Building Customer Loyalty through Service Quality and Customer Trust

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Abstract

Service quality is an important market differentiator and is an instrument that has strong competitiveness. The purpose of this research was to test and to analyze the influence of service quality towards customer trust and customer loyalty, especially in the retail industry. In such an industry, service quality is the key to improve competitiveness. The research was carried out in North Sulawesi with 135 supermarket customer as the sample. The sampling technique was purposive sampling. The research result showed that service quality had significantly positive influence either on the customer trust or customer loyalty. Besides, on the relationship between customer trust and customer loyalty, it also had significant positive finding. Such finding was in line with the concept of SERVQUAL and The Commitment-Trust Theory, stating that service quality interaction would minimize the gap between the expectation and the service received so that it would improve customer trust and eventually they would be back to shop more. The implication of such managerial research was that the supermarket leader in North Sulawesi must focus more and emphasize more on the dimension of service quality especially in terms of reliability, empathy, and warranty. The limitation of this research was the limited area of research, therefore, the area scope should be broader for the next research so that the conceptual model could be generalized.

Keywords: Service Quality, Customer Trust and Customer Loyalty

INTRODUCTION

Retail industry especially modern one dominates of 7.06% public trading place, equals to 1.131 units. Such domination keeps growing considering the convenient provided by the modern market compared to those offered by the traditional market. One of the things distinguishing modern market and the traditional market is service quality. [1] who stated that service quality is an important distinguishing feature as well as a strong competitiveness instrument and it must be possessed by all organizations. There are some reasons why service quality must be considered as an important factor. First, higher service quality would provide higher customer satisfaction [2], the service quality and customer satisfaction influence the level of customer loyalty [3]. Second, implicitly, customer loyalty is short term relationship since the customers who repeat the purchase, tend to buy more service, and will use the communication of mouth to mouth.

In retail industry, service quality is an important factor [4]; [5] in the creation of customer satisfaction [6]; [2] and improve competitiveness [4]; [1], since the quality of the service and the goods sold would determine a set of accurate item to measure and build good retail business [6].

In order to create success in a retail business, service quality could provide some encouragement to the customer to establish a strong bond with the corporation [7].

In the long term, such bond enables the corporation to understand customer's expectation as well as their needs thoroughly [7]. Therefore, the corporation could also reach its objectives, i.e. full customer loyalty through the improvement of corporation performance which is based on the customer's expectation or in other words, the loyalty would naturally be established once the customer's expectation over the service quality is fully met [8]. [9] revealed that in order to reach customer loyalty, a business must first be able to gain customer trust. Loyalty according to [10] is the will from the customer to keep subscribing on a certain corporation in a long term, by buying and using the goods as well as their service repeatedly and even exclusively, and voluntarily recommends the corporation's products to their colleagues. The appearance of trust would affect the addition of value and create a direction to shift the customer's level of trust to be more loyal.

One instrument to measure service quality is to use SERVQUAL. SERVQUAL was developed by [11], SERVQUAL is a multi-dimensional research instrument, designed to capture consumer expectations and perceptions of a service along the five dimensions that are believed to represent service quality. SERVQUAL is built on the expectancy-disconfirmation paradigm, which in simple terms means that service quality is

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understood as the extent to which consumers' pre-consumption expectations of quality are confirmed or disconfirmed by their actual perceptions of the service experience [11].

Meanwhile Commitment-Trust Theory is a continuation of a long-term relationship. Commitment and trust are two fundamental factors that must exist for a successful relationship. Relationship marketing involves forming bonds with customers by meeting their needs and honoring commitments. Rather than chasing short-term profits, businesses following the principles of relationship marketing forge long-lasting bonds with their customers. As a result, customers trust these businesses, and mutual loyalty helps both parties fulfill their needs [12].

In this research, the conceptual model was established based on the concept of SERVQUAL [11] and The Commitment-Trust Theory [12], stating that service quality produced interaction between the customer and the elements within the organization [13]. When the interaction built ran well and it went along with the level of customers' expectation [11] therefore, this would minimize the existing gap. Such a low gap would sign that the customers trust over the service performance which eventually would cause loyalty [14]. Many studies have been carried out to test the service quality towards customer trust and loyalty in the banking sector [15], [16], [17], insurance sector [18], [19], *soft-drink* industry [20] and tourism industry [21], but it had not met any research findings especially in the retail industry. Therefore, the main focus of this research is to explore the influence of service quality towards customer trust and loyalty, especially in the retail industry.

