

Linking Perceived Service Quality, Perceived Customer Value and Customer Loyalty in Retail

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Abstract. There is empirical evidence in literature on importance of service quality for customers generally and on retail market. There is evidence on importance of customer loyalty for companies, but also those on positive influence of perceived service quality on customer loyalty in general, and on retail market. However, service quality is only one of customer loyalty determinants. In order to be successful, marketing activity has to create value for customer. Customers' decisions in retail are driven by perceived service quality and also by perceived customer value. Service quality in retail (hypermarkets) research extends service quality definition and incorporates aspects of particular importance for the afore mentioned activity. Furthermore, recent research determines perceived service quality and perceived customer value as multidimensional constructs. Therefore, this paper determines perceived service quality by the following dimensions: merchandising, physical environment and interaction with employees. Perceived customer value has been operationalised as two-dimensional, as emotional and economic value. Customer loyalty has been operationalised in behavioural intentions form. The purpose of this paper is to research linkage between the dimensions of service quality and perceived customer value, influence of service quality dimensions on customer loyalty, and perceived customer value dimensions on customer loyalty. The research was conducted on sample of 740 respondents. According to its characteristics the applied sample is quota one with the following control variables: city, shop, gender and age. In order to be a part of sample, respondents have had to be regular customers of consumer products (food and non-food products) in one of hypermarkets selected for this research within the area of the Federation of Bosnia and Herzegovina. According to the research results high service quality and delivery of superior value for a customer on retail market result in creation of their loyalty. Shedding light on relationship between perceived service quality, perceived customer value, and customer loyalty is a precondition for successful loyalty management on hypermarket and creation of loyal customers' base depending on perceived service quality, perceived customer value and customer loyalty.

Keywords: service quality, customer value, customer loyalty, hypermarkets

1 Introduction

Benefits of customer loyalty are multiple. Research show that focusing on customer loyalty can ensure few commercial advantages: it is cheaper to retain than to attract new customers; the longer the business relationship with customers is maintained, the greater the profitability is; loyal customer is ready to spend more money with selected supplier and around 50% of new customers come on the recommendation of existing ones, indirectly influencing reduction of cost in attracting new customers (Oakland 2004). Customer loyalty is considered the most important factor of a company's competitiveness (Woodruff 1997). It leads to increase in profit, decrease in costs based on repeated

purchases and higher profitability (Reicheld 1993). Therefore, the companies have to consider loyalty determinants and their relative importance as a precondition for loyal customer base creation.

2 Perceived service quality, perceived customer value, and customer loyalty

Literature reveals findings regarding positive influence of perceived service quality on customer loyalty. In their research, Boulding et al. (1993) approved direct positive relation between perceived service quality and behavioural intentions. Also, the results of Zeithaml et al. (1996) empirical study provide strong evidence on positive influence of service quality on behavioural intentions. Wong and Sohal (2003) gave evidence of positive influence of service quality on customer loyalty in retail, where there is stronger influence at company level than at interpersonal level, employees' level. Analysing four different models of service evaluation, among other results, Brady et al. (2005) also set out confirmation of service quality as antecedent of loyalty. In their study in retail (in supermarkets) Sirohi et al. (1998) set out the results that behavioural intentions measured by intention of continuation of purchase, intention of increased purchase, and intention of giving recommendation to others depend on service quality that can be considered as the most important perception determinant of entire shop offer. Molina et al. (2009) have further researched service quality and loyalty in retail, and research results show that service quality in retail can be considered as a basis for creation of satisfied and loyal customers. Approaches to research on customer loyalty can be grouped into following three categories: research on loyalty as behaviour, research on loyalty as attitude, and integrated approach. In numerous studies, primarily due to difficulties in measurement, behavioural intentions are researched at the same time avoiding aspects of attitude and real behaviour, assuming that purchase intentions are good predictors of real behaviour.

The results of Brady et al. (2005) empirical study testify to the importance of service quality and its impact on behavioural intentions, but also of more significant impact of value and satisfaction on behavioural intentions. Explaining predecessors and outcomes of customer satisfaction in the context of American Customer Satisfaction Index, Fornell et al. (1996) testify about perceived service quality and perceived value as predecessors of satisfaction determining their relationship as the one where perceived service quality positively influences perceived value. Bolton and Drew (1991) also report on positive influence of perceived service quality on perceived value for money and value on behavioural intentions.

