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Loyalty in Business to Business Context: A Study in Puchong, Malaysia

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Abstract

Customer loyalty has been a focus of marketing as it is believed that higher level of customer loyalty may result in higher levels of repurchase. Numerous researches are carried out on the antecedents of customer loyalty in consumer market, but not many been discussed within business market and supply chain environment. This study aims to examine how product value, profitability, marketing support and perceived switching costs can influence customer behavioural loyalty in the business-to-business (B2B) context. By targeting small retailers as case market, tailored questionnaires were distributed to 150 business customers. The findings of this study suggests that customer behavioural loyalty towards supplier can be improved by focusing on increasing product value, enhancing profitability and building switching of costs.

Keywords: loyalty, business-to-business (B2B)

1. Introduction

Over the past decades, marketers have been trying to improve loyalty for business-to-customer relationships, and this can be seen from developing of strategies and tools to keep customers coming back for more. However, the focus for business-to-business (B2B) relationship is apparently much less despite loyalty from a B2B customer means having thousands of end customers. In a B2B context, suppliers need to understand the nature and circumstances of their customers because of the unique characteristics as an organization. The importance of customer loyalty B2B is more apparent than in B2C as business customers usually purchase larger volume of products and services.

Researchers witnessed declining market share of organizations despite their achievement in getting high customer satisfaction score. For instance, the products that do not have good quality are still purchased by customer. This behaviour of customer lead to repurchase intention shows behavioural loyalty, yet antecedents of behavioural loyalty has not been given much attention. The lack of research on behavioural loyalty in business market provides an opportunity for extending the behavioural loyalty concept into business market, and thus widening its applicability to new market segments.

In understanding of loyalty in behavioural concepts that strictly looks at the repetition of purchase behaviour and attitude that is possible lead to a relationship. In business-to-business context, customers with attitudinal loyalty do not necessarily repurchase from the same supplier. Its different in consumer market that involves emotional reasons, loyalty in business-to-business context involves more for economic reasons (Eggert & Ulaga, 2002). Profitability (Niraj, Gupta & Narasimhan, 2001), switching cost (Shun, Shankar, Erramilli & Murthy, 2004; Liu, 2006) product (Biong, 1993, Cater & Cater, 2010), and support (Biong, 1993, Stankko, Bonner & Calantone, 2007) are most commonly used factors can influence business customer, who perceive economic value of the exchange relationship. According to Eggert and Ulaga (2002), the positive perceived value would lead to repurchase intention.

The product-market context refers to the consumer durables industry, which is an appropriate setting for research on retailer loyalty formation due to intense competition and other factors. Traditionally, manufacturers/ suppliers have benefited from retailer loyalty due to consumer loyalty to the manufacture's brand, but now they are increasingly pressed to build retailer loyalty directly in order to ensure shelf space, display space, and/ or retail salesperson's attention. As a result of weakening brand image/loyalty, little differentiation, and intense price competition, some consumers are no longer intensely loyal and will not switch stores to get a particular brand (Sirohi, McLaughlin & Wittink, 2000). The supplier is thus pressed to shift to from pull to push marketing, and understanding retailer loyalty becomes paramount issue (Davis-Sramek, Droge, Mentzer & Myers, 2009).

Unlike large retailers who usually centralize purchasing, this study focuses on smaller retailers who buy directly, and form independent satisfaction and loyalty responses. Smaller retailers do not carry large inventories (in warehouses, for example). Retailer satisfaction is due to superior service quality which determines repurchase; other retailers may be dissatisfied, yet repeat purchase because switching costs are high, and there are not many alternatives in this product market. Retail goods deserve research attention because of the large total sales volume (and hence economic impact) and the importance of each purchase to consumer and retailer alike.

This study is conducted within the retail industry. Retail has been one of the most active sub-sectors in the Malaysian economy and is the second biggest contributor to the national GDP (Mid-term Review of 9th Malaysian Plan, 2009). The retail environment in Malaysia has undergone continuous and marked changes over the decades. New facilities ranging from supermarkets and superstores to retail warehouses and convenient stores have been added to the retail landscape, much at the expense of the traditional shop houses. Despite the competition from large-scale retail outlet, small retailers still continue to grow in the urban area, and in suburban areas, the small retailer is very much still in the picture. Relationship marketing among small retailers is as important as for other industry. Small retailers have their unique advantages of personal services that add value to customers. Their relationship with suppliers could mean another profitable channel for both parties. Hence, customer loyalty among small retailers should be given attention for a better understanding of how relationship marketing operates in different business markets.

