

**THE INFLUENCE OF MERCHANDISE QUALITY, SERVICE QUALITY,
AND STORE SATISFACTION TOWARD STORE LOYALTY ON RETAIL INDUSTRY
(A STUDY CASE OF A FOREIGN-OWNED HYPERMARKET IN JAKARTA,
INDONESIA)**

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Abstract

This paper investigates the influence of Merchandise Quality, Service Quality and Store Satisfaction toward Store Loyalty in one of foreign-owned hypermarkets in Indonesia. Customer loyalty at the store level is called Store Loyalty, the willingness of customer to repeat purchase at the same store. There are many drivers of customer to be store loyal, such as Merchandise Quality, Service Quality and Store Satisfaction. This research utilizes quantitative research method with binary logistic regression analysis to analyze the data collected from questionnaires spread to 200 respondents as the sample size. The result of this research shows that there is a significant influence of Merchandise Quality, Service Quality, and Store Satisfaction toward Store Loyalty. The biggest influence to Store Loyalty is Store Satisfaction.

Abstrak Keywords: Merchandise Quality, Service Quality, Store Satisfaction, Store Loyalty

Abstrak

Penelitian ini bertujuan untuk meneliti pengaruh Kualitas Merchandise, Kualitas Jasa dan Kepuasan Toko terhadap Loyalitas Toko di salah satu hipermarket kepemilikan asing di Indonesia. Loyalitas pelanggan pada tingkatan/konteks toko disebut Loyalitas Toko, yakni kesediaan pelanggan untuk melakukan pembelian ulang di toko yang sama. Ada banyak faktor yang mempengaruhi loyalitas pelanggan terhadap suatu toko, seperti Kualitas Merchandise, Kualitas Jasa dan Kepuasan Toko. Penelitian ini menggunakan metode penelitian kuantitatif dengan analisis regresi logistik biner untuk menganalisa data yang dikumpulkan dari kuesioner yang disebar ke 200 responden sebagai sampel. Hasil penelitian ini menunjukkan bahwa ada pengaruh yang signifikan antara Kualitas Merchandise, Kualitas Jasa dan Kepuasan Toko terhadap Loyalitas Toko. Kepuasan Toko memiliki pengaruh terbesar terhadap Loyalitas Toko.

Kata Kunci: Kualitas Merchandise, Kualitas Jasa, Kepuasan Toko, dan Loyalitas Toko

Pendahuluan

Indonesia is the 4th most populous nation in the world with 254,9 million people which means Indonesia has 3,5% ratio from amount of world population. Retail business always look interesting, especially

in big city such as Jakarta. The modern retail businesses that emerge in Indonesia include modern market, department store, boutique, factory outlet, specialty store, trade center and mall. In 2014, GDP distribution at current prices showed that household consumption expenditures were 33 percent on

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food and the rest on non-food items (2014 Indonesia GDP was \$888.5 billion. While traditional markets still account for the majority of retail food sales in Indonesia, modern retail holds a significant share and is growing. Traditional retail outlets that include wet markets and independent grocery stores are gradually being replaced by modern outlets.

Retail business is direct sales of goods in any type of outlet such as kiosk/stall, traditional/modern market, department store, boutique, etc including delivery service, which generally supplies for purchasers personal consumption (Rangkuti & Wright, 2013). Retail business in Indonesia can be classified in two groups: modern retail and traditional retail. Modern retail is basically an extension of traditional one. This retail format emerged, growing side by side with economic, technology developments, as well as changing in society life style which demands a more comfortable shopping experience.

Modern outlet such as hypermarkets, supermarkets, and minimarkets are developing rapidly in Indonesia as purchasing power increases. The first modern retail emerged in Indonesia when Sarinah Department Store was established in 1962 and this system continued to grow during 1970-1980. Early 1990 is a milestone for foreign retailer entrance into Indonesia, marked by the first operation of the largest Japanese's retail chain "Sogo". Before 1998, there were no 7-Eleven, Carrefour or Lotte Mart because government policy allowed for little foreign investment in Indonesian Retail. Modern retail grew rapidly when the government, by President Decree No.118/2000, removed the retail business out from foreign investment negative list. The effect of that Presidential Decree many foreign retailers open their branch in Indonesia. Foreign retailers in Indonesia include Carrefour, Lion Superindo, Giant

Supermarket, Lotte Mart (South Korea), Circle-K, Lawson (Japan), Family mart, etc.

