

## **The Role of Customer Value on Satisfaction and Loyalty (Study on Hypermart's Customers)**

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**ABSTRACT:** *Since two decades ago research on value had been developed and is still ongoing until recent time. This research is aimed to examine and explain the relationship among customer value, loyalty program, customer satisfaction, and customer loyalty. This study was conducted at Hypermart in South Kalimantan which took 150 respondents from the Hypermart's customers. The respondent was selected by using accidental sampling. The data analysis utilized Partial Least Square (PLS). The result demonstrates that there is positive and significant role of customer value on customer satisfaction. The remarkable finding of this research is that the role of customer value on customer loyalty is not significant. It means that customer value cannot directly make customers do beneficial activities for Hypermart: having high commitment, repurchase, cross-buying (increase the amount of purchase), and informing positive things to others. Moreover, customers will make better beneficial things for Hypermart when they are satisfied with product completeness, customer service, trading format and customer communication, as well as membership card benefit.*

**KEYWORDS:** *value, satisfaction, loyalty*

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### **I. INTRODUCTION**

There are a lot of researches addressing customer loyalty's correlation with service quality and customer satisfaction as its antecedent variables. However, due to a shift on customer's needs which requires better product as well as the occurrence of higher competition intensity among industries, there come up several researches which examine the relationship among customer loyalty, customer satisfaction, and customer value. Tight competition forces competing marketers to deliver excellent service for their customers.

Competition is inevitable. When the competition gets more stringent, the concept that is useable for marketers to get closer with their customers is CRM (Customer Relationship Management). It is supported by the fact that traditional marketing concept development which occurred in the early of twentieth century shifts to marketing concept based on relationship in the middle of twentieth century as mentioned by Satoshi Ueno (2006). The effectiveness of CRM practice is driven by how well the marketers are able to comprehend the CRM concept strategically, operationally, and analytically. Therefore, the variables of this research are derived from the CRM concept as a core business strategy which integrates internal function and process as well as external network to create and deliver value to the customers in order to gain profit (Buttle, 2007).

This shift also takes place on huge retail or supermarket. It makes customers hard to be loyal to particular supermarket. Customers are free to choose which supermarket that becomes the shopping medium for them. One of the supermarkets which faces this kind of atmosphere is Hypermart. One of the efforts to attract customers to Hypermart is by offering not only quality service but valuable service for the customers. Effective customer value is the value that can satisfy customers and make them to be loyal customers. Retail business competition is tight, thus marketers have to offer service which has more than valuable service but superior value service compared to the other potential competitors.

Based on the description, customer value bears important role to win the competition in business so that we need to figure out how far customer value can satisfy customers and make them loyal. For this reason, customer value needs to be continuously developed through research that is continuously developed as well. It is aimed to refine whenever there a customer value which is quite satisfying and develop the value to make them loyal. For this reason, it needs a research that correlates customer value with satisfaction and customer loyalty. Based on the background, the research problem is about how to create customer loyalty through customer value and customer satisfaction. Additionally, it is also aimed to examine the role customer value on customer satisfaction and customer loyalty.

## II. REVIEW OF LITERATURE AND RESEARCH MODEL

### 2.1. The Relationship among Customer Value, Customer Satisfaction, and Customer Loyalty

In making purchase decision, customer value is one of the matters that is considered by customers. Customer value is an evaluation on the benefit of a product or service that is perceived by customers as compared to what the customers had devoted to get the product or service. It resembles the description that customer perceived value namely the consumer's overall assessment of the utility of product, based on perceptions of what is received and what is given (Zeithaml, 1988). Better customer value as compared to what the competitors deliver will make customer feel satisfied and in turn will drive him to be loyal. It is confirmed by Kotler (2000) as customers will purchase from an organization which they perceive that it offers the highest customer value. In line with customer satisfaction theory, customer satisfaction is the level of customer's perception after comparing the actual performance of a product he perceives with what he expects on the product to deliver. McQuity *et.al.* (2000) states that consumers learn from their experience and the lesser the expectation that is not met will increase customer satisfaction. Further, Kotler and Armstrong (2004) mention that:

“Consumers always require a product or service that is able to satisfy their needs. How do they choose among the marketed products? Consumers choice is based on their perception on the value and satisfaction of the product and service they receive”

About the relationship between satisfaction and customer loyalty, Kotler (2000) said that “a highly satisfied customer generally stays loyal longer, buys more as the company introduces new products and upgrade existing products, talk favorably about the company and its product, pay less attention to competing brands, and is less sensitive to price, offers product or service ideas to the company, and costs less than new customers because transaction is routine.”