2. Literature Review

2.1 Customer Loyalty

Customer loyalty has been given many definitions. It is defined as long-term commitment to repurchase involving both a favourable cognitive attitude towards the selling firm and repeated patronage (Stank, Goldsby & Vickery, 1998). The idea of customer loyalty has often been considered an important part of managerial marketing, an underlying objective for strategic market planning (Kotler, 1997) and a competitive advantage to firms (Reichheld, 1993, Xie & Chen, 2007). Customer loyalty has also been shown to be important in online service (Shankar, Smith & Rangaswamy, 2003).

Customer loyalty has a powerful impact on organizational performance and it has been widely considered as an important source of competitive advantage (Woodruff, 1997). Jones and Sasser (1995) even suggest that customer loyalty is a prime determinant of long-term financial performance of an organization. Previous studies (Newell, 2000; Rowley & Dawes; Verhoef, 2003) have come to an agreement that customer loyalty can help organizations to increase profit and growth.

Over time researchers have generally pursued either the behavioural, attitudinal or combination of both dimension. However, customer loyalty has been considered as a global concept with two distinct dimensions – attitudinal loyalty and behavioural loyalty (Baldinger, 1996), rather than a two-dimensional construct

2.2 Attitudinal Loyalty

The attitudinal approach is concerned with the underlying attitudinal process and evaluation criteria of a given purchase (Mellens, Dekimpe & Steenkamp, 1996). It captures the affective and cognitive aspects of customer loyalty, such customer preference and commitment (Morgan & Hunt, 1994; Mellens, et al., 1996; Amine, 1998). In contrast, behavioural loyalty is reflected in observed repurchase of one over a number of available alternatives (Jacoby & Kyner, 1973; Mellens, et al., 1996; Plank & Newell, 2005).

The attitudinal approach to brand loyalty stresses the importance of understanding the antecedents of the purchase and incorporates measures of attitude towards the brand. In the studies of attitudinal loyalty, Ajzen and Fishbein (1980, as cited by Ajzen, 1991) model included evaluative beliefs towards the brand and affect, or liking toward the brand. The model was later extended through the addition of the affective item – commitment to the brand (Traylor, 1984), thus developing a measurement model of brand attitude using items that measure beliefs, affect and commitment. Consistent with the concept, attitudinal brand loyalty was defined as the consumer's predisposition towards a brand as a function of psychological process. This includes attitudinal reference, commitment towards the brand, and intention to purchase the brand (Kaynak, Salman & Tatoglu, 2008, p. 345).

2.3 Behavioral Loyalty

Behavioural loyalty has been defined by some researches as "the tending of a customer to stick with a supplier (not switch) and can be thought of as the degree to which a customer prefers a supplier over the competitors" (Ringham, Johnson and Morton 1994, as cited by Rundle-Thiele & Bennett, 2001). Dick and Basu (1994) were precise in suggesting that a favourable attitude and repeat purchase were required to define loyalty. However, some researchers (e.g. Sharp et al., 2002; Eggert & Ulaga, 2002) suggest that attitude in not relevant to determining loyalty.

The behavioural approach for loyalty measurement started since middle of 1950s. Some researchers used this approach to view that behaviour is characterised by randomness and not rational thought (Bass, 1974; McConell, 1968). Thus predictive models of brand loyalty emerged, for example, Dirichlet model is one of the model frequently used to study behavioural loyalty (e.g., Enrenberg, Goodhardt & Barwise, 1990; Uncles, Ehrenberg & Hammond, 1995). It has only three parameters relating to the product category to estimate how many purchases each buyer makes over a particular time as well as specifying the probability of each brand being bought on each purchase occasion. The model applies to markets that is (1) under stationary or "no trend" conditions and (2) un-segmented or no market partitioning (Uncles, Ehrenberg & Hammond, 1995). The model provides a variety of diagnostic statistic for managerial implications but leave out diagnostics on types of behavior loyalty, which has important marketing implication.

