

The Effect of Relationship Marketing towards Customer Satisfaction and Customer Loyalty on Franchised Retailers in East Java

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Doi:10.5901/mjss.2016.v7n1p333

Abstract

This study aimed to analyse the effect of relationship marketing on customer satisfaction, customer satisfaction and customer loyalty on franchised in East Java. Specifically, the study analyse (a) the direct effect of relationship marketing on customer satisfaction and customer satisfaction and customer loyalty. This study also discussed and (b) indirect effect between relationship marketing on customer loyalty. To determine the sample of this non-probability sampling study, purposive sampling method was applied. The sample was all customers who have conducted shopping transactions in franchised retailers. With the Path Analysis technique, 100 respondents were involved. The analysis shows that relationship marketing plays as an ongoing process that requires a company to establish communication. Relationship marketing is more than just creating short-term transactions, but also building a long-term relationship with customers. A good relationship marketing, which meets the expectations of customers, is able to encourage the desire to continue to do transactions, respond to complaints of services, improve a long-term relationship and mutual trust, and keep the communication to flow well. This eventually will generate customer loyalty towards franchised retailers.

Keywords: Relationship marketing, customer satisfaction, customer loyalty, franchised retailers

1. Introduction

In the globalization era, the economic power mapping and the world of business is characterized by the increase of competition intensity. In this era, information and communication technology are becoming more sophisticated, so that people around the world are now connected to each other without any major obstacles. As a result, product and service markets will be more open, more accessible and more innovative. Competition and collaboration among multinational companies increase, so that international trade no longer takes place between nations, but even more between companies across nations. It is all supported by the rapid advances in information and communication technologies.

Weinstein (1998) showed that customers today tend to be smarter, more selective, more demanding, more familiar with both the products and services offered to them, less loyal, and more sensitive to price. They also have relatively limited time and always look for the highest value for themselves.

The development of the social marketing concept (Kotler and Keller, 2009; Kotler and Lee, 2005) has forced marketers to consider social and ethical issues in their marketing activities by balancing revenue, customer satisfaction, and public interest (Singgih Santosa et al, 2015). Engel et al, (1995) stated that customer satisfaction is a post-purchase evaluation toward the selected alternative, in order to find out whether it provides the same result or exceeds the customer's expectation. Meanwhile, to be considered as a "satisfaction", Kotler (2005) incorporated the performance element into it.

Maintaining a good relationship with customers is one key to success in running a business, because it will create a harmony between the service provider and the service recipient. If a company can execute a good relationship marketing, then the company will be able to keep customers they already have and even increase the number. On the contrary, if the customers feel disappointed or dissatisfied, it will be very easy for them to switch to other competitors.

Relationship marketing has become an interesting topic to study. The company that applies the concept is expected to be superior among the competitors. Many companies have successfully implemented relationship marketing with satisfaction and then acquire loyal customers.

Customer satisfaction is the degree in which the product performance meets the expectation of the buyer. Customer satisfaction will build customer loyalty, which becomes the main capital in an attempt to win and to survive in the competition by using loyalty aspect, namely the customer's willingness to recommend the company to his/her friends; family; and colleagues. Therefore, the significance of loyalty is to build a good relationship between the company and the

customer.

Ndubisi (2007), who carried out another research on customer loyalty, stated that by strengthening the relationship marketing focusing on customer would also increase customer loyalty. Loyalty, according to Oliver (1999), is reflected through the customer's commitment to buy back or re-subscribe to the products/services that have been consistently selected in the future. Satisfaction, according to Oliva (1992), is the customer's feedback on the level of need fulfillment. The assessment on the number of good or service attributes purchased by the customers is conducted by comparing the need fulfillment and the expectations. There are three kinds of result, namely: above the expectations, according to the expectations, or below the expectations.