Based on the theory mentioned by Kotler and Armstrong (2004) and by Kotler (2000), it indicates that consumers will define their choice based on their perception on the value embedded in a product or service that satisfies their need. The satisfied customers generally will be advantageous for organization. Thus, it is concluded that theoretically there is a relationship among customer value, customer satisfaction, and customer loyalty.

The finding of prior research confirms that customer value is the antecedent of satisfaction; further, satisfaction is the focal determinant of customer loyalty. Wang *et.al.* (2004) found the role of customer value on customer satisfaction, brand loyalty, and customer behavior based on CRM performance. The article entitled “Customer Perceived Value: A Substitute for Satisfaction in Business Markets: (Eggert and Ulaga, 2002) also verified the role of customer perceived value on satisfaction and repurchase intention, search for alternatives, and word of mouth.

Thus in strategic marketing realm, it becomes the focus of attention for both marketers and scholars to examine the relationship among customer value, customer satisfaction, and customer loyalty. Prior research corroborated the direct role of customer value on customer loyalty as well as its indirect role through satisfaction. Based on the theoretical and empirical review, it leads to the following hypotheses:

**H1: There is positive and significant role of customer value on customer satisfaction**

**H2: There is positive and significant role of customer value on customer loyalty**

**H3: There is positive and significant role of customer satisfaction on customer loyalty**

**H4: There is positive and significant role of customer value on customer loyalty through customer satisfaction**

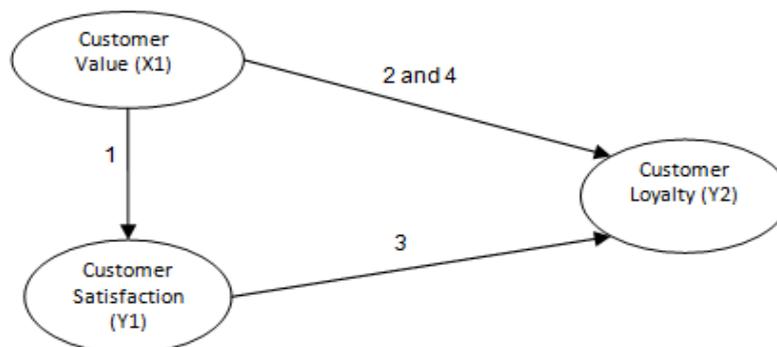


Figure 1. Research Model

III. METHOD

3.1. Sample and Measures

This is an explanatory research which aims to reveal the relationship among research’s variables. The data were obtained by using questionnaire that was distributed to the respondents. The respondents consisted of 150 Hypermart’s customers in South Kalimantan, Indonesia. The sampling technique utilized accidental sampling.

Referring to the research’s conceptual framework, the research’s variables comprise from exogenous (independent) variable including customer value (X1) and endogenous (dependent) variables including satisfaction (Y1) and customer loyalty (Y2). Each research variable is latent variable (unobserved) which is measured by using some indicators. Each indicator consists of some items that are described into statements. The data are in Likert’s scale from 1 (strongly disagree) to 5 (strongly agree) that once are confirmed for its validity and reliability.

3.2. Data Analysis

Data analysis utilized in this research is descriptive and inferential analysis. Descriptive statistic analysis is employed to describe respondents’ answers on the research questionnaire by measuring the mean score of those answers. Inferential statistical analysis uses variance-based Structural Equation Modeling (SEM) or component-based SEM that is mostly known as Partial Least Square (PLS) method.

