

Marketing mix and customer loyalty



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This chapter will discuss the findings of this study as outlined in the previous chapter and conclusions drawn. We will start this chapter by summarizing the whole study. Next, we will discuss the results in light of previous studies conducted by other researchers. Subsequently, we will identify the theoretical and managerial implications of the study. Lastly, we will present limitations of the study and directions for future research. The chapter ends with the conclusion of the study.

The main objective of this study was to examine the relationships between the marketing mix used by the company and the relationship quality a company had with their customers and their loyalty. In addition, these relationships were tested under a supply shortage situation, to see whether the supply shortage situation would moderate the relationships between the marketing mix and the relationship quality with customer loyalty.

Based on the literature review, four dimensions were identified for relationship quality, namely service quality, trust, satisfaction and commitment. The four dimensions for the marketing mix were product, price, place and promotion. For customer loyalty, four dimensions were also identified, repurchase, increase in repurchase volume, recommend and refusal to switch.

A total of four hypotheses were developed in this study to match the objectives of the research. They are as follows:

Customer's perception of the marketing mix is positively related to customer loyalty.

Customer's perception of the relationship quality is positively related to customer loyalty.

Customer's perceived environment uncertainty moderates the relationship between marketing mix and customer loyalty.

Customer's perceived environment uncertainty moderates the relationship between relationship quality and customer loyalty.

The data for this survey was gathered from construction companies registered with the Construction Industry Development Board (CIDB) of Malaysia. A questionnaire was mailed to the construction companies based on their CIDB ranking and geographical location, thus ensuring that a representative sample was obtained. A total of 800 questionnaires were sent out and 179 were duly returned, giving this study a response rate of 22.4%.

To ensure the goodness of measures, factor analysis and reliability test were conducted to test the data collected. Factor analysis was used to test the validity of the measures and the results showed that the extracted factors fit the conceptualized variables. Cronbach's alpha was used to test the reliability of the variable and the results showed that all variables had a sufficient level of reliability. Bivariate correlation analysis were conducted to determine the inter correlations amongst the independent variables and dependent variable. Regression analysis was used to test the hypothesis and sub-hypothesis. The study found that 3 of the hypothesis were partially accepted whereas the last hypothesis was rejected.

5. 2 Discussions

The aim of our study was to ascertain whether a supplier in the construction industry should focus on their company's marketing mix (cognitive component) or should they instead focus more on the relationship quality (affective component) they have with their customers, to ensure that their customer's stay loyal to them. Further more, these relationships were also tested under a supply shortage situation, to see whether the relationships between the independent and dependent variables would change, providing us with valuable information for future use. This is because the supply shortage situation periodically happens in Malaysia and subsequently impacts the development of Malaysia as well.

Similar research was done by Cater and Cater (2009) and De Ruyter and Semejin (2002) in which emotional motivation was the affective component and rational motivation was the cognitive component. Both researches found that both the affective and cognitive component positively influences customer loyalty. However, the affective component seems to be much stronger than the cognitive component in their findings.

Our first hypothesis result seems to mirror those of other studies. van Riel et al (2005), Yoo et al (2000) and Kim and Hyun (2010) have established the effects of the marketing mix on brand equity. They found that companies investing in the marketing mix, product, price, place and promotion, would create brand awareness and a positive brand image. In this way, brand equity would be created, and when brand equity exists, brand loyalty follows. For this study, we replaced brand equity with the supplier's equity and brand loyalty with the customer's loyalty.

The results show that the company's marketing mix has a positive relationship on customer loyalty. The R^2 value indicates that 29% of the variation in customer loyalty can be explained by the variation in the marketing mix. The study found that buyer's in construction companies placed great emphasis on the product, price and promotion, but not the place. This is slightly different from results obtained from van riel et al (2005), Yoo et al (2000) and Kim and Hyun (2010).