2.4 Customer Loyalty in B2B Context

In B2B context, customer loyalty can be defined as a buyer's overall attachment or deep commitment to a product, service, brand or organization (Oliver, 1999). Repeat purchase behaviour is accompanied by a psychological bond (Jarvis & Wilcox, 1977) leading to the intention to buy repeatedly from the same suppliers and the intention of continuing the relationship with the supplier (Biong, 1993). Repurchase intentions encompass the customer's perceptions of continuity expectations such as relationship renewal (Kumar, Scheer & Steenkamp, 1995) and the customer's willingness to recommend the supplier to a successor (Bennett & Rundle-Thiele, 2002).

2.5 Customer Value and Loyalty in Business Market

Industrialization contributed to the growth of manufacturing business, and thus spurred fierce competition among suppliers. In business market, delivering value to customers is important for building a sustainable exchange relationship and it strengthens the supplier's competitive position. To retain the buyers, suppliers need to manage their value perceptions strategically (Shun, et al., 2004; Liu, 2006). Researchers also suggested that in business market, satisfaction is a misleading notion as purchasing manager buy for economic rather than emotional reason. Hence, satisfaction construct should be replaced by the value construct (Gross 1997, as cited by Eggert & Ulaga, 2002). Customers may stay loyal to a supplier if they feel that they are receiving greater value than they would from the competitors (Bolton & Drew, 1991; Sirdeshmukh et al., 2002).

Price is an important factor in customer evaluation though they can be less price sensitive when they have close relationship with the supplier. It is a part of economic value that can strongly influence loyalty (Liu, 2006). Customer value reduction in costs more than a responding increase in the benefit (Monroe, 1990). To create customer loyalty, merely focus on enhancing satisfaction by improving the product quality is not enough. Moreover, when suppliers provide higher value, they raise the price at the same time. This does not lead to any change on customer perceived value toward the offering. Most buyers have a financial limitation, they will evaluate economic value of a supplier mentally by comparing a supplier's overall quality to price, taking into account other competitive alternatives available to them (Liu, 2006). Suppliers need to understand how customer perceived value operate and make improvement to customer's needs and willingness to pay for (Ravald & Gronroos, 1996).

3. Research Methodology

3.1 Definition of Key Variables

Behavioral loyalty: Behavioral loyalty emphasize on actual repurchase from particular supplier. Loyal behavior might be the result of either high perceived value of the exchange relationship or a real or perceived lack of alternatives. Retailers show behavioral loyalty in several ways, e.g. consistently purchase from the supplier, favour the supplier as first choice and intend to do more business with the supplier in future. In this study, behavioral loyalty expresses the degree to which the retailers want the company as a supplier in the future. This meaning of loyalty parallels the measure of continuity used in the studies of Davis-Sramek, et al. (2009). The loyal behaviour from retailers has direct positive effect on sales, which leads to firm's profitability and increase of market share. If a greater portion of a supplier's customers remained loyal, additional expenditures for attracting new retailers could be conserved.

Product value and behavioural loyalty: Customer perceived value as of a market offering (Woodruff & Gardial, 1996) and can be considered as a pre- or post-purchase construct. Product or service that offers better trade-off between benefits and sacrifices will help a supplier to create sustainable competitive advantage. In business markets, the value of a product offering in a given application can be thought of as the cornerstone of marketing strategy. The concept of product value in this study is the characteristics of product that enhance its sales. The higher the sales of product in the retail store, the higher the value of the product. Factors that influence the product's value are for example, product quality, brands and product line (Biong, 1993). Product differentiation by means of strong brands and a unique product line helps the suppliers to develop a competitive advantage and to build barriers to switching to other suppliers (Baldinger & Rubinson, 1996). With no alternatives, retailers will be depending on the suppliers, because well-known brand attracts customers to the outlet than less known brands. Thus, strong products and a unique product line could induce the retailer to continue the relationship with the supplier even if the supplier is considered less competent in other areas (Cater & Cater, 2010). In retrospect, the degree to which the products are perceived to have high value should be expected to contribute to behavioral loyalty with the supplier.