IV. RESULT AND DISCUSSION

Table 1. Loading Factor and Mean Score of Each Indicator from Each Variable

Var.	Indicator	Outer Loading	Mean Score of the Indicator
X1	X1.1. functional value	0.489	3.93
	X1.2. emotional value	0.558	3.62
	X1.3. social value	0.619	4.05
	X1.4. customer service value	0.622	3.63
	X1.5. price fairness	<b>0.658</b>	<b>3.75</b>
Y1	Y1.1. product completeness	0.560	3.86
	Y1.2. customer service	<b>0.644</b>	<b>3.63</b>
	Y1.3. trading format	0.566	3.76
	Y1.4. customer communication	0.469	3.65
	Y1.5. membership benefit	0.552	3.47
Y2	Y2.1. commitment	0.745	3.40
	Y2.2. repurchase	0.510	3.71
	Y2.3. cross-buying	<b>0.788</b>	<b>3.30</b>
	Y2.4. word-of-mouth	0.674	3.67

Source: Processed Data (2011)

4.1. Customer Value

Customer value is measured by using five indicators: functional value, emotional value, social value, customer service value, and price fairness. Therefore, customer value in this research is described as service value that is perceived by customers after shopping at Hypermart. Service value that is perceived by customers consists of functional value as a shopping facility related to the product completeness, emotional value related to the benefits obtained by customers from the Hypermart atmosphere, social value that is a benefit related to the social status, customer service value that is a benefit related to employee’s service delivery, and price fairness related to the price equality of the product offered by Hypermart to the customers. Table 1 shows that X.5 indicator is the dominant variable predictor variable of the customer value (X1). Respondents perceived that this indicator is good enough as its mean score is 3.75. Based on the outer loading value, price fairness is the most important indicator of customer value. It means that conceptually, the price fairness offering of Hypermart is an important aspect to improve customer value; nonetheless, Hypermart has not yet offered product’s price which meets what customers want. This result indicates that offering fair price is an important aspect for customers. For customers who are price-sensitive, they prefer to purchase product at the best-value price. If it is correlated to customer satisfaction, high-priced product would not be perceived as expensive if costumers perceive satisfaction on the product equally comparable to its price. Conversely, luxurious goods will not be purchased when the perceived satisfaction is lesser than the price a consumer devotes. Proper pricing enables retailer to obtain more profit as well as deliver certain level of satisfaction to retail customers both before and after the

selling matter (Lewinson in Foster, 2008). Thus, Hypermart's management needs to enhance its attention in pricing strategy to make it fairer, including improving other aspects of customer value.

#### **4.2. Customer Satisfaction**

Satisfaction is contented feeling of a customer after comparing performance (outcome) to his expectation related to the aspects that are offered by Hypermart such as: product high-priced that is offered (merchandise), trading format including layout and atmosphere, customer service, and customer communication including Hypermart's product catalogue which presents the price and special-offer (list of discounted products, best-value price). Satisfaction is also measured by using Hypermart member card's benefit related to the benefit of membership in Hypermart stores in Indonesia.

In satisfaction variable (X3), the strongest indicator during measurement is satisfaction related to the Hypermart's employee friendliness when they serve customers at Hypermart store (Y1.2). This indicator attains the highest mean score (3.63). It implies that employee service on customers during shopping is important but not yet well-conducted by the employees. Based on the outer loading value (Table 1), it reveals that customerservice is the most important indicator to measure customer satisfaction; yet, customer service is perceived to be not quite good by customers. Customers who have less information about a product they want to purchase requires employee's assist to obtain the needed information. Thus, even when all of products are arranged neatly, it still requires skillful employee who knows well about the product knowledge that he is responsible for.

Based on the result of this research, it shows that Hypermart's attention is more to product completeness offering (Table 1). Hypermart's focus on offered product completeness is not wrong; but, the completeness of the product that a retailer offers is demanded to meet the expectation of the target market as the key to win the rivalry among similar retailers. Retail store needs to offer product line in width and depth as it is possible so that the store can be a one-stop shopping store. It is beneficial for customers when they only need to go shopping at Hypermart to fulfill all the needs they have. Further, it also minimizes the sacrifice they should give to get a product. The more they shop, the more points they get, which in turn also elevates the chance of reward that the customers can get. However, the presence of employee in Hypermart is still required. They should be ready to help customers and provide information related to the product offering at Hypermart due to the wide area of Hypermart as well as the various products offering. Employees are needed to be sufficient in quantity and know the product that they are responsible for.