MATERIAL AND METHOD

The research type is quantitative with the method of survey. The location took place in the Province North Sulawesi (Manado, Bitung, and Tomohon) with the target of research is supermarket's customers. The reasons of why it took place in North Sulawesi, are 1) More dense population compared to other cities/districts in North Sulawesi, i.e: Manado City of 425.634, Bitung of 205.675, and Tomohon of 100.373. (source: Sulut dalam Angka Tahun 2017). 2) The number of supermarkets compared to other cities/districts in Province Nort Sulawesi (**Table.1**). 3) The existing supermarkets are evenly spread throughout those three cities (**Table .1**).

Table 1 The Distribution of Modern Market Outlets in Province North Sulawesi (unit)

City/District	Minimarket	Supermarket	Hyper market	Total
City				
Manado	82	108	6	196
Bitung	70	24	-	94
Tomohon	55	12	-	67
Kotamobagu	44	23	-	67
District				
Minahasa	52	29	-	81
Bolaang Mongondow	36	17	-	53
Bolaang Mongondow Utara	14	6	-	20
North Bolaang Mongondow	15	5	-	20
South Bolaang Mongondow	12	1	-	13
Minahasa Utara	17	24	-	41
Minahasa Selatan	22	17	-	39
Minahasa Tenggara	15	2	-	17
Sangihe	14	2	-	16
Talaud	13	1	-	14
Sitaro	12	1	-	13
Total	**474**	**272**	**6**	**752**

The data collected were analyzed using GeSCA component based SEM. The research variable consisted of service quality, customer trust, and customer loyalty.

Service Quality. The measurement of service quality uses Likert scale of 5 points. The dimension of the research was adopted from the research [22], [8], and [22] consisting of responsive, reliable, empathy, warranty, and it has 15 items. Validity test (>.43) and reliability test (.94) show that all items are valid and reliable.

Customer Trust. Adopting two dimensions from [15] and [23], i.e. Benevolence and Honesty. Likert scale of 5 points is used to measure the item. The test result towards the 6 items shows the valid result (>.67) and reliable (0.895).

Customer Loyalty. The dimension of customer royalty adopts the study from [24], [25], and [26] i.e. attitude and cognitive. Liker Scale used, start from 1 (very disloyal) to 5 (very loyal). Validity test (>.53) and reliability test (0.803) show the valid and reliable result.

Data Collection

The research was carried out in three months (May-July 2018). The population of the research was all customers from all existing supermarkets in Province North Sulawesi (city of Manado, Bitung, and Tomohon). The number of samples was determined based on the opinion [9] stating that the formula taken to determine the population that the number was unknown to research is 5 times of the number of question items used in the research. Therefore, the

research sample was 155 (27 item x 5) customers. The method of sampling used purposive sampling technique. The criteria used in choosing the sample were as follows: 1) The frequency of shopping in supermarkets was already more than twice a month. 2) Aged over 18 years old, since starting at that age, one could make a decision in shopping in the supermarket ([27]; [28]; dan [29]).

Respondents were determined using systematic sampling (the mechanism was using the pause measurement), where the supermarket's customers who were shopping (jam 10.00-17.00 WITA for 7 days) on the day the research was carried out were asked to fill out a questionnaires should they meet the sampling criteria as well as they were willing to fill it out. To have maximum participation from the respondents in filling out the research questionnaire, the researcher used respondents' spare time while they were queuing in front of the cashier to do some payment or when the customer was relaxed sitting in front the supermarket area. Therefore, the respondents would not feel bothered to shop.

RESULT AND DISCUSSION

Descriptive analysis respondents on **table 2** show that most of the supermarkets' customers are women (74%) with the range of age of 18 - 22 years old (51.9%). The education of most respondents are Diploma and Bachelor (82.9) with the number of monthly transaction ranged between Rp 500.000 - Rp 1.000.000. Most of the respondents said that they had become customers for more than five years (43%).