In the aforementioned studies, results indicated that all the 4P's had significant impact on customer loyalty for their respective industries which were the chemical and retail industry respectively.

As this study was conducted in the construction industry, we were dealing with industrial products like cement, steel bars, sand, bricks, which are very expensive and represent a large amount in the cost of a building. Therefore, price would definitely be a very important consideration when purchasing. The product range that a supplier can provide is also important in maintaining their loyalty because a supplier who carries a wide range of products will mean that buyer's need not source for other suppliers to fulfil their needs. Therefore this result is consistent with our literature review finding that says product and price play an important part in maintaining customer loyalty.

Promotions have also been found to be significant in maintaining customer loyalty. Frequent advertisements seem to keep the supplier in the forefront of the buyer's mind, thus increasing both their behavioural and attitudinal loyalty. With the current competitive situation that exists in the construction

industry with many suppliers in the market and not many buyers, suppliers need to maintain their existing customer's by offering discounts and volume rebates. These types of sales promotions are closely related to the dimension of price, thus a very effective method to maintain customer loyalty. This is similar to what has been postulated by Yoo et al (2000)

Place (channel of distribution), was found to not positively affect customer loyalty. This is contradicting with other findings previously highlighted in the literature review. Probably this dimension of the marketing mix does not have an impact on customer loyalty because buyers of construction companies do their purchasing virtually via the internet, through the telephone or via facsimiles. Buyers do not need to physically go to the buyer's office to place their orders, thus distribution intensity (the number of branches the supplier have all over Malaysia) would not be important to buyers. Also once they place their order with a supplier, the goods can be shipped anywhere in Malaysia as specified in the order. A buyer in Kuala Lumpur can place an order with a supplier in Ipoh for goods to be delivered to Johor Baharu. This is unlike the retail market in which distribution intensity (the number of stores available) helps to promote loyalty because it makes it easier for the consumer to acquire their goods.

Our second hypothesis explores the relationship between relationship quality and customer loyalty. Numerous researches have been conducted on this in the B2B as well as B2C contexts. The rational is that when the quality is good, the relationship is successful, thus, leading to customer loyalty.

In general, similar results were found in this study, in which we found that buyer's in construction companies viewed the relationship quality they had with their supplier as important in maintaining their loyalty to them. The R² value indicates that 33% of the variation in customer loyalty can be explained by the variation in relationship quality. However, they did not view service quality as an important dimension in relationship quality for maintaining their loyalty to the supplier.

Even though past researchers like Caceres and Papparoidamis (2007), Rauyruen and Miller (2006), Hewett et al (2002), Hennig-Thurau and Klee (1997), Storbacka et al (1994), Dorsch et al (1998) and Crosby et al (1990) has advocated that service quality will have an impact on customer loyalty, findings in this study indicate otherwise.

This could be caused by the gender and cultural profiles of our respondents as well as the context of the study, which was the construction industry. According to Donthu and Yoo (1998) and Furrer, Shaw and Sudharshan (2000), cultural influences will have an impact on service expectations.

All the previous researches mentioned earlier were done in the Western cultural context. Customers in different cultures or countries will have different levels of service expectations because cultures differ in their patterns of behaviour and attitudes.

Donthu and Yoo (1998) and Furrer et al (2000) used Hofstede's typology of culture to investigate cultural differences on service expectations. They found that customers in high power distance countries, like Malaysia, were more likely to accept very low levels of service quality or overlook it totally.

They would accept or tolerate poor service delivery because of the service provider's expertise. For seemingly poor services, the customers of high power distance countries would find excuses for the service providers instead. Thus, in this study, buyers in construction firms in Malaysia do not view service quality as an important dimension in maintaining their loyalty to their supplier as opposed to their Western counterparts.