This research is in accordance with Bridson's *et.al.* (2007) study when employee service on customer (customer service) is pointed as an important indicator for satisfaction. To measure satisfaction, it refers to customer satisfaction on the specific elements offered by a store or by transaction specific item (not based on the general-overall elements) so that there are some other indicators utilized to measure satisfaction such as merchandise, trading format, and customer communication.

#### **4.3. Customer Loyalty (Y2)**

Customer loyalty is customer's commitment after purchasing at Hypermart related to the positive attitude which is reflected on the consistent purchase. Customer loyalty variable is measure by using commitment, repurchase, cross-buying/ improving the amount of purchase, and word of mouth or informing positive things to others. Commitment implies the customer's willingness to stay loyal and go shopping at Hypermart even there are abundant retail stores such as minimarkets boom recently. Repurchase is interpreted as customer's willingness to continue purchase on the products offered by Hypermart. Cross-buying is related to the customer's willingness to improve the amount of purchase and inform positive things related to their shopping experience at Hypermart to others (word of mouth).

The outer loading analysis result (Table 1) demonstrates that cross buying or improving the amount of purchase is the most substantial indicator in reflecting customer loyalty variable. Thus, Hypermart management needs to offer membership card. It is an effort of Hypermart management to attract and retain its customers. Moreover, it is also a proof that membership card is succeeded to make customers stay loyal. Still, the benefit of the membership card does not deliver good perception on the customers yet. However, when a customer has membership card, he has the chance to get special discount and purchase points as compared to a condition when he did not have membership card.

#### **4.4. Structural Modeling Evaluation**

Structural modeling evaluation is conducted by examining two parts: checking linearity assumption by using Curve Fit and inspecting Goodness of Fit model by using predictive relevance model ( $Q^2$ ). All of the models are fit and linear since the value is  $< 0.05$  (significant).

$Q^2$  is calculated based on the  $R^2$  value of each endogenous variable. The  $R^2$  of customer satisfaction variable (Y1) is 0.604; and the  $R^2$  of customer loyalty variable (Y2) is 0.378.

$$Q^2 = 1 - (0.604)(0.378) = 0.7537$$

As  $Q^2$  is 0.75, it implies that the information content of the data is able to be explained 75.3% by the model; whereas, the other part is explain by error and other variables that are not included in this research.

**4.5. Hypothesis Test Result**

To test the research hypotheses, it uses t-test on each path of direct influence partially and indirect influence through mediating variable. Therefore, the hypothesis test is divided into two parts that are direct influence test and indirect influence test or mediating variable test. Below, it explicates the result of direct influence test and mediating variable test respectively.

**4.5.1. Direct Influence Test**

Direct influence test is utilized to describe hypotheses 1, 2, 3, and 4. By using standardized path coefficient, the hypotheses are examined on each direct influence path partially. The result of the direct influence test can be observed in Table 2 and Figure 2.

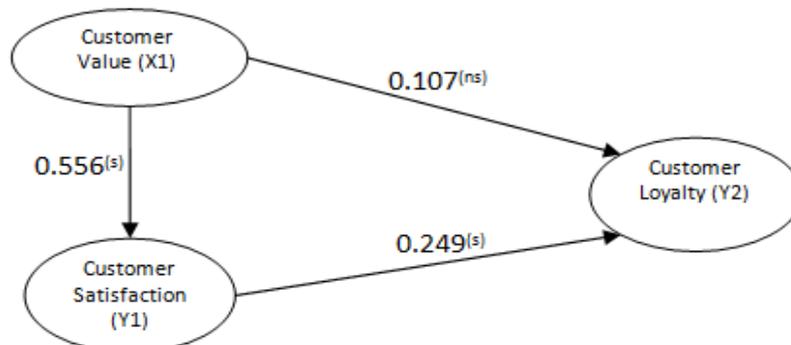
**Table 2 The Analysis Result of Direct and Indirect Influence Test among Variables**