Relationship marketing is a business philosophy that is a strategic orientation focusing more on building a good relationship between a company and its suppliers and customers in a long term. A good cooperation with a strong bond between the two parties will strengthen the loyalty. There are a lot of studies discussing the relationship between customer satisfaction and loyalty that show various results. First, the relationship between customer satisfaction and loyalty. Caruana (2007) proved that there is a significant effect of satisfaction variable on customer loyalty. Meanwhile, Oliva et al, (1992), Von Wangenheim (2003), and Zahara (2007) expressed that satisfaction does not have any significant effects on loyalty (gap). Second, Leverin and Liljander (2006) failed to prove the correlation between relationship marketing toward satisfaction and loyalty, and even the relationship direction tends to be negative. The result appears due to the customers who have a high bargaining power toward the company. Separately, Ndubisi (2007) proved that there is a positive influence from relational marketing variables toward customer loyalty. Third, another progress is the researchers' efforts to explain the result gap between satisfaction and loyalty (Homburg and Giering, 2001); and (Walsh et al, 2008). According to them, the difference can occur due to the differences in individual characteristics, and/or in ages.

Based on the above results, the study aimed to analyse the effect of relationship marketing on customer satisfaction, customer satisfaction and customer loyalty in franchised in East Java. Specifically, the study analyse (a) the direct effect of relationship marketing on customer satisfaction, customer satisfaction and customer loyalty. This study also discussed and (b) indirect effect between of relationship marketing on customer loyalty.

2. Literature Review and Hypothesis Development

2.1 The Concept of Relationship Marketing

According to Kotler and Armstrong (2003: 13), relationship marketing is a process of creating, maintaining, and strengthening relationship that is full of value with the customers and other believers. Relationship marketing is more than just creating a short-term transaction. Marketers need to build a long-term relationship with the customers. Gradually, marketing has turn into an effort to maximize a mutually beneficial relationship with customers and other parties.

According to Wibowo (2006: 178), relationship marketing is defined as a process in which a company builds a long-term alliance with its customers or prospective customers, and work together to achieve the goals that have been set. The objectives are achieved by understanding the costumers' needs, treating the customers as partners, ensuring that the employees meet the customers' satisfaction and providing them products with good quality. Relationship marketing is an ongoing process that requires a company to establish a permanent communication. The communication will ensure that the objectives are achieved, and will integrate the process of relationship marketing into a strategy plan that allows the company to manage resources well and meet the customers' needs in the future. The main goal of relationship marketing is to improve the customers' satisfaction and turn them into loyal customers. Customer satisfaction is a full evaluation of purchase where the chosen alternative at least provides an equal outcome or even exceeds the customer's expectation. Meanwhile, dissatisfaction appears when the result does not meet the customer's expectation (Tjiptono, 2000: 107).

2.2 Customer Satisfaction

The word "satisfaction" has significance in marketing concept related to customer needs and desires. The term "satisfaction" is very popular, thus it is very easy to find in marketing literature. It also has a deep understanding, so that it becomes the objectives or targets to be achieved by modern business organizations today.

The use of the term "satisfaction" in today's modern era tends to expand and associate with the word "satisfactory" (suitability) and "satisfy" (create something to be good). However, the term "customer satisfaction" in marketing management itself has a very specific meaning. Barnes (2003) stated that customer satisfaction is the response to the

need fulfillment. This means that the assessment toward an item or service or product itself provides a level of comfort associated with fulfillment of need that can be under the expectation or even exceeds the customer's expectations. Oliver (1992) concluded that customer satisfaction is a changing target, so that it is necessary to have a clear description of what the customer needs in each transaction with a certain company.

Engel et al, (1995) state that customer satisfaction is a post-purchase evaluation toward the selected alternative to figure out whether it gives the same result or exceeds the customer's expectation. Incorporating performance element into it, Kotler (2005) stated that customer satisfaction is the level of one's after comparing the perceived performance with his/her expectation. With such understanding, it is known that there are two elements that determine customer satisfaction, namely the performance of the services offered and the performance of the service expected. If the performance of the services offered is equal to the expected performance or even exceeds the expected performance, then the service users will feel satisfied.