Perceived value for money in retail environment turned out to be an important mediator between perceived service quality, price and risk on one, and readiness to purchase on the other side (Sweeney et al. 1999). According to Sirohi et al. (1998) three dimensions of service quality (operations in a shop, shop layout and personnel) have a direct positive influence on behavioural intentions and an indirect positive influence on perceived value for money. Separating shops according to average perception of customers about competitive attractiveness, perceived value for money plays an important role in creation of behavioural intentions in case of high level of competitive attractiveness. When this level is lower, perceived value for money does not have a significant effect on behavioural intentions.

Chen and Quester (2006) created a model of service loyalty after which they suggest orientation towards satisfaction managing and customer value perceptions during the implementation of marketing orientation because they directly influence loyalty in service sector. In the research of direct influence of perceived value dimensions on two loyalty components (attitude and behaviour), Pura (2005) concludes that behavioural intentions are the most influenced by conditional value, context within which the service is provided, then attachment and monetary value to some extent. Attachment can be built by both emotional value and conditional value. Influence of social and cognitive value did not prove to be significant. The value is subjective category. Different groups of customers perceive different values of the offer itself.

3 Research methodology

Research tool (questionnaire) was developed using relevant scientific literature that was adjusted to chosen research topic. It consists of a set of claims that are related to dimensions of merchandising, physical environment, interaction with employees, customer value and loyalty with which the respondents expressed intensity of their agreement or disagreement.

The measurement scales and indicators used in this study are shown in Table 1.

Table 1: Measurement scales and indicators

Measurement scales	Indicators	
Merchandising	<ul style="list-style-type: none"> • This store offers wide range of products. • This store offers products of different quality. • This store offers different brands of products. • This store always has enough stocks of products I purchase. 	Author's own indicators
Physical environment	<ul style="list-style-type: none"> • This store has modern-looking equipment and fixtures. • This store has clean, attractive, and convenient public areas (restrooms, fitting rooms). • The store layout at this store makes it easy for customers to find what they need. • The store layout at this store makes it easy for customers to move around in the store • This store provides plenty of convenient parking for customers 	Dabholkar et al. 1996.
Interaction with employees	<ul style="list-style-type: none"> • Employees in this store are consistently courteous with customers. • Employees in this store have the knowledge to answer customers' questions. • Employees in this store are never too busy to respond to customer's requests. • The behaviour of employees in this store instil confidence in customers. 	Dabholkar et al. 1996.
Emotional value	<ul style="list-style-type: none"> • I enjoy to shop at this store. • I feel relaxed shopping at this store. • I feel good shopping at this store. • Shopping at this store gives me pleasure. 	Sweeney and Soutar (2001)
Economic value	<ul style="list-style-type: none"> • Products are reasonably priced. • This store offers value for money. • This store offers good products for the price. • Buying at this store is economical. 	Sweeney and Soutar (2001)
Loyalty	<ul style="list-style-type: none"> • I say positive things about this store to other people. • I recommend this store to someone who seeks my advice. • I encourage friends and relatives to do business with this store. • I consider this store to be my first choice. 	Zeithaml et al. (1994)

Empirical research was carried out during January 2019 on the sample of 740 respondents. Applied sample is, according to its characteristics, quota sample with the following control variables: city (Sarajevo, Tuzla, and Mostar) and stores (Konzum, Bingo, Mercator). In order to be a part of sample, respondents have had to be regular customers of consumer products (food and non-food products) in

one of hypermarkets selected for this research within the area of the Federation of Bosnia and Herzegovina.

The sample included 402 (54.3%) women and 338 (45.7%) men, all older than 25 (the youngest respondent is 25 and the oldest is 90 years old). Three quarters of respondents have secondary education and the rest have higher education. Almost half of the respondents are employed (47.7%), one quarter is unemployed (23.5%) and the rest are retired persons, housewives and students. A quarter of respondents did not answer the question about the amount of income, and the distribution of other respondents is as follows: 23.6% of respondents have the income less than BAM 700, 24.2% have the income between BAM 700 and BAM 1000, 15.5% between BAM 1000 and BAM 1500, and 11.2% higher than BAM 1500.

Statistical analysis was conducted in SPSS for Windows, version 20.0. The internal consistency of the dimension is checked with Cronbach's Alpha, and the Pearson's coefficient of correlation was calculated.

Cronbach's Alpha for dimensions are as follows: emotional value 0.839, economic value 0.832, merchandising 0.813, physical environment 0.842, interaction with employees 0.855, loyalty 0.821, The obtained results show that all dimensions have good internal consistency.

4 Research results

The results of correlation analysis between perceived service quality and perceived customer value are shown in Table 2.