Donthu and Yoo (1998) and Furrer et al (2000) also found that customer's in feminine countries like Malaysia which focused on values such as interdependence and relationships did not expect every service encounter to be perfect and would sacrifice the service quality for more important values to them like long term relationships. As 69.3% of our respondents were from the Chinese race, the Confucian dynamic of long term orientation would come into play. The Chinese are more prone to saving face, respect for others and traditions. They do not like to complain and bring shame to others. Thus, in line with this thinking, our findings indicate that trust, commitment and satisfaction are important in maintaining customer loyalty in this study.

Also being a very collectivistic country, Malaysian buyer's in construction firms would always be looking at how they can preserve harmony in their relationship with the supplier and not "rock the boat" by complaining behaviour on the service quality provided. They would be willing to overlook the lack or poor service provided by the supplier. Due to this fact, they do not view service quality as being able to maintain their loyalty to the supplier.

Gender also plays a role in service quality perceptions and customer loyalty. According to Gocek, Kursun and Beceren (2007) in a research on the role of gender in service quality perceptions in the textile industry, they found that males gave less importance to perceive service quality received compared to females. Males were less bothered about how service quality could enhance their overall satisfaction levels towards their supplier, and ultimately on their loyalty. Thus, in our study, 57.5% of the respondents were males as compared to only 41.9% females. Therefore based on this, our findings indicated that service quality was not an important dimension in ensuring their loyalty.

In line with other research in the literature review, the accepted dimensions of relationship quality like satisfaction, trust and commitment were found to positively affect customer loyalty.

Hesket et al (1994), Storbacka et al (1994), Hennig-Thurau and Klee (1997) and Lam et al (2004) posit that when the customer is satisfied, it will impact on the relationship strength and longevity and ultimately on the customer's profitability and serve as the key to an organization's success and long term competitiveness.

Chaudhuri and Holbrook, 2001 linked trust to loyalty through performance whereas Sirdeshmukh et al (2002) linked trust to loyalty through value creation. Buyers need to feel that they can trust their suppliers and these can be exhibited by frontline employees (trustworthy behaviour) and management practices (trustworthy practices).

Most researchers identify commitment among exchange partners as key to achieving customer loyalty. Morgan and Hunt, 1994, Dick and Basu, 1994 and Oliver, 1999, all agree that relationship commitment is similar to loyalty because of the consequences exhibited like positive word of mouth, rebuy or repurchase a product/service consistently and refusal to switch.

Our third hypothesis was also partially accepted, in which the supply shortage situation moderates the relationship between the marketing mix and customer loyalty. In other words, the supply shortage situation affects how the supplier's marketing mix is perceived by the buyers, and this would affect their loyalty. As postulated by Wagner and Gopalakrishna (2001) and Kotler (1974), suppliers in the construction industry should be making intelligent adjustments to the marketing mix to focus on the opportunities presented by the supply shortage situation.

Price still remains the most important component of the marketing mix, especially for buyers in construction companies because the procurement of building materials represents a large amount of the building cost. Therefore, suppliers must resist the urge to raise prices as shortage conditions on the grounds of supplier opportunism because by doing so, they will lose their customers instead.

Suppliers must also ensure that they do not cut down on production or product lines because of a shortage in the mistaken belief that it would not affect their customer's loyalty. Even though there is a shortage supply situation in the construction industry, this does not mean that certain essential building materials are not required by the contractor during that

time. In fact, the whole range of building materials from the structural, intermediate to the final stages in the construction process is required, regardless of whether there is a supply shortage for certain materials or not. Therefore, it is important for suppliers to be cognizant of this fact, and ensure that they carry a wide range of product solutions for their customers needs, even though during a supply shortage situation.

The place (channel of distribution) also becomes important during a supply shortage situation in maintaining customer loyalty. This is because during a supply shortage situation, buyers will try to reduce their risk of being unable to obtain their supply. Therefore, a rational buyer will maintain their loyalty with a supplier that has intensity of distribution (having many branches all over Malaysia) to ensure that they will be able to get their supply of building materials. A contractor based in Kuala Lumpur, might very well have jobs all over Malaysia, thus by buying from a supplier that has many branches all over Malaysia, this will ensure better coordination in deliveries to various job sites all over Malaysia due to the fact that there would be personnel from the supplier stationed in the relevant geographical area. The buyer would feel more comfortable and confident, thus enhancing their loyalty to the supplier.