This research is focusing on **one of foreign-owned hypermarkets** in Jakarta, Indonesia. The objective of this research is to determine the significant variables that affect store loyalty of hypermarket.

This paper is structured as follows. Section 2 reviews the literature. Section 3 describes objectives and hypotheses. Section 4 describes the data, sources, and methodology, which is employed in the study. The analysis and hypotheses testing are available in section 5. Finally, we the findings and implication in section 6 and limitations and future research in section 7.

Literature Review

Store Loyalty

The idea of store loyalty construct actually came from the extend idea of brand loyalty constructs which refers to the willingness to repeat purchase the same brand. If at the store level the meaning become the willingness to repeat purchase at the same store (Kaul, 2006). Store loyalty is the single most important factor in building store longevity. Moreover, loyalty has function to generate profits through increased revenue, and reduced costs to acquire and serve customers with a firm's service (Anic & Radas, 2006). In measuring retail store loyalty, the attitudinal constituents of loyalty conceptualize as commitment and the behavioral constituents of loyalty as repeat purchase and positive word of mouth. Both of attitudinal and behavioral aspects can be used for more comprehensive representation of the construct, with the multi-dimensional definition providing greater insight into consumer loyalty motivations (Ramana Reddy, Reddy, & Abdul Azeem, 2011).

The multiplicity of studies primarily focuses on the concept of brand loyalty level. Studies at the store level focus primarily on

store satisfaction in the formation of store loyalty (Yavas & Babakus, 2008). Simultaneous calibration of the two critical dimensions of perceived quality (merchandise quality and service quality) as antecedents of customer loyalty (e.g. loyalty to a store) lags behind (Ramana Reddy, Reddy, & Abdul Azeem, 2011).

Merchandise Quality

Merchandise quality is consumers insight based on their past experiences and consciousness on the products or goods (Lin & Chiang, 2010). Yavas and Babakus (2008) identified that merchandise quality is the second most important driver in the establishment of store loyalty. (Ramana Reddy, Reddy, & Abdul Azeem, 2011) also indicated the importance of merchandise quality on consumer decision making. Merchandise quality characterizes the core tangible aspects of the service offered by the retailer including performance, durability, reliability and conformance (Jakpar & Johari, 2012). In other words, merchandise quality appears as what is delivered (Yavas & Babakus, 2008). In a study to identify perceived quality, merchandise quality played a great importance to make a difference on consumer store choices (Ramana Reddy, Reddy, & Abdul Azeem, 2011).

Service Quality

Service is a process consisting of a series of more or less of intangible activities that occur in interactions between the customer and service employees or physical resources or goods or systems of the service provider, which are provided as solutions to customer problems. Whereas, Quality is conformity between the products (goods or services) to the specifications of customer needs. If the company is doing something that is not in accordance with the customers' expectations means the company does not provide a good quality (Hartini, 2012).

Leisen (2009) stated that service quality can be define as "technical quality" and "functional quality", where technical quality is concerned with what the outcome of the delivered product or service, which is the end result of service provision. While the functional quality is concerned with how the product or service has been delivered, such as the behavior of customer-contact staff and the speed of service. Moreover, service quality is the gap between what the customers want and what they actually get or perceive they are getting (Alex & Thomas, 2010). The service will be considered excellent, if perceptions exceed expectations; it will be regarded as good or adequate, if it only equals the expectations; the service will be classed as bad, poor or deficient, if it does not meet them (Girma, 2012)

The retail environment is changing very rapidly every day. Furthermore, In today's competitive retail market, as the service quality improves, the customer's expectation and lateral demand on the service level is increased from time to time (Yuen & Chan, 2010).

Store Satisfaction

Store satisfaction as the outcome of the evaluation that the chosen alternative (the store) meets or exceeds expectations (Ramana Reddy, Reddy, & Abdul Azeem, 2011), satisfaction results when customer expectations assure the perceived store performance, and dissatisfaction occurs when customer expectations not in accordance with the perceived store performance. Satisfaction is an indicator of met or exceeded expectations. Satisfaction is one of determinant to repurchase intentions and make people recommend the service to others by engage other people through positive word of mouth. Shpetim (2012) found a positive relationship between satisfaction and loyalty. He defined loyalty as a behavioral intentions construct.