Table 2: Correlation between perceived service quality and perceived customer value

		Merchandising	Physical environment	Interaction with employees
Emotional value	Pearson Correlation	.790**	.653**	.575**
	Sig. (2-tailed)	.000	.000	.000
	N	740	740	740
Economic value	Pearson Correlation	.709**	.557**	.505**
	Sig. (2-tailed)	.000	.000	.000
	N	740	740	740

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

Source: author's calculations

As shown by the results in Table 2 all three dimensions of service quality are significantly correlated with value dimensions i.e. merchandising, physical environment and interaction with employees are significantly correlated with both emotional value and economic value. All coefficients from Table 2, according to their sign, show that service quality dimensions and value dimensions are in positive correlation, and according to their value they have medium strong correlation. This would mean that higher perceived service quality also means higher perceived value.

The results of correlation analysis between perceived service quality and loyalty are shown in Table 3.

Table 3: Correlation between perceived service quality dimension and loyalty

		Merchandising	Physical environment	Interaction with employees
Loyalty	Pearson Correlation	.633**	.569**	.498**
	Sig. (2-tailed)	.000	.000	.000
	N	740	740	740

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

Source: author's calculations

As shown by the results in Table 3 all three dimensions of service quality are significantly correlated with loyalty i.e. merchandising, physical environment and interaction with employees are significantly correlated with loyalty. All three correlation coefficients from Table 3, according to their sign, show that dimensions of service quality and loyalty are in positive correlation, and according to their value they indicate medium strong correlation. This would mean that higher perceived service quality means higher loyalty.

The results of correlation analysis between the perceived customer value dimension and loyalty are shown in Table 4.

Table 4: Correlation between perceived customer value dimension and loyalty

		Loyalty
Emotional value	Pearson Correlation	.757**
	Sig. (2-tailed)	.000
	N	740
Economic value	Pearson Correlation	.699**
	Sig. (2-tailed)	.000
	N	740

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

Source: author's calculations

As shown by the results in Table 4 both dimensions of value are significantly correlated with loyalty, i.e. emotional value and economic value are significantly correlated with loyalty. Both correlation coefficients from Table 4, according to their sign, indicate that the dimensions of value and loyalty are in positive correlation, and according to their value they indicate medium strong correlation. This would mean that the higher perceived value also means higher loyalty.

5 Conclusion

Necessary response of the companies on growing awareness and background knowledge of customers, their exquisite taste, caution and consciousness about value of supply is also a strategy focusing on concept of value delivery to customer (Webster 1994). Competitive advantage of successful service suppliers and retailers is often explained by logic that service quality contributes value for customer, which increases satisfaction and positive behavioural intentions, eventually creating loyalty that manifests in increased profitability (Cronin et al. 2000, Slater and Narver 1994, Webster 1994).

How to manage loyalty in retail based on obtained research results?

All three service quality dimensions are significantly correlated with value dimensions. In addition, all three service quality dimensions are significantly correlated with loyalty. Both value dimensions (emotional and economic) are significantly correlated with loyalty. It is notable that the strongest correlation refers to correlation of merchandising with value and loyalty, although the impact of physical environment and interaction with employees is not negligible. Although hypermarket is characterised with lower level of interaction in relation to pure service industry, interaction with employees turned out to be important for perceived value and loyalty. Emotional value turned out to be more important in relation to economic value when it comes to correlation with loyalty.

The path to loyal customers in retail is not a simple one. According to the obtained research results each of determinants has its role on that path. More precisely, the higher the perception of service quality (merchandising, physical environment and relationship with customers) is, the higher is the value from the customer perspective, which then results in customer loyalty.

Following this line of reasoning, to increase the basis of hypermarket's loyal customers it would be necessary to:

- offer assortment that is in accordance with customer requirements from the aspect of broadness and depth of assortment, availability of products, supply of brands with different price range, supply of brands of different quality;
- promote internal marketing by emphasising the importance of employees' role at the point of sale;
- organise (clean and tidy) sales area so that the customers can easily walk and find the products and enough parking space for customers;
- shape retail environment to create positive emotional experiences and to stimulate favourable, while avoiding unfavourable emotions
- create offer that mirrors "value for money".

In conducted research loyalty was measured by behavioural intentions. Further research that would measure creation of loyalty based on affective, cognitive and conative components could be in function of additional confirmation of the research results, or on the other hand following the lead of different results on influence of service quality and perceived value dimensions on customer loyalty on retail market in the Federation of Bosnia and Herzegovina, thus opening the door to different approach in loyalty research.

Further, it would be important to test suggested model with necessary modifications in smaller retail formats (for example neighbourhood local smaller shops) for which is harder to compete with lower prices with bigger players, but also in other retail formats. Comparative analysis of results of such research and conducted research would provide us with an answer on possibility to use service quality and customer value as determinants of loyalty in different retail formats.

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