



**MEASURING CUSTOMER LOYALTY THROUGH  
SATISFACTION TOWARDS RETAIL MARKETING  
STRATEGY: AN EMPIRICAL STUDY OF MALAYSIAN  
HYPERMARKETS PERSPECTIVES**

**BY**

**MUHAMMAD KHALILUR RAHMAN**

**A dissertation submitted in fulfilment of the requirement  
for the degree of Master of Science in Marketing**

**Kulliyyah of Economics and Management Sciences  
International Islamic University Malaysia**

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## **ABSTRACT**

Today, global market is targeted by so many established retailers, as they are looking for new potential market expansion. Malaysian hypermarkets are growing rapidly challenging in the current decades; as a result customer loyalty has become a crucial phenomenon. The purpose of this study is to measure the customer loyalty through satisfaction towards retail marketing strategy in Malaysian hypermarkets perspectives. Primary data was collected by distributing self-administered questionnaire among 350 consumers of Malaysian hypermarkets in Kuala Lumpur applying random sampling method. Data analysis conducted using descriptive statistics as well as exploratory and confirmatory factor analysis. Subsequently, by using AMOS through structural equation modeling, 292 respondents conducted to test the hypothesized relationship among the variables in the research conceptual model. Based on the result obtained from the confirmatory factor analysis, structural equation modeling was then drawn to examine the developed hypothesis as well as to test the fitness of the proposed model. Findings revealed that, there is positive impact of customer satisfaction on service quality, product quality, price strategy and store attribute. Similarly, overall customer satisfaction has direct relationship with customer loyalty, as customer satisfaction is the antecedent of customer loyalty in Malaysian hypermarket setting. Finally, it is hoped that this study could facilitate the improving customer loyalty through customer satisfaction in Malaysian hypermarkets.

## خلاصة البحث

السوق المرموق الجديد. ينمو هايبر ماركت (الأسواق الضخمة) الماليزي بشكل كبير عبر تحديات التسعينات الماضية، ونتيجة لذلك صارت اقتناع العملاء وولائهم موضوعاً أساسياً. ومن هنا تتركز هذه الدراسة على قياس اقتناع العملاء وولائهم تجاه استراتيجية التسويق للبيع بالتجزئة من منظور هايبر ماركت الماليزي. في هذه الدراسة أستخدمت النظرية القائمة على الثروة لتطوير إطار البحث المفاهيمي. بناء على ذلك جمعت البيانات بتوزيع الاستبيانات المحكومة بالذات بين 350 مستهلك من الأجناس المتعددة لهايبر ماركت الماليزي في كولا لمبور من خلال العينات الملائمة. وتم تحليل البيانات بالإحصائيات الوصفية وتحليل الأوساط الاستكشافية المؤكدة. وبالتالي تم تحليل البيانات من 292 مستجيب لاختبار العلاقة المفترضة بين المتغيرات حسب نموذج البحث المفاهيمي من خلال نمذجة المعادلة الهيكلية باستخدام AMOS. خمسة افتراضات بينها علاقات هامة، والنتيجة تقرر بأن صفة الخدمة وصفة المنتج وإستراتيجية التسعير وخصائص التخزين ثبتت أهميته في اقتناع العملاء. ومن العجيب أن اقتناع العملاء عموماً له علاقة مباشرة مع ولائهم حيث أن اقتناع العملاء له أولية على ولائهم في وضع هايبر ماركت الماليزي. وفي الأخير يرجى أن هذه الدراسة تيسر تحسين ولاء العملاء من خلال اقتناعهم في السوق المركزي الماليزي لمواجهة التنافس الكبير من ميني ماركت (الأسواق الصغيرة) وسوبر ماركت (الأسواق المركزية).

## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Marketing.

.....  
A. K. M. Ahasanul Haque  
Supervisor

I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science in Marketing.

.....  
Khaliq Ahmad  
Examiner

This dissertation was submitted to the Department of Business Administration and is accepted as a fulfilment of the requirement for the degree of Master of Science in Marketing.

.....  
Suhaimi Mhd Sarif  
Head, Department of Business  
Administration

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science in Marketing.

.....  
Nik Nazli Nik Ahmad  
Dean, Kulliyah of Economics and  
Management Sciences

## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature .....

Date .....