2.3 Customer Loyalty

Various definitions of loyalty have been given by the experts. Leverin and Liljander (2006) defined loyalty as a strong commitment to buy back or re-subscribe products/services that have been consistently selected in the future. This approach is criticized because the concept of loyalty is viewed from the narrow side. Attitude approach arises due to the weakness of loyalty measuring through behavioral approach that only observes customer loyalty in term of repeated purchase. According Bloemer et al, (2001), the new attitude approach was constructed in the 1990s. This approach views the will to recommend as a dimension for measuring loyalty (Bloemer et al, 2001). Attitude approach uses attitude data to determine the psychological attachment of a customer, which is how closely the customer is bound in loyalty (inherent in loyalty) to the company (Bowen et al, 2001).

3. Research Method

The approach used in this study is a quantitative approach (positivism). It is based on the principle of rational empirical study. Therefore, before carrying out a research, the researcher has already provided problems and hypotheses to be tested based on the criteria defined and analysis tools used.

This study is an explanatory research, which is done with an intention to explain the relationship between variables through hypothesis testing.

3.1 Sampling Design

The samples of this study are taken by using a non-probability sampling method, namely purposive sampling method. The samples are all customers who have done business transactions at franchised retailers with the following criteria: 17 years of age and above; buy for their own purposes and use; conduct shopping transactions at retail minimarket at least 3 times in the last three months.

Questionnaire is used as the variable-measuring technique and the instrument to collect data from the respondents. The questionnaire in this study inserts five levels of response, which consist of very disagree (VD), disagree (D), half agree (HA) or neutral, agree (A), and very agree (VA). The score of assessment ranges from 1 to 5 following the levels of response: very disagree (VD) = 1, disagree (D) = 2, half agree (HA) or neutral = 3, agree (A) = 4, and very agree (VA) = 5.

3.2 Method of Data Analysis

This research utilizes Path Analysis Techniques as its analysis instruments. Path Analysis technique is employed since there are direct effect and indirect effect variables.

4. Research Result And Discussion

4.1 Description of the Analysis

The complete description of the variables is presented in the following Table:

Table 1: Age-based Respondent Classification

Age (Years)	Number	Percentage(%)
17 – 20	10	10
21 – 30	52	52
31 – 41	30	30
≥ 41	8	8
Total	100	100

Source: Processed data

Table 1, show that the majority of respondents are aged between 21-30 years. There are 52 people or 52% of the total number. Meanwhile, the minority is respondents above 41 years of age, which is 8% of the total number. Respondents of that group are in a productive age, and most of them carry out a lot of activities.

Table 2: Gender-based Respondent Classification

Gender	Number	Percentage (%)
Male	39	39
Female	61	61
Total	100	100

Source: Processed data

Table 2 showed that most of respondents are females, which are 61 people or 61% of the total. Considering that women shop and buy more than men do, the fact is quite understandable. In Indonesia culture, shopping of daily need goods is, responsibility of females.

Table 3: Education level-based Respondent Classification

Education	Number	Percentage (%)
Elementary School Graduates	4	4
Junior High Graduates	17	17
Senior High Graduates	48	48
College Graduates	31	31
Total	100	100

Source: Processed data

As shown in Table 3, high school and college graduates dominate the consumption level. It is due to their needs, which normally are higher in quantity compared to other groups.

Table 4: Occupation-based Respondent Classification

Jobs	Number	Percentage (%)
Civil Servants	11	11
Private Employees	16	16
Entrepreneur	31	31
Others (Pensioners, College Students, Housewives, etc.)	42	42
Total	100	100

Source: Processed data

Respondents who worked as pensioners, students, housewives, etc. dominate the classification (42 people or 42% of the total). They tend to shop in franchised retails because it is more practical.

Table 5: Frequency-based Respondent Classification

Frequency	Number	Percentage (%)
2-5 times	56	56
6-9 times	20	20
10-12 times	16	16
>12 times	8	8
Total	100	100

Source: Processed data

Mostly, respondents carry out transactions twice or five times. They expect efficiency, hygiene, and practicality.

Table 6: Length of Membership Period-based Respondent Classification

Membership Period	Number	Percentage (%)
4 months	20	20
5-12 months	19	19
13-24 months	41	41
> 24 months	20	20
Total	100	100

Source: Processed data

In Table 6, there are 41 respondents who have been members for 13-24 months. An easy access to get a member card becomes a factor that makes most respondents to shop for that period of time.