Table 2 Demographic Information

Characteristics	Frequency (N = 135)	Percentage (%)
Gender		
Male	35	26
Female	100	74
Education		
Junior High	4	2.9
Senior High and Vocational	18	13.3
Diploma	58	42.9
Bachelor (Undergraduate)	54	40
Postgraduate and Doctoral	1	1
Age		
< 18	10	7.4
18- 22	70	51.9
> 22	55	40.7
Periode of being the supermarket's customer		
< 1 year	30	22.2
1 - 5 years	47	34.8
> 5 years	58	43
The number of purchasing for each transaction		
< Rp.500.000	48	35.6
Rp. 500.000 - Rp 1.000.000	65	48.1
> 1.000.000	22	16.3

Model evaluation of measurement was carried out using convergent validity test and discriminant validity test. The analysis resulted in a loading factor that was bigger than 0.60. Construct Reliability Test was carried out using construct reliability measurement (Cronbach's alpha) or using the entire number of variants within the indicator explained by the latent construct (Average Variance Extracted (AVE) or commonly called as discriminant reliability. From the test result, it could be informed that the value of each AVE is bigger than 0,5 and Cronbach's Alpha value is bigger than 0.6, therefore it could be said reliable. Along with [30] the testing criteria should the value of Cronbach's alpha is bigger and/or equal to 0.6 and the value of reliability discriminant (AVE) bigger or equal to 0.5 then it could be stated that the construct had been reliable.

Table 3 showed convergent validity. Average Variant Extracted (AVE) and Cronbach's Alpha.

Table 3 Convergent validity, Average Variant Extracted (AVE) and Cronbach's Alpha

Variable	Notation/ Indicator	Item	Convergent Validity 1st Order (Items)		AVE	Cron-bach's Alpha
			Loading Factor	CR		
Servi-ce Quality	Responsiveness	Providing a quick service	0.750	26.98[*]	0.669	0.964
		Providing a precise service (based on expectation)	0.795	30.5[*]		
		Responsive towards all problems	0.854	41.67[*]		
	Reliability	Reliable in providing service	0.847	35.22[*]		
		Providing service based on the procedure	0.871	38.46[*]		

		Providing the service based on the time promised	0.851	54.16*		
	Empathy	Providing attention individually	0.857	46.3*		
		Treating customers with full attention	0.888	71.12*		
		Prioriti-zing custo-mers' need	0.860	44.61*		
	Warranty	Developing a belief over the product sold	0.866	44.14*		
		Develo-ping a sense of secure	0.839	35.05*		
		Consis-tent in providing services	0.829	36.98*		
	Tangible	Sufficient parking facility	0.690	14.83*		
		Modern equipment	0.702	16.0*		
		Well dressed and attractive looking employ-yees	0.736	18.11*		
Cust. Trust	Benevolence	Keeping the promises	0.957	117.3*	0.894	0.976
		Handling complaints	0.924	70.67*		
		Providing advanta-ges for custo-mers as the first priority	0.940	73.9*		
		Opinions and complaints are solved satisfyingly	0.971	189.84*		
	Honesty	Providing correct information	0.948	99.83*		
		Transpa-rent in delive-ring the product sold	0.932	79.63*		
Cust. Loyal-ty	Attitude	Custo-mers actively shop in the supermarket	0.888	33.76*	0.865	0.968
		Custo-mers are loyal	0.941	69.12*		
		Inviting other people to shop in the supermarket	0.922	35.45*		
	Cognitive	Thinking to remain loyal to a supermarket	0.958	108.76*		
		Having an intention to shop intensi-vely	0.943	69.68*		
		The custo-mers feel to play an impor-tant role	0.925	63.34*		

The test of the Goodness of Fit Model was meant to evaluate the model entirely. The result of the test showed that the value of FIT was on the range of 0 - 1 (0.741), it showed that the competing excellence diversity could be explained by a model entirely of 74.1%. Optimization Global Index GFI was 0.999, the value of SRMR was 0.063 equaled to the cut of value so that it could be said that Goodness of Fit had been met that it could be stated as feasible. **Table 4** showed the result of the hypothesis test.

Tabel 4 The Goodness of Fit Model

Model Fit	
FIT	0.741
AFIT	0.739
GFI	0.999

The structural model was used to test the hypothesis, the existence of direct exogenous variable influence towards endogenous variable. The criteria of testing stated that if the value of CR was greater than 1.98 then it could be stated that

there were significant influences of exogenous variable towards the endogenous one. **Table 5** showed the result of the hypothesis test.