Perceived profitability and behavioural loyalty: Profitability refers to product profitability and competitive price level (Bioing, 1993). Profitability is contingent on volume, price and profit margins. It is to the advantage of the retailer to obtain the highest return possible from the exchange, while the exact opposite is the desire of the buyer, which creates a possible conflict between the two parties (Ganesh et al. 2000). The continuation of the relationship is a sign that the conflict has been resolved, expressing the co-cooperativeness of the parties. If achieved rewards compare poorly with deserved and expected rewards, the retailer will undervalue the exchange. Furthermore, if selling products from an alternative supplier does not render the retailer a similar level of profit as that obtained from the existing exchange relationship, it also means the retailer is dependent on the supplier (Kumar et al, 1995). The products carry higher value when sold from a store, hence profits of the products can also mean a high rate of turnover. Beside the income from selling the products, low handling cost and space needed to store the products can also contribute to retailer's profitability (Biong, 1993).

Support and behavioural loyalty: Support refers to the marketing support of the supplier's products by media advertising, product demonstrations and the marketing skill of the supplier. When the supplier actively supports the sales of the products, it will be to the benefit of the retailer as well. The retailer may consider the active support of the products as a sign of co-operative behavior from the supplier, especially the activities which are channeled through the outlets, e.g. demonstration, and various promotional activities. Distributor value could be increased if the supplier relies on non-coercive sources of power such as providing high quality assistance, like national and local advertising. Distributors believe that manufacturers are committed when they make visible distributor-specific investments, for example supporting the distributor's sale of the manufacturer's products. The suppliers supporting their products heavily may be perceived to be more dedicated to the relationship than suppliers with less support (Ndubisi, 2007). Furthermore, it can be argued that the loss of a supplier with a strong marketing support might cause the retailer to increase his own promotional budget. From the distributor's perspective, it can be more profitable to co-operate with suppliers which heavily support their product with variety of marketing activities, than with suppliers providing only modest support.

Perceived switching cost and behavioural loyalty: Supplier wanting to increase customer retention levels can identify strategic actions that may result in customer perceptions of high switching costs (Liu, 2006). Perceived switching costs are defined here as an industrial buyer's perception of the costs associated with terminating a current supplier and establishing a new relationship with the replacement supplier (Liu, 2006). It is often related to a retailer going through the hassle of searching and comparing alternatives in order to ensure a right supplier replacement. The process will require money, time and effort. It also causes the increase of perceived switching cost when a retailer considers the change needed to adapt to the new supplier is conditioning (Burnham et al., 2003). Retailer might need to make adjustments in order to establish a new working relationship. The established personal relationships, familiar procedures and knowledge of contact persons which are present with a current supplier, may be viewed as perceived switching costs and, hence, create a significant barrier to change supplier (Liu, 2006). Besides that, retailer often needs to assess the new supplier by evaluating the performance. The unsettling sentiment generated within the retailer become the perceived switching cost and therefore, create inertia and dependency with the current supplier. This condition is in line with Heide and John's findings (1990) that the perceived switching costs will increase future interactions and commitment with current supplier. The perceived switching cost is high when a retailer needs to maintain his or her relationship with a supplier to achieve desired goals (Frazier, 1983). The difficulty to replace an existing supplier reflects a buyer's dependence on a vendor. Consistent with these arguments, Heide and Weiss (1995) found that for the purchase of computer workstation, organizational buyers are less likely in both the consideration and choice stages or select new suppliers than current suppliers.

3.2 Hypothesises and Model

Based on a careful review of earlier literature about consumer loyalty in B2B context, this study expected that product value, profitability, support and perceived switching cost are the dominant factors that effect loyalty of the customers in B2B transaction. It was expected that all four independent variables have a significant positive linear relationship with dependent variable–loyalty. The following hypotheses were tested along with regression analysis to achieve the research objectives and answer the research questions.

H1: The behavioral loyalty of the retailer is expected to increase with higher product value offered by supplier.

H2: The behavioral loyalty of the retailer is expected to increase with higher profitability offered by supplier.

H3: The behavioral loyalty of the retailer is expected to increase with higher marketing support offered by supplier.

H4: The behavioral loyalty of the retailer is expected to increase with higher perceived switching cost.