Variables Relationship		Standardized Path Coefficient	p-value	Description
Customer Value (X1)	Customer Satisfaciton (Y1)	0.556	0.000	Significant
Customer Value (X1)	Customer Loyalty (Y2)	0.107	0.0192	Not Significant
Customer Satisfaciton (Y1)	Customer Loyalty (Y2)	0.249	0.042	Significant
Customer Value (X1) through Customer Satisfaction (Y1)	Customer Loyalty (Y2)	0.14	0.000	Significant

Source: Processed data (2011)

The hypothesis test result on the direct paths influence can be observed in Fig. 2. Based on the test result that is statistically showed in Table 2 and Fig. 2, it leads to the description below.

There is positive and significant role of customer value on customer satisfaction. The result is demonstrated by PLS analysis which obtains standardized path coefficient of 0.556 with  $p$ -value  $< 0.0001$ ; thus, it is significant. The path coefficient is positive; it implies that it has relationship in the same direction. It implies that better customer value results in better satisfaction. Hence, hypothesis 1 is confirmed: there is positive and significant role of customer value on customer satisfaction.



Note: (s) = significant path, (ns) = not significant path. Number after / is the path coefficient model without mediating variable

**Figure 2. Path Diagram of PLS Analysis Result**

There is no positive and significant role of customer value on customer loyalty. The standardized path coefficient from the PLS analysis result scores 0.107 with 0.192  $p$ -value; thus, it is not significant. The result

implies that either better or worse, customer value does not directly influence loyalty. Therefore, hypothesis 2 which states that there is positive and significant role of customer value on customer loyalty is not proven.

There is positive and significant role of customer satisfaction on customer loyalty. Based on the PLS test result, it obtains 0.249 standardized path coefficient with 0.042 *p*-value; it means significant relationship. The path coefficient is positive that creates direct relationship (in the same direction). Better satisfaction results in better loyalty. Hence, hypothesis 3 is confirmed: there is positive and significant role of customer satisfaction on customer loyalty.

#### **4.5.2. Indirect Influence Test**

Customer value influences customer loyalty through customer satisfaction. The role of customer value on satisfaction is significant (0.556); the role of customer satisfaction on customer loyalty is significant as well (0.249). Therefore, the indirect influence of customer value variable on customer loyalty through customer satisfaction obtains 0.14 path coefficient's score. Based on this measurement result, it reveals similar direction relationship since the coefficient is positive. Better customer value results in better customer loyalty whenever there is a better customer satisfaction. Thus, hypothesis 4 is confirmed: there is the role of customer value on customer loyalty when customers perceive positive and significant satisfaction.

## **V. CONCLUSION**

Important and interesting finding of this research is the empirical proof which demonstrates that customer value contributes to customer satisfaction which in turn creates customer loyalty. This result indicates that based on the CRM concept which is comprehensively perceived through 3 realms (strategic, operational, and analytical). In fact, customer value contributes to customer loyalty as mediated by customer satisfaction. It concludes that customer value bring important contribution to improve customer loyalty. It implies that customer value is important to be considered in the effort to implement effective CRM which is able to create and retain customer loyalty.

On the other side of the relationship among research's variables, this research confirms CRM theory as the core business strategy which integrates internal process and function as well as external network to create and deliver value to the customers in order to gain profit (Buttle, 2007). Based on that theory, it concludes that customer value has important role in creating customer loyalty. Therefore, in the tight business competition intensity, CRM concept which offers customer value needs to be implemented as the effort to sustain by creating customer loyalty.

This is a survey research on Hypermart's customers. The collected data come from customer's perception but do not provide in-depth information since there is no open-ended question item in the questionnaire. Considering the result, customer value is the next important issue for practitioners to address as the contribution of customer value on customer satisfaction and customer loyalty. The mean score of the customer value does not reach 4 yet. Thus, it is suggested that Hypermart should improve its offering based on the customer value such as enhancing functional value, emotional value, social value, customer service value, and price fairness.

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