Profile of respondents

1. Gender { Please tick one }

Male []

Female []

2. Age { Years }

18 – 24 []

25 – 34 []

35 – 44 []

45 – 54 []

55 – 64 []

65 and above []

3. Level of education

Primary School []

Secondary School []

College []

University Graduate []

University Post-Graduate []

4. Status of Employment

Self Employed []

Employed []

Not employed []

Others. Please specify _____

5. Income { Please indicate your monthly income in Kshs }

Less than 20,000 []

20,001- 50,000 []

50,001- 80,000 []

80,001 -100,000 []

100,001 and above []

6. Marital status

Married [] Not married []

Others. Please specify _____

Part 11: Purchase behaviour

7. Supermarket of choice _____

8. Do you have a loyalty card for this supermarket?

Yes [] No []

9. How long have you been a customer at this supermarket?

Less than 2 years [] 2 – 4 years []

5 – 10 years [] More than 10 years []

10. How often do you shop from this supermarket?

Daily [] Weekly []

Monthly [] Others. Please specify _____

11. Do you shop from other supermarkets?

Yes [] No []

If yes, how often.

Daily [] Weekly []

Monthly [] Others. Please specify _____

Please rate each of the questions by indicating how strongly you agree or disagree with each question on a scale of 1 to 5, where:

1=Strongly Disagree, 2=Disagree, 3=neither Agree nor Disagree (Neutral), 4= Agree and 5= Strongly Agree

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
		1	2	3	4	5
	SECTION B					
	CUSTOMER LOYALTY					
12	I always shop at this supermarket.					
13	I will shop at this supermarket next time.					
14	This supermarket is satisfying my needs					
15	I say positive things about this supermarket					
16	I would definitely recommend it to others.					
	SECTION C					
	CUSTOMER SERVICE					
17	The store is fast in solving problems of customers.					
18	In this supermarket there is ease of reporting complaints.					
19	I am appreciated as a customer at this supermarket.					
	SERVICE QUALITY					
20	This supermarket provides its services in a timely manner and with accuracy.					
21	The employees are competent and friendly.					
22	My supermarket has modern looking equipments and facilities					

23	My supermarket is caring and provides individualized attention to me.					
24	The employees are willing to help customers and provide prompt service.					
	PRICE					
25	The prices at this supermarket are affordable.					
26	This supermarket provides good value for money.					
27	This supermarket often offers discounted prices.					
	PRODUCT DISPLAY					
28	The products are well displayed.					
29	Selection of products is made easier by the display.					
30	Time spent in this supermarket is reduced by the products display.					

31. Briefly state any other factors that influence you to shop in this supermarket.

32. Do you have any significant information relating to this study, If yes please comment.

Thank you very much for your time and cooperation