Mc Alexander, Kim and Roberts (2003), investigated the influence of satisfaction on customer loyalty. Their empirical survey indicates that satisfaction is a key driver of loyalty. Satisfaction has been defined as one of the key factors in developing and maintaining customer loyalty (Ramaseshan & Vinden, 2009). Supporting by Shpetim (2012) found that satisfaction to be a foremost factor in determining loyalty.

Objectives and Hypothesis

Following were the objectives of the study:

- 1) To study the main influence of merchandise quality, service quality and store satisfaction on store loyalty.
- 2) To study the role of merchandise quality, in the presence of service quality and store satisfaction, in the formation of store loyalty.

Based on study objectives, following hypothesis were to test the influence of Merchandise Quality, Service Quality and Store Satisfaction on Store Loyalty:

- H₀1: Merchandise Quality has no significant influence on Store Loyalty
- H_a1: Merchandise Quality has significant influence on Store Loyalty
- H₀2: Service Quality has no significant influence on Store Loyalty
- H_a2: Service Quality has significant influence on Store Loyalty
- H₀3: Store Satisfaction has no significant influence on Store Loyalty
- H_a3: Store Satisfaction has significant influence on Store Loyalty
- H₀4: Merchandise Quality, Service Quality and Store Satisfaction simultaneously have no significant influence on Store Loyalty

- H_a4: Merchandise Quality, Service Quality and Store Satisfaction simultaneously have significant influence on Store Loyalty

Methodology

Data Sources

The data were collected from a large-scale **global** retailer operating in the form of hypermarket. The main reason for choosing this retailer for the study is its net negative switching value. 200 customers were contacted randomly for the study as they finished their shopping from the store. Based on the response received by administering a structured questionnaire, 200 responses were found to be useful for further analysis. The researchers employ binary logistic regression which allows the researchers to predict which of the two categories a person is likely to belong: loyal or disloyal.

Questionnaire Design

The questionnaire contains six sections, first is the screening question to make sure that only people who ever shopped at certain hypermarket that can be respondent of this research. Second section is the respondent profile such as gender, marital status, household size, age, residence distance, estimation spending per visit, frequency of shopping in a month, and transportation. Those characteristics are believed to have influences toward store loyalty. And the third section up to sixth section represents the measurement of individual variables. The third section is about the merchandise quality; the fourth section is about service quality; the fifth is about store satisfaction; and the sixth section is about store loyalty. Five-item scale is used for measuring merchandise quality and service quality. A five-item post-experience scale is used to measure the overall satisfaction of the store shopping. Post-experience evaluation is considered because the respondents were contacted once they

have finished their shopping. Based on justification given by Beneke et al. (2010), Shpetim (2012) and Latha & Karthikeyan (2014) for the use of both attitudinal and behavioral aspects in measuring loyalty, total a five-item scale is used to measure the store loyalty of the customers. All the variable constructs are measured on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

Table 1 show the variable constructs item-wise and their reliability analysis. Favorable results in terms of coefficient alpha are observed from the reliability analysis of the scales used. All the values meet the recommended value of 0.6 (Sardjono, 2013). The Cronbach’s Alpha for merchandise quality, service quality, store satisfaction and store loyalty scales were 0.908, 0.795, 0.885, and 0.870 respectively.

Table 1.
Variable Constructs And Their Reliability

Merchandise Quality	Reliability
Retailer offer merchandise of very high quality.	0.908
The quality of merchandise at this retailer is higher than similar merchandise at other stores.	
Retailer merchandise holds up well for long period.	
The merchandise I buy from this retailer is of consistent quality.	
Retailer merchandise always meets my quality standards.	
Service Quality	
The store layout of this retailer it easier for customers to find what they need.	0.795
Retailer willingly handles returns and exchanges.	
Employee in this retailer are courteous and respectful.	
Employee of this retailer are able to handle customer complaints directly and immediately.	
Retailer provides plenty of convenient parking for customers.	
Store Satisfaction	
I truly enjoyed by coming to this retailer.	0.885
I am satisfied with this retailer.	
I think the choice to come to this retailer was a good one.	
I am satisfied with the price/quality ratio offered at this retailer.	
In general, Lotte Mart Fatmawati offers a satisfactory assortment of products.	
Store Loyalty	
I like to be a customer of this retailer.	0.870
I will prefer this retailer to other stores at any time.	
I recommend this retailer to my friends and family.	
I would like to visit this retailer again and again.	
I would like to engage others in positive word of mouth about this retailer.	