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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TOWARDS RETAIL MARKETING STRATEGY: AN EMPIRICAL STUDY  
OF MALAYSIAN HYPERMARKETS PERSPECTIVES**

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## LIST OF ABBREVIATIONS

SPSS	Statistical Package for the Social Sciences
AMOS	Analysis of Moment Structure
EFA	Exploratory Factor Analysis
CFA	Confirmatory Factor Analysis
SEM	Structural Equation Modeling
SQ	Service Quality
PQ	Product Quality
PS	Pricing Strategy
SA	Store Attributes
CS	Customer Satisfaction
CL	Customer Loyalty
GDP	Gross Domestic Product
MI	Modification Indices
AVE	Average Variance Extracted
CR	Construct Reliability
SE	Standard error of regression weight
CR	Critical ratio of regression weight
CFI	Comparative Fix Index
RMSEA	Root Mean Square Error of Approximation
df	Degree of Freedom
GFI	Goodness-Of-Fit Indices
AGFI	Adjusted Goodness of Fit
TLI	Tucker-Lewis Index
i.e.	( <i>id est.</i> ): that is
et al.	( <i>et alia</i> ): and others
e.g.	( <i>exempligratia</i> ): for example

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Customers trust the friendly grocery retailers in terms of goods and services offering and even interest in their personal wellbeing. Hypermarkets trade in a highly competitive marketplace where competitors know each other about their position (Codrington, 2002). Today, world market is targeted by so many established retailers, because they are looking for new potential market expansion (Abu & Roslin, 2008; Congress, 2008). Hypermarkets are becoming most popular in the world in which Malaysian hypermarkets are growing rapidly in the current decades (Heng, Yeong, Siong, Shi, & Kuan, 2011). The prominent foreign based retailers are attracting Malaysian consumers in different types of retail outlets of different sizes (Abu & Roslin, 2008). Loyal customers are shopping frequently in their chosen hypermarkets. In fact, loyal customers repeat and increase their purchase that helps to increase sales revenue of business organizations (Li & Green, 2010). Therefore, customers' satisfaction and loyalty is the feedback of a successful retail marketing strategy in a competitive market that creates value for money for customers. In Malaysia, modern retail outlets are becoming popular to satisfy customers' need (Abu & Roslin, 2008). Household income influences customers to be attracted in different types of outlets (Zain & Rejab, 1989). In Malaysia, traditional retail stores are always attracting the low and middle level income consumers. Modern retail formats are attracting the upper and middle income shoppers but at present it is fast changing as improved consumer lifestyles, changing consumer's preferences and changing educational level of population (Abu & Roslin, 2008). In 1992, grocery retail sectors were operated by

many foreign business firms (Abu & Roslin, 2008). Now, Malaysia is attracting other foreign names such as United Kingdom's Tesco, France's Carrefour, and Hong Kong based DFI which operates the Giant hypermarkets. There are so many hypermarkets and supermarkets in Malaysia. The following major hypermarkets are as shown in Table 1.1

Table 1.1  
Major hypermarkets or superstores in Malaysia

Store name (Company)	Property	Retail formats	No. of stores
Giant & Cold Storage (GCH Retail (M) Sdn. Bhd.)	Dairy Farm International (DFI) Hong Kong	Hypermarkets/Super Stores/ Supermarkets	128
Tesco	Tesco plc (70%) and Sime Darby Bhd (70%)	Hypermarkets	45
Carrefour	CNBV Holdings (70%) Negeri Sembilan royalty (30%)	Hypermarkets	29
Mydin (Mydin Mohamed Holding Berhad )	The Mydin family	Supermarkets, Convenience stores, Emporiums, Mini markets	101
Jaya Jusco (AEON Co (M) Bhd.)	Aeon Group Co. Ltd (51%) Aberdin Asset Management, plc (7.4%)	Superstore chain and shopping center operation	18

**Source:** (Plaza, 2013); (Releases, 2012); (The Star Online, 2012); (Mydin, 2013); Waterhouse & Coopers, (2004/2005); Malaysian Business (2007) cited in Abu & Roslin (2008).

Customers' satisfaction and loyalty as considered the most important factor of retail marketing strategy in hypermarket business. Hypermarket industry is very popular worldwide due to the individual purchasing power and living standard of people. In Malaysia, the grocery shopping is most popular. There was lots of grocery shops in

Malaysia in 1996 in which many consumers had a wider choice for shopping where they bought their daily necessities. In 1970, many minimarkets were established, but they were replaced by supermarkets between 1980 and early 1990 (Leow, Bahron, & Kong, 2011). However, hypermarket is a large retail enterprise that combines the features of other stores such as departmental stores and grocery stores under one roof. Lim (2001) cited in Leow et al. (2011) stated that hypermarkets provided the same merchandise as supermarkets especially, provide a numbers of different services to customers such as car parking facilities, ATM booths, book stores, guardian pharmacy, house brand, McDonald's, KFC, pizza hut, baskin robbins, coffee bean and so on to the extent that Hypermarket has become the one-stop shopping center. In Malaysia, there are many hypermarkets doing well, but the purpose of this study focuses on three hypermarkets, namely, Giant, Tesco and Carrefour. The aim of this research is to identify specific elements of customers' satisfaction and these elements consequent contribution to repeat or frequent shopping behavior (customers' loyalty) in Malaysian hypermarket context.