Table 5 The Results Of Hypothesis Testing

Structural Parameter	Estimate	SE	CR
H1 : Service Quality → Customer trust	0.360	0.079	4.58**
H2 : Service Quality → Customer Loyalty	0.562	0.060	9.37**
H3 : Customer Trust → Customer Loyalty	0.137	0.066	2.08**

CR = significant at .05 level*

The analysis result showed that hypothesis H1, H2, and H3 were accepted. On hypothesis H1, service quality had a positive significant influence on customer trust (CR = 4.58, t_{table} > 1.96) and the amount of influence was 0.360 or 36.0%. The previous research supporting such finding was [31], who stated that good service quality could cause the value of customer's perception and trust to improve customer loyalty. In other words, the manager could improve the value perceived by the customers and the trust by emphasizing on the service quality and consequently obtain more loyal customers.

The analysis result of hypothesis H2 indicated that the service quality had an influence on customer loyalty (CR=9.37, t_{table} > 1.96). The amount of influence was 0.562 or 56.2%. The finding supports the previous research [32]; [33]; and [34], stating that the more customers to have positive effects from the service quality offered, the more customers tend to be loyal.

While the analysis result of hypothesis H3, testing the influence between customer trust and customer loyalty found supporting evidence towards H3 (CR=2.08, t_{table} > 1.96). The amount of influence of customer trust towards customer loyalty was 0.137 or 13.7%. When someone trusted other in an interpersonal relationship, s/he would rely on him/herself to other party and further would bring his/her intention to maintain the relationship represented in the form of loyal purchasing [21]. The result is consistent with the previous study by [35]; and [36]. [36] who stated that when an organization provided and fulfilled their core values and promised precisely, then they gain trust from their customers. While they added additional value with their core value they were building a bridge to change customers from the level of trust to loyal.

This showed that the more quality the service provided, the more trust from the customers improved which in turn would become loyal customers.

In order to make it easier to understand the influence among the variables, **figure 1** showed the measurement model of research structure.
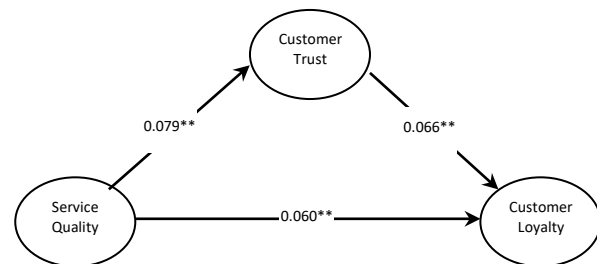

Figure 1 Measurement And Structural Model

CONCLUSION

The research result showed that service quality influenced customer trust and loyalty, similarly, customer trust has a positive influence on customer loyalty. This finding went along with the concept of SERVQUAL [11] and The Commitment-Trust Theory [12].

These findings showed that service quality especially reliability, empathy, and warranty played important roles in increasing customer trust which eventually made the customer become loyal. For supermarket customers, service quality had become the key to the success of establishing trust. Reliability, empathy, and the warranty had become the base of the customer to go back and shop again in the supermarket. When the customers were trusting what the supermarket had given then their loyalty would improve. This finding provided empirical evidence especially for retail study, that service quality in the modern market (supermarket) was the key to build customer trust. The developing sense of trust within the customers would encourage them to go back and shop again at the same supermarket.

The managerial implication from this research was that leaders of supermarkets in North Sulawesi must focus more and emphasize more on the dimension of reliability, empathy, and warranty. When those three dimensions could be fulfilled then the customers' trust would improve. Customers' experiences to be able to touch and feel the product, demonstration from the first hand and tried themselves as well as interacting with the sales force of the store would become positive experiences. Positive experiences would grow the attitude of trust towards what was promised by the supermarket manager and it

would increase the customer loyalty to go back and shop again at the supermarket.

The limitation of this research was the limited area of research since it only took three areas and only on the supermarket. Therefore, for further research, the area scope should be broadened and extended the classification of the modern market that it could be able to reach all classification either from minimarket, supermarket, and hypermarket.

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