Sample Characteristics

Off the 200 respondents contacted, 137 (68.5%) respondents were female and 63 (31.5%) respondents were male. 83 (41.5%) respondents were single, 116 (58%) respondents were married and 1 (0.5%) were widower. 172 (86%) respondents have 1-5 people live in their home, 28 (14%) respondents have 6-10 people live in their home. 41 (20.5%) respondents were less than 25 years old, 58 (29%) respondents were between 25-34 years old, 31 (15.5%) respondents were between 35-44 years old, 62 (31%) respondents were between 45-54 years old, and 8 (4%) respondents were between 55-64 years old. 34 (17%) respondents lived less than 1 km away from retailer, 83 (41.5%) respondents lived 1-5 km away from retailer, 75 (37.5%) respondents lived 6-10 km away from retailer and 8 (4%) respondents lived

more than 10 km away from retailer. 32 (16%) respondents spent Rp 100.000 per visit, 88 (44%) respondents spent between Rp 100.000 – Rp 300.000 per visit, 43 (21.5%) respondents spent between Rp 400.000 – Rp 600.000 per visit, 27 (13.5%) respondents spent between Rp 700.000 – Rp 900.000 per visit, 10 (5%) respondents spent equal to or more than Rp 1.000.000 per visit. 124 (62%) respondents shopped once in a month, 57 (28.5%) respondents shopped twice in a month, 15 (7.5%) respondents shopped three times in a month, 3 (1.5%) respondents shopped four times in a month and 1 (0.5%) respondent shopped equal to more than five times in a month. 144 (72%) respondents went to retailer by their private transportation and 56 (28%) respondents went to retailer by public transportation.

Research Model

Figure 2.1 Theoretical Framework



Source: Adopted from Latha & Karthikeyan, 2014

Binary Logistic Regression

Steingrímsson et al (2010) described that binary logistic regression is the method of choice used when the dependent variable is binary and when a researcher would like to explore the relative influence of continuous and/or categorical independent variables on

the dependent variable, and to assess interaction effects between the independent variables. Binary logistic regression is used when the data is assumed to be ordinal-categorical data, such as Likert-type scale response, typically from “Strongly Disagree” to “Strongly Agree”.

The formula for binary logistic regression for multivariate is as follows:

$$P(Y) = \frac{e^{b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n}}{1 + e^{b_0 + b_1x_1 + b_2x_2 + \dots + b_nx_n}}$$

Where P is probability of Y occurring, e is natural logarithm base, b_0 is interception at y-axis, b_1 is line gradient, b_n is regression coefficient of X_n , X_1 is predictor variable.

However, according to Grimbeek et al (2005) Likert-scale response categories not only provide a positive opportunity for a smoother distribution of responses (i.e., a normal spread of choices across categories) but also allow "negative" opportunities for participants to misjudge the intensity of what is inherently a qualitative response. That is, the range of available response categories can obscure rather than clarify the intent of the respondent. A strategy for minimizing respondent ambiguity is to collapse across response categories.

The implication of the above-mentioned strategy on attitude scale data is the reduction of the normal 5-point response categories (Strongly Disagree, Disagree, Undecided/neutral, Agree, and Strongly Agree) into dichotomous categories representing the respondent's inherently

dichotomous choices: Agree (collapsing across Agree and Strongly Agree) or Disagree (collapsing across Strongly Disagree, Disagree, and Neutral). Through the use of SPSS statistical tool the value of each variable is then collapsed or recoded: 1-3 into “0” or “Disagree”, and 3.01-5 into “1” or “Agree”. Finally, through binary logistic regression, the researchers aim to predict whether a person tends to be loyal or disloyal after assessing each variable.