Product and service quality play an important role to increase customer's satisfaction and loyalty. Today, many companies are considered services as the key component to attract the customers' satisfaction and loyalty. Conversely, business policy is changing due to its competition of new business companies entering the global market with rapidly developed technology to increase new designs, number of offers, innovative and imitation of new product features. In addition, the customers have their own new choice and purchase decision of products or services. Product price strategy is the major key element of retail business to gain more profit and sustain in the competitive market. Furthermore, the customers' wants and needs are the fundamental key of success of any business organization (Singh, 2006), and for

that particular reason, so many scholars have given attention to the significance of customers' satisfaction, customers' loyalty and also customer retention (Singh, 2006; Bridsona, Evansb, & Hickman, 2008; Carpenter, 2008; Ciavolinoa & Dahlgaardb, 2007; Hoq & Amin, 2010; Vazifehdust & Farokhian, 2011).

Nowadays, retail sectors and grocery sectors are playing an important role in improving of service quality and product assortment. According to Yuen & Chan (2010), he posited that customers' demands in the grocery sectors are gradually increasing owing to the development of customer service in parallel with product quality and diversity. This is similarly reflected in the retailing industry which plays a vital role to the tremendous growth of the service sector. As such, it is necessary for the retailers to understand the customers' wants and needs to increase the level of their satisfaction and loyalty. Finally, effective satisfaction creates a long term relationship between the sellers and the buyers as well as increasing their loyalty through repeat purchase behavior and attitudes, all of which helps retailers to increase the market share and profit. Thus, retailers are able to improve the customers' satisfaction that later turns into the customers' loyalty and finally customer retention. Customer database is very important for any firm or business organization as proposed by Mauri (2003), that business industries can attain privileged information about the consumers' attributes or needs by using customer relationship database management that can help them improve the customers' satisfaction and loyalty in a competitive market. Zairi (2000) has compared between new customers and existing or satisfied customers, in which he assumed that one satisfied and loyal customer is not much valuable than attracting a new consumer. However, a business organization should fully concentrate on existing consumers, because existing customers can lead to satisfaction in which the firm stands to achieve market share and profit by creating the customers'

satisfaction and loyalty (Yuen & Chan, 2010). In addition, Siddiqi (2011) asserted that a company's market share and profit are motivated by the customers' loyalty as it is a direct outcome of the customers' satisfaction. According to Naeem, Akram, Jinnah, & Saif (2009) stated that customer's expectation is to get the good service choosing their selected hypermarkets.

Today, service sector has a significant relationship to customers in which it helps to foster the growth of the customers' satisfaction and loyalty. According to Hoq & Amin (2010), they proposed that service and product quality were the prerequisite factors of the customers' satisfaction and loyalty in any marketing strategy. Kumar, Kee & Manshor (2009) added that higher quality of service would lead to increase higher customers' satisfaction and loyalty. The study Siddiqi (2011) pointed out that service quality is the key important factor, as it has become more critical in the business activities (Tu, Li, & Chih, 2011). Furthermore, in recent century, the service sector has contributed over 70% of new jobs (McKee, 2008; Tu et al., 2011) and nearly 60% of annual GDP in the United States of America (Tu, Li, & Chih, 2011). In Malaysia, GDP was forecasted to grow at 7% in 2010 (Heng et al., 2011), in which Malaysian hypermarkets was rapidly increased from 79 to 91 outlets between 2009 and 2010.

Customers' satisfaction is the key indicator to the customers' loyalty to a particular firm. In a previous study, it is observed that the customers' satisfaction is the real determinant of long-term customer activities for improving the customers' loyalty to a business firm. Customers' satisfaction may help to develop more customers' loyalty and customer retention. Hence, one can safely accept the fact that the customers' satisfaction is the most important key factor in helping to promote the viable growth of a company (Dahesh, Nasab and Ling, (2012). Managerial strategy is

also important to hypermarket management for increasing the customers' loyalty and customer retention (Dahesh et al., 2012). Product quality, service quality, store attribute and customers' trust all have a relationship to one another and independently may influence the customers' loyalty in the Malaysian hypermarket environment.