Our study indicates that promotion becomes less important during a supply shortage situation. This could be because in a shortage situation, products are able to “sell” themselves. Suppliers need not have promotions and advertisements to maintain their presence in the mind of their customers during a shortage. Their buyers are very much aware of their suppliers and their importance during a time of shortage

Our final hypothesis was rejected, indicating that the supply shortage situation does not affect the relationship between relationship quality and customer loyalty. In other words, the supply shortage situation has no effect on how the buyer views their relationship quality and their loyalty with the supplier. This is contradictory to findings in the literature review which posits that a supply shortage situation is perceived as a risk. Thus, buyers will try to engage in risk reducing activities such as looking for other suppliers, thus making them less loyal to their existing supplier.

However, our findings can be answered by a research done by Wood (2008) in the B2B context for wireless telecommunications. He found that when the buyer was very satisfied with his relationship (indication of good relationship quality) it would instead reduce the inclination of the buyer to search for new alternatives, thus positively influencing the buyer's intention to remain with the supplier even during a supply shortage situation. This positive satisfaction with the relationship will instead negatively influence the buyer's perception of other available suppliers in the market, thus ensuring the buyer's loyalty to his/her existing supplier.

5. 2. 1. Major results of the study

Based on the explanation and discussion above, a summary of the major results are presented as follows:

The marketing mix element of price presented by a company has a positive affect on their customer's loyalty

The marketing mix element of product presented by a company has a positive affect on their customer's loyalty

The marketing mix element of promotion presented by a company has a positive affect on their customer's loyalty

The marketing mix element of place presented by a company does not have a positive affect on their customer's loyalty

The relationship quality element of service quality does not have a positive effect on customer loyalty

The relationship quality element of trust has a positive affect on customer loyalty

The relationship quality element of satisfaction has a positive affect on customer loyalty

The relationship quality element of commitment has a positive affect on customer loyalty

The relationship quality has a stronger affect on customer loyalty than the marketing mix

The supply shortage situation affects how customers view the marketing mix presented by the company and this would affect their loyalty.

The supply shortage situation does not affect how customers view their relationship quality with a company, thus not affecting their loyalty.

5. 3 Implications of the study

Based on the research findings, several implications related to the theoretical and practical aspects of management will be discussed.

5. 3. 1 Theoretical implications

The theory of cognitive-affective-conative-behavior was used in this study to explain the formation of customer loyalty. This theory suggests that customer's loyalty is influenced by both cognitive and affective components.

The cognitive components reflect that customers will make conscious evaluations based on information or knowledge such as the price or quality. (Oliver, 1999, Sawmong and Omar, 2004). Cognitive components in this study are represented by the 4Ps, namely product, price, place and promotion. (van Riel et al, 2005, Yoo et al, 2000, Kim and Hyun, 2010)

The affective components reflect the fact that customer's emotions or feelings are likely to play an important role in their behaviour. (Oliver, 1999)

The affective components in this study are represented by relationship quality. (Hewett et al, 2002, Rauyruen and Miller, 2006, Caceres and Papparoidamis, 2007)

The conative-behaviour is accompanied by the desire to an intended action. (Oliver, 1999) It can be exhibited through various ways through the customer's behaviour; most commonly cited are repeat patronage (behavioural loyalty) and positive word of mouth (attitudinal loyalty).

The findings in this research is consistent with the postulated theory. Both cognitive and affective components have an effect on customer loyalty. In this study, the R² for marketing mix was 29% and for relationship quality is was 33%. This indicates that the relationship quality has a strong affect on customer loyalty than the marketing mix. Research by Cater and Cater (2009) and De Ruyter and Semejin (2002) support this statement. In these

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researches, the affective component was found to be stronger than the cognitive component. Customers therefore seem to value the emotional “ we like” more than the rational “ we benefit”.