Regression Equation: $Loyalty = b_0 + b_1(\Pr oduct\_Value) + b_2(\Pr ofitability) + b_3(Support) + b_4(Switching\_Cost)$

3.3 Research Design

This study employed a cross-sectional design with convenience sampling was used. The sample size was determined based on the rule of thumb, where for testing the *b* coefficient, a sample size N ≥ 104 + m is required, where m = number of independent variables; as mentioned by Tabachnick and Fidell (2001). Since, there is no known data about the total number of small scale retail shops in Puchong; data were collected from the retail outlets available around the study area.

The research instrument is the questionnaire consisting of three sections. The first section covers demographic particulars consisting nine questions. The purpose of this section is to assess the background of the retailer and its exchange relationship with the supplier. The second section consists of 22 questions to measure the variables. The measuring scale was a five-point Likert-type scale that ranged from '1' ('strongly disagree') to '5' ('strongly agree'). The third part of the questionnaire is about respondent's ability to provide reliable information.

The questionnaires were distributed to small retailers within Puchong area. To ensure the information gathered was of good quality only the persons who have experience in purchasing from the retail store were asked to participate in the survey. Of the 180 responses, 30 completed questionnaires were eliminated because of excessive missing data–resulting in a final sample of 150 outlets.

For the data analysis descriptive, correlation and regression analysis were employed. Responses of all questions except for demography profiles were captured using the Likert scale, with anchoring points of 1 to 7. Data computations were performed using SPSS (version 17). Cronbach's alpha was used in determining the reliability of individual scale of constructs dimensions.

4. Research Findings

Among the selected 150 retail stores in Puchong, Malaysia, 4.7% were the retailers selling groceries, 21.4% electronic goods, 8% textile, 7.3% pharmacy, 10.7% recreational goods and 48% others.

The respodents' business have different years of business operation ranging from six months to 20 years. The mean and standard deviation of years of operation is 7.18 years and 4.38 years respectively. The survey has highest percentage (44%) of response from retailers with less than 5 years of business operation. It is slightly more than respondents with 6–10 years of business operation that has 61 respondent (40.7%).

Small-scale retailers usually have few full time employees because their business models are small. Retailers with 2 or less full time employee totaled 103, or 68.7% of the total respondents. There are only 4 respondents (2.75%) with 6–8 full time employees. The mean and standard deviation of the number of employees is respectively 2.11 and 1.57.

The respondents with average monthly sales RM25, 000 or less has highest frequency, which is 58 or 38.7% out of the 150 respondents. There are only 8 respondents (5.3%) whose average monthly sales are RM75, 001–RM100, 000. The mean and standard deviation is RM71, 353 and RM90401, 29.

The years of exchange relationship between retailers and their major supplier may vary due to the difference in years of business operation and length of acquaintance with the supplier. The respondents with relationship length of 5–6 years with suppliers have the highest frequency, which are 34 (22.7%). Only 9 respondents (6.1%) show more than 11 years of relationship with supplier. The mean of the relationship length is 5.6 years and the standard deviation is 3.55 years.

The percentages of store sales of supplier's product among products are from same category. The mean and standard deviation of the sales percentage is 45.80% and 26.65 respectively. Sales of 25% or less have the highest frequency among the respondents, which is 42 (28%). Only 22 respondents (14.7%) has high percentage of sales (76%–100%) from supplier's products compare to same category of product in their store.

4.1 Reliability Analysis

Table 1. Constructs and cronbach's Alpha

Construct	No. of items	Cronbach's alpha	Mean value
Product value	5	0.60	4.81
Profitability	4	0.56	4.97
Support	4	0.82	3.46
Perceived switching cost	4	0.75	4.64
Behavioural loyalty	5	0.71	5.33

As presented in the Table 1 above, Cronbach's alpha for the constructs for the constructs support and switching cost have a reliability coefficient above 0.70. As for product value and profitability the Cronbach value are 0.6 and 0.56, which are still acceptable for basic research (Peter, 1979).

4.2 Hypothesis Testing

In this study it was expected that the product value, profitability, support and perceived switching cost have a significant positive linear relationship with behavioural loyalty. The Pearson's correlation analysis shows a correlation coefficient of 0.248 between product value and behavioural loyalty indicating a weak positive linear relationship between the variable, which is significant at the 1% level. The Pearson's correlation matrix shows a correlation coefficient of 0.403 between supplier's support and behavioural loyalty indicating a moderate positive linear relationship between the variables, which is significant at the 1% level. The Pearson's correlation matrix shows a correlation coefficient of 0.100 between supplier's support and behavioural loyalty indicating a weak positive linear relationship between the variable, which is not significant. A correlation coefficient of 0.490 is obtained for perceived switching cost and behavioural loyalty indicating a moderate positive linear relationship between the variable, which is significant at the 1% level.