Finally, the ultimate objective of a company is to credibly secure the customers' loyalty (Eakuru & Mat, 2008; Sondoh et al., 2007; Sivadas & Baker-Prewitt, 2000; Omar et al., 2011). The customer is the king of a business organization (Prabhakaran & Satya, 2003), hence, higher customers' satisfaction is necessary to improve and maintain a very conducive relationship with a loyal customer (Siddiqi, 2011). A company can reduce their operating cost and acquisition expenses by increasing loyal customers. A company's loyal customer can increase their revenue. Loyal customers are lower price sensitive and they are willing to repurchase the products or services and also encourage new customers to shop at the business firm. Existing customers have more contributions to increase the sales than new customers, but a new customers can continue to help to increase profit in a firm. Thus, the customers' loyalty is closely associated with the increased productivity of the company (Siddiqi, 2011).

## **1.2 PROBLEM STATEMENT**

Many developed nations are operating hypermarkets in a mature market where growth opportunities of the Malaysian hypermarkets are very slow and intense competitions are very high (Abu & Roslin, 2008). Hence, due to that very reason they cannot satisfactorily fulfill their customers' wants and needs. Hypermarkets in Malaysia are rapidly growing from the recent decades (Heng et al., 2011), in which many

hypermarkets are putting in strenuous efforts to develop the customers' loyalty through the customers' satisfaction for earning long-term sales revenue, but most of them still have numerous problems to satisfy their customers' needs. To make matters worse, the hypermarket business has been characterized with the growing competitions, market analysis and customers' expectations (Gomez, McLaughlinb, & Wittinkc, 2004). There are different types of products and services which are offered by hypermarkets, but the customers have different purchase experience of retail outlets. Hence, taking this into account, this research is sought to identify and analyze the customers' satisfaction and loyalty with their shopping experience at three different hypermarkets: Giant, Tesco and Carrefour are the prominent hypermarket in Malaysia.

In the previous study, majority of the researchers motivated to examine whether service quality, product quality, store attributes, pricing and geographical location were correlated significantly with the customers' satisfaction and loyalty in different sectors. Up to now, there is no sufficient study that has been conducted to investigate the core dimensions and importance of the customers' satisfaction and loyalty in retail marketing strategy in the Malaysian hypermarket context. It is critically challenging for every business firm or retail industries to build the customers' loyalty through the customers' satisfaction, because of lower customer patronage due to switching to lower costs and increased competition. Many hypermarkets in Malaysia now have been acting in a preemptive manner to identify the actual customers' satisfaction through providing goods or services, but there is an acute lack of evidence to prove that customers are not fully satisfied (Gomez et al., 2004). The hypermarkets have so many management problems and lack of retail marketing strategies which are not capable to satisfy the customers' needs and wants

(Pettigrew, Mizerski, & Donovan, 2005). They have problems in product quality, service quality and pricing strategy and so on endlessly. For example, there are some products which grossly lack cleanliness and freshness. Customers do not feel comfortable with their feelings in shopping of goods or services in a particular hypermarket, especially when the hypermarket is not well organized in its pricing system to enable their consumers to easily locate the price on the products. The pricing tag of goods is problematic and confusing to the customers, because some of the pricing tags of the products are not pasted properly on the storage rack. Some outlets are not maintained correctly as they are quite dirty and disorganized. They also lack the employee's opportunity, customer's benefit and insufficient customer service counter which profusely contribute to this undesirable situation. In the proper sense of the words the hypermarket is not customer friendly.

### **1.3 RESEARCH OBJECTIVES**

In this research, there are two types of research objectives, namely, general objective and specific objective which are based on the current scenarios of the customers' satisfaction and loyalty on the hypermarkets in Malaysian context.

#### **1.3.1 General Objective**

The general objective of this study is to identify and describe the dimensions of customers' satisfaction and loyalty towards retail marketing strategy for Malaysian hypermarkets context.

### **1.3.2 Specific Objectives**

The specific objectives of this research are:

1. To determine customers' satisfaction as an antecedent to customers' loyalty.
2. To examine the effects of service quality, product quality, price strategy and store attributes on customers' satisfaction and loyalty.
3. To make suggestions on structure customers' loyalty with respect to customers' satisfaction.

## **1.4 RESEARCH QUESTION**

This research is conducted to find out answers of the following research questions:

1. Is customers' satisfaction an antecedent to the customers' loyalty in retail marketing strategy in the Malaysian hypermarkets?
2. What are the main customers' satisfaction dimensions and their priority to structure customers' loyalty in the retail business industry?
3. What are the recommendations on structure the customers' loyalty with respect to the customers' satisfaction in the retail marketing strategy?

## **1.5 SIGNIFICANT OF THE STUDY**

The retail sector is growing rapidly despite of economic slowdown and intensified competition (Li & Green, 2010; Abu & Roslin, 2008). In particular, the modern retail marketing industry has been contributing to the service sectors. In fact, today's retail sector is booming worldwide (Heng et al., 2011) and as a result, retail marketing