Cater and Cater (2009) surmises that because of this findings, customers are not as rational as they should be, or much more likely, that rational benefits are perceived as minor in their decision making. In this case, the heart rules the head in the making of decision of continued loyalty.

5. 3. 2 Managerial implications

From this study, we can draw several managerial implications as follows:

The marketing mix presented by a company plays an important role in influencing their customer’s loyalty. Therefore, managers should not neglect the elements of price, product and promotion in their marketing strategies. Price is a very important consideration in purchasing in the construction industry as building materials are very expensive and make up a large amount of the construction cost. All buyers in construction companies would be very price sensitive due to this fact. Managers must ensure that they price their products competitively, according to the going rate. Pricing too high will have a negative affect unlike consumer goods which provide an impression of quality. (Yoo et al, 2000) Managers should also pay attention to promotions to keep their company in the forefront of their customer’s mind. With the current competitive situation that exists in the construction industry with many suppliers in the market and not many buyers, suppliers need to maintain their existing customer’s by offering discounts and volume rebates.

These types of sales promotions are closely related to the dimension of price, thus a very

effective method to maintain customer loyalty. This is also similar to what has been

postulated by Yoo et al (2000). Lastly, managers should make sure that their companies

carry a wide range of products as this will ensure that their customers need not source for

other suppliers to fulfil their orders.

The relationship quality that a company has with their customer is also important in maintaining their customer's loyalty. Managers should pay attention to their company's relationship management strategies and ensure that their customers are satisfied, trust and committed to the relationship they have with the company. Managers should focus on frontline employees especially sales personnel to ensure that they exhibit trustworthy behaviour. Management must ensure that they are ethical and honest in their dealings with customers, thus fostering a climate of trust. (Sirdeshmukh, 2002). To cultivate commitment, managers should place more emphasis on activities that produce strong positive feelings of affiliation and camaraderie between their company and customers. (Kumar et al, 1994). In general, satisfaction is a person's feeling of pleasure or disappointment resulting from comparing a products perceived performance in relations to his or her expectations.

(Storbacka et al, 1994) Thus, managers should focus on product and service

quality and put in the effort to creating a high perception of these elements to ensure that their customer's are not disappointed, but delighted instead.

Supply shortages periodically occur in the construction industry. Thus, managers need to know how to manage their customer loyalty during such times. This study shows that the supply shortage situation affects how customers view the marketing mix presented by the company and this would affect their loyalty. Therefore, managers should be making intelligent adjustments to the marketing mix to focus on the opportunities presented by the period of uncertainty (shortage). By recognizing the changing environment, organizations can still retain their customers and enhance their profitability. (Kotler, 1974, Wayne and Gopalakrishna, 2001). As product, price and place have been found to affect customer's loyalty during a supply shortage situation, managers should focus on these three elements. This means that they should not simply increase prices, reduce product lines and cut down on channels of distribution. Instead, managers should ensure that they price competitively, ensure that they carry enough product lines and not shut down any branches/cut down on sales personnel during a shortage situation. As promotions was found to not affect customer loyalty during a supply shortage situation, managers can then save some spending and cut down on their sales promotion and advertising budgets.

The supply shortage situation does not affect how customers view their relationship quality with a company, thus it does not affect their loyalty. However, this does not mean that managers should neglect the quality of the relationship they have with their customers. Managers should continue to do what they have been doing during normal periods. Ensure that your

customers are satisfied and happy with the existing relationship they have by continually meeting their requirements and delighting them always.