Analysis and Hypothesis Testing

Table 2 gives the correlations between central variables - merchandise quality, service quality, store satisfaction and store loyalty. Table 2 shows positive correlations between the dependent variable, store loyalty and independent variables, merchandise quality (0.606), service quality (0.699), and store satisfaction (0.677). The correlations between dependent variable to independent variable all indicates as strong.

Table 2.
Correlations Between The Variables

	Merchandise Quality	Service Quality	Store Satisfaction	Store Loyalty
Merchandise Quality	1.000	0.638	0.558	0.606
Service Quality	0.638	1.000	0.671	0.699
Store Satisfaction	0.558	0.671	1.000	0.677

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

Table 3.
Pseudo R Square

Step 1	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	105.049	0.432	0.650

Table 3 shows indicates the ability of independent variable in explaining the dependent variable is suggesting between 43.2% and 65% and there is between 35% and 56.8% other factors exclude in this model which could explain the dependent variable.

Table 4.
Omnibus Test

	Chi-Square	df	Sig.
Step 1 Step	113.050	3	0.000
Block	113.050	3	0.000
Model	113.050	3	0.000

Table 4 shows the simultaneous influence relationship. The Chi-square shows 113.050 on 3 degree of freedom. This Chi-square, 113.050 > Chi-square distribution table on 3 degree of freedom (7.815) or with a significance of 0.00 (< 0.05). Therefore there is simultaneous significant influence of Merchandise Quality, Service Quality, and Store Satisfaction toward Store Loyalty.

Table 5.
Results Of Hierarchical Regression Analysis

Model	Coefficients (b)	Significance Value	Exp(B)
Constant	-3.137	0.000	0.043
Merchandise Quality	1.550	0.007	4.711
Service Quality	2.174	0.000	8.789
Store Satisfaction	2.395	0.000	10.966

From the above, it is clear the association between Merchandise Quality (0.007), Service Quality (0.000) and Store Satisfaction (0.000) are found to be statistically significant, because the significant is less than 0.05. The Exp(B) or odds ratio is the probability and the nature of influence, and all the Exp(B) value is greater than 1, so the nature of influence is positive. It can be seen that, Store Satisfaction Exp(B) is 10.966 which means higher influence on store loyalty. Every customer who is satisfied has a tendency to be loyal by approximately 10.966 or 11 times. For the hypotheses testing, all of null hypotheses rejected because all of independent variable that being used (Merchandise Quality, Service Quality and Store Satisfaction) have significant influence toward dependent variable, Store Loyalty.

Findings and Implications

This study tries to propose a model which furthers the understanding of store loyalty from the point of view of merchandise quality, service quality, and store satisfaction offered by the retailer. Three major outcomes of study can be implied from the results. First, Merchandise Quality has a significant influence toward Store Loyalty (0.007) and every agreement from respondent in Merchandise Quality will increase the probability to be a loyal shopper by approximately 4.711 or 5 times. This finding is consistent with a research by Latha and Karthikeyan (2014) which found that Merchandise Quality did influence Store Loyalty.

Second, Service Quality has a significant influence toward Store Loyalty (0.000) and every agreement from respondent in Service Quality will increase the probability to be a loyal shopper by approximately 8.789 or 9 times. This finding is consistent with a research by Ramana Reddy, Reddy, and Abdul Azeem (2011) which found that Service Quality did influence Store Loyalty.

Third, Store Satisfaction has a significant influence toward Store Loyalty (0.000) and every agreement from respondent in Store Satisfaction will increase the probability to be a loyal shopper by approximately 10.966 or 11 times. This finding is consistent with a research by Ramana Reddy, Reddy, and Abdul Azeem (2011) and Latha & Karthikeyan (2014) which found that Service Quality did influence Store Loyalty.

The key implication of this research stresses on the importance of improving Store Satisfaction as the highest influencing variable toward Store Loyalty. Although Service Quality has lesser influence toward Store Loyalty, the researchers suggest that the hypermarket can improve the store layout and parking lot in the future. Store personnel also need more training to improve their performances dealing with customers. Lastly, the researchers suggest that in the future the hypermarket owner should pay more attention to merchandise durability, conformance, and perceived quality.

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