4.2 Result of Data Analysis

Based on Path Analysis, the model as in Table 7 and Figure 1 is obtained.

Table 7: Result of Path Analysis

Path	Beta (β)	Effect	%	t _{count}	Sig
Relationship (X)→Customer Satisfaction(Z)	0,609	0,609	60,9***	6,406	0,000
Relationship (X) → Customer Loyalty (Y)	0,386	0,386	38,6***	3,550	0,001
Customer Satisfaction(Z)→Customer Loyalty(Y)	0,287	0,287	28,7***	2,958	0,004
X → Z → Y	(0,609).(0,287)	0,174	17,4	-	-
ϵ_1	-	0,676	67,6	-	-
ϵ_2	-	0,656	65,6	-	-

Information: *** Significant at $\alpha = 1\%$

Source: Processed data

Based on output in Table 7, the direct and indirect effect relationship in this study can be depicted in the following figure.

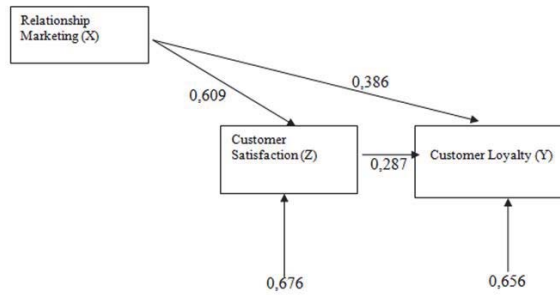


Figure 1. Path Analysis

4.2.1 The Effect of Relationship Marketing on Customer Satisfaction

The analysis shows that there is a significant influence of relationship marketing on customer satisfaction. It means that there is a one-way relationship between satisfaction and relationship marketing. The more satisfied customers feel then the more long-term relationship between the customer and the franchised retails increases in the form of relational marketing.

Relationship marketing is the glue that enables a company to trust others and vice versa. Trust, commitment, communication, and conflict resolution are very important especially for companies providing services. Such company tends to promise before the customer pay and perceive the product value (invisible product). Therefore, with employees as the spearhead, they need to be able to create commitment with the customers. Relationship is the most important factor for the companies because it links to the future. The stronger the relationship is built, the more impossible it ends.

4.2.2 The Effect of Relationship Marketing on Loyalty

The result shows that there is a significant influence of relationship marketing on customer loyalty. A higher relationship marketing will lead to a stronger customer loyalty. Thus, a good relationship (between the customer and the franchised retail) will bring a positive impact on loyalty. This inseparable relationship has tied the customers to the retail. Commitment between the customer and the franchised retail will lead to mutually beneficial relationship.

4.2.3 Satisfaction Effects Loyalty

The result of path coefficient analysis shows that satisfaction perceived by customers will increase their loyalty. This condition reflects that a customer who has known the franchised retail very well and has a good experience with the retail, will build an understanding and loyalty to the franchised retail, by continuing their transactions with the franchised retail.

Besides knowledge, demographics, the role of the social environment, and the level of income also encourage customers to buy. Both young and old customers with a good income and college education are satisfied with the sale process, in this case is their contact with staff personnel, their satisfaction with the price and products as well as with the retail as a whole. This ultimately influences their loyalty. Customer will provide good information to others about the retail, and will be willing to purchase at the retail. Because they feel the retail is able to meet their need and expectation, they eventually make the retail their main option.

5. Conclusion

Customers, who are highly educated and have sufficient knowledge relating to franchised retail, tend to be more loyal, trusting and committed than customers with lower education.

Customer loyalty will provide good information and ability to attract and convince others to take advantage from franchised retail. They are also willing to buy back and choose franchised retail their main choice because franchised retail are able to meet their need.

A satisfied customer will increase a long-term relationship by trusting each other, and maintaining a good

communication, so that it will build loyalty toward franchised retail.

5.1 Implications of Advanced Studies

Franchised retail should improve positive worth-of-mouth of customers as a strategy to attract new customers.

Researches on the characteristics of individuals that strengthen the relationship between satisfaction and loyalty as a whole have never been conducted. The next researches are expected to explore and study this subject thoroughly, especially on the characteristics of individual as a moderating variable.

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