Overall, in a normal situation, to maintain their customer's loyalty, a company should pay more attention to the relationship quality because it has been found to have a stronger affect. However, this does not mean that managers can neglect the marketing mix, because it has also been found to have an affect on customer loyalty. Therefore, prudent managers should pay attention to both cognitive and affective components to maintain their customer's loyalty. However, when a supply shortage situation occurs, managers who focus on their marketing mix can reap substantial gains in their customer's loyalty as opposed to the relationship quality. For managers, this provides them with valuable information on which aspect to focus on to advance their customer's loyalty. Therefore, they can formulate strategic plans that suit the existing situation.

5. 4 Limitations of the study

The results should be interpreted in light of the limitations of the study. They are as follows:

The sample surveyed. Our population for the study comprised of all organizations registered with the Construction Industry Development Board (CIDB) of Malaysia. There are many more contractors which are not registered with the CIDB. Therefore, the results should be carefully considered as being representative of the construction industry as not all organizations in the construction industry were sampled. It should be noted that 62% of the respondents were private limited corporations which were

locally owned. As such, smaller contractors might not have enough representation in this study.

This study was conducted in the construction industry, thus it may limit the generalization to other industries and business to business settings.

The study is based on perceptions. As such, the inherent limitations of perception studies are acknowledged. The respondent's responses represent what they consider to be facts rather than what the facts actually are.

Another limitation might be that the data was collected via a self administered questionnaire. There is concern in the study that customer do not always perform as they say they will and might not answer truthfully for a variety of personal or organizational reasons.

The study asked for the questionnaire to be answered by someone in the organization who has done purchasing and experienced a supply shortage situation before. It should be noted that there is room for bias as we cannot ascertain that the respondent that answered the questionnaire fulfils that criteria.

Due to the time constraints, a cross sectional study was conducted. As such, changes in the variables under study over time, especially the dimensions of relationship quality and customer loyalty may limit the possibility to infer causation.

5. 5 Directions for future research

While this study advances the knowledge of customer loyalty in the construction industry, it also provides additional opportunities for future

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research. Future researches should consider having more or different marketing mix dimensions instead of using the 4Ps. This might lead to different findings for customer loyalty. The same applies for relationship quality, in which different dimensions are used instead of the generally accepted ones of trust, satisfaction and commitment.

Future research can also enhance this study by having a larger sample that covers all organizations in the construction industry, irregardless of whether they are registered with CIDB. Hardware companies are also involved in the construction industry by supplying building materials to contractors. They also frequently encounter supply shortage situations, thus, for future research, they can also be considered.

Because nothing is manipulated in this study, it is difficult to make causal inferences from the data. Perceived marketing mix and the relationship quality could be illusive reflections, distinct from the actual efforts put in by the company. To investigate more thoroughly the causal impact of each independent variable towards loyalty, future researchers could design and conduct experiments manipulating the levels of the independent and the moderating variables.

5. 6 Conclusion

The main objective of this study was to examine the relationships between the marketing mix used by the company and the relationship quality a company had with their customers and their loyalty in the construction industry. In addition, these relationships were tested under a supply shortage situation, to see whether the supply shortage situation would

moderate the relationships between the marketing mix and the relationship quality with customer loyalty.

Overall, this study has provided some empirical evidence that a company's marketing mix and the relationship quality with their customers has positive impact on their customer's loyalty.

The marketing mix components had varying degrees of significant relationships to customer loyalty. Product, price and promotion were found to have positive relationships with customer loyalty. Place was found not to have an affect on customer loyalty.

The relationship quality components also had varying degrees of significant relationships to customer loyalty. Trust, satisfaction and commitment were found to have positive relationships with customer loyalty. However, service quality was found not to have any affect on customer loyalty.

Overall, relationship quality was found to have a stronger affect on customer loyalty in the construction industry.

Perhaps the main contribution of this study is the evidence that the significance of cognitive and affective components in customer loyalty changes during a perceived environment uncertainty.

Cognitive components become more important to customer during a supply shortage situation than affective components. Cater and Cater (2009) theme of rational “ we benefit” rules against the emotional