4.3 Regression Analysis

The r^2 value is 0.375, indicates about 38% of the variation in behavior loyalty can be jointly explained by product value, support, profitability and perceived switching cost.

Table 2. ANOVA

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51.438	4	12.859	22.021	0.000
	Residual	84.676	145	0.584		
	Total	136.113	149			

The p-value of ANOVA F test is less than chosen α level of 0.05 indicates at least one independent variable can be used to model behavioral loyalty.

Table 3. Regression coefficients

Independent variables	*B*	T-value	*P*
Product value	0.230	3.254	0.001
Profitability	0.335	4.943	0.000
Support	-0.048	-.681	0.497
Switching cost	0.388	5.580	0.000

As presented in Table 3, loyalty were regressed on product value, support, profitability and perceived switching cost. Out of four predictors, three of them were statistically significant at 5% level of significance.

The p-value for product value is 0.001, and for profitability and perceived switching cost is 0.000, which are lower than the chosen level of significance of 0.05, indicating a significant linear relationship between each of the three variables and customer behavioural loyalty. However, the p-value for support is 0.497 which is higher than the chosen 0.05 level of significance, indicating that support is not a significant predictor for behavioral loyalty.

5. Conclusion

The results of analyses support the expected relationships predicted in regression equation with the exceptions that the predicted positive effects of the supplier's support on retailer behavioural loyalty which were not supported. Behavioural loyalty is indicated to be influenced by the switching costs and to a lower extent by the profitability of selling the supplier's products and the value of products. The results support the previous findings that the retailer's behavioural loyalty is positively influenced when the switching cost is perceived to be high (Shun, et al., 2004; Heide & Weiss, 1995). Both correlation matrix and regression analyses show a positive relationship between behavioural loyalty and switching cost.

The results indicate that products influence customer loyalty, this finding is consistent with Frazier, et al. (1983), who stated that the core products are the focus of exchange relations with a long-term time horizon. The significance of the products for the retailer's loyalty to a supplier also give support to the findings of Čater & Čater (2001); give the choice between a high-demand and a lower-demand brand (and given equal amounts of trade support) retailers will preferentially choose the brand for which there is greater demand. Biong's study (1993) indicates that loyalty with the supplier to a certain extent is affected by the perceived profitability of selling the supplier's products. Perceived profitability thus could be seen as fulfillment of expectation in the relationship. However, findings in this study do not tally with the concept as the correlation matrix shows a negative relationship between product value and profitability.

As indicated by the results, behavioural loyalty is also affected by the profitability of selling the supplier's products. A competitive price level, from the retailer's perspective, is interpreted as signs of the supplier's co-cooperativeness and stake in the customer relationship. In turn, this could reinforce the desire on the part of the retailer to continue the relationship (Niraj, 2001). Difficulties in finding substitute supplier with a similar product quality, brand equity and product profitability could mean that the dissolution of the relationship is less attractive than its continuation (Hallowell, 1996). Hence, profitability could be a source of power for supplier, contributing to the attractiveness of exchange relationship will affect behavioural loyalty.

The results of this study indicate that marketing support have a negative influence on retailer's behavioural loyalty, it cannot automatically be concluded that this parameters should be neglected. The correlation matrix indicates that the marketing support is positively correlated to behavioural loyalty. This shows within the framework of this study, as suggestions could be that the marketing support variable might have an indirect effect on behavioural loyalty through the product and switching costs constructs. Support for this suggestion is found in the correlation between marketing support and product and between, marketing support and switching cost.

Overall, the findings of this study suggested that customer behavioural loyalty towards supplier could be improved by focusing on their perceived switching cost, product value and profitability. Furthermore, this study reinforces the belief that behavioural loyalty has an important role to play in the small-scale retail environment. Retailers with behavioural loyalty will consistently purchase from the supplier and do not easily switch to other suppliers.

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