

The Mediation Role of Customer Satisfaction on Loyalty

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Abstract: This research is aimed to analyze the relationship among customer value, loyalty program, customer satisfaction and customer loyalty. By accidental sampling, this study was conducted at Hypermart in South Kalimantan and took 150 respondents from the Hypermarket's customers. The data analysis utilized Partial Least Square (PLS) and the result demonstrates that there is positive and significant relationship between customer value to customer satisfaction but not significant to customer loyalty. This study show that customer satisfaction has fully mediation role. This study also reveals the positive and significant relationship of loyalty program on both of customer satisfaction and customer loyalty. This study show that satisfaction has partial mediation role.

Key words: Customer value, loyalty program, satisfaction, loyalty, relationship, mediation role

INTRODUCTION

Customer value and loyalty program have important role to make customer satisfaction and. However, due to a shift on customer's needs which requires better product as well as the occurrence of higher competition intensity among industries, its come up several researches which examine the relationship among customer loyalty, customer satisfaction, loyalty program and customer value.

Tight competition forces competing marketers to deliver both of customer value and loyalty program that satisfy for their customers. 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 (Francis, 2007). In the hypermarket competition, it becomes hard to make customers to be loyal to particular hypermarket. Customers are free to choose which one hypermarket that becomes the shopping medium for them. One of the hypermarkets which face this kind of atmosphere is hypermart. One of the efforts to attract customers to hypermart is by offering not only quality service but also both of value for the customers and loyalty program to make customer stay longer to their product. Effective customer value and loyalty program 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 value and loyalty program but superior value service compared to the other potential competitors.

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

Based on the background, the research problem is about how to create customer loyalty through customer value, loyalty program and customer satisfaction.

Literature review

The relationship among customer value, loyalty program, customer satisfaction and customer loyalty: Both of customer value and loyalty program have strong relationship with customer satisfaction and loyalty. In this study, definition of customer value as like Philip and Keller (2009) called as Customer-Perceived Value (CPV) is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives. Total customer benefit is the perceived monetary value of the bundle of economic, functional and psychological benefits customers expect from a given market offering because of the product, service, people and image. Total customer cost is the perceived bundle of costs customers expect to

incur in evaluating, obtaining using and disposing of the given market offering, including monetary, time, energy and psychological costs.

Customer perceived value is the difference between the prospective customer's evaluation of all the benefits and all the costs of an offering and the perceived alternatives (Intan, 2016; Kotler and Keller, 2012; Luekveerawattana, 2016). Based on this definition, customer perceived value or customer value in this study is the difference between benefits the customer gets and costs he or she assumes for different choices. Customer value is measured by using indicator: functional value, emotional value, social value, customer service value and price fairness.

This study define loyalty program is like as define by Kotler and Keller (2012) that loyalty program is frequency programs are designed to reward customers who buy frequently and in substantial amounts. They can help build long-term loyalty with high customer lifetime value customers, creating cross-selling opportunities in the process (Kotler and Keller, 2012; Saputra and Dewi, 2016). In this study, loyalty program measured by using four indicators: system, discount, transparency, value added. Satisfaction is a person's feelings of pleasure or disappointment that result from comparing a product's perceived performance (or outcome) to expectations. If the performance falls short of expectations, the customer is dissatisfied. If performance matches expectations, the customer is satisfied; if it exceeds expectations, the customer is highly satisfied or delighted (Kotler and Keller, 2012; Srisangkaew, 2017). Four indicators of satisfaction are: product completeness, customer service, trading format, customer communication and membership benefit.

Customer loyalty is defined as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver, 1997). Customer loyalty measured by using four indicators like commitment, repurchase, cross buying and word of mouth.

Previous study described that the value has an influence on satisfaction and loyalty. Teoman (2002) and Moliner (2009) proves the existence of a mediating role perfected by the satisfaction on the relationship between customer value and loyalty of customers. Wang *et al.* (2004), Pura (2005) and Roig *et al.* (2006) show several dimensions that make up the variable customer value. However, the results by Wang *et al.* (2004) showed that not all dimensions of customer value direct effect on brand loyalty.

Bridson *et al.* (2008) and Vesel and Zabkar (2009) showed an indirect relationship (with satisfaction) between loyalty program and customer loyalty. However, Virginie (2008) concluded that the quality of the loyalty program and the company's image may cause negative emotions of customers and ultimately have an impact on customer behavior does not benefit the company.

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.

In tight business competition need loyalty program to make customer stay longer. Its need mechanism for identifying and rewarding loyal customers. Delivered customer value and loyalty program is part of customer relationship activity. Customer relationship management concept basically aims to create and deliver value to customer to make them loyal.

In line with customer satisfaction theory, customer satisfaction is the level of customer's perception after comparing the actual performance of a product perceives with expects. Further, Kotler and Armstrong (2006) 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".

It indicates that consumers will define their choice based on their perception on the value and loyalty program embedded in a product or service that satisfy their need. The satisfied customers generally will be loyal and will advantageous for business. Thus, it is concluded that theoretically there is a relationship among customer value, loyalty program, customer satisfaction and customer loyalty.

Thus in strategic marketing realm, it becomes the focus of attention for both marketers and scholars to examine the relationship among customer value, loyalty program, customer satisfaction and customer loyalty. Based on the theoretical and empirical review, it leads to the following hypotheses:

- H₁: there is mediation role of customer satisfaction on relationship between customer value and customer loyalty
- H₂: there is mediation role of customer satisfaction on relationship between loyalty program and customer loyalty

MATERIALS AND METHODS

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

The research’s variables comprised from exogenous (independent) variable including customer value (X1) and loyalty program (X2) and endogenous (dependent) variables including satisfaction (Y1) and customer loyalty (Y2). All of this 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.

Data analysis utilized in this research is inferential statistical analysis uses Partial Least Square (PLS) method.

RESULTS AND DISCUSSION

Structural modeling evaluation: Structural modeling evaluation is conducted by examining 2 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.

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 mediating variable test, respectively.

By using standardized path coefficient, indirect influence of customer value and loyalty program on customer loyalty can be observed in Table 1. Based on both of direct and indirect influence that is statistically showed in Table 2 and Fig. 1, it leads to the description.

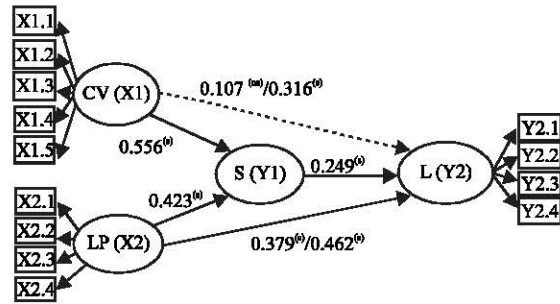


Fig. 1: Path diagram of PLS analysis result

There is positive and significant influence of customer value on customer satisfaction. The result is demonstrated by PLS analysis which obtains standardized path coefficient of 0.556 with 0.000 p-value; 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.

There is no positive and significant influence 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.

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.

Customer value influences customer loyalty through customer satisfaction. The influence of customer value on satisfaction is significant (0.556) their influence of customer satisfaction on customer loyalty is significant as well (0.249). Therefore, the indirect influence of customer value variable on customer loyalty trough 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. Its mean customer satisfaction playing mediation role as fully mediation. Thus, hypothesis 1 is confirmed: there is mediation role of satisfaction in relationship between customer value on customer loyalty.

Still showed in Table 2 and Fig. 1. There is positive and significant influence of loyalty program on customer satisfaction. The result is demonstrated by PLS analysis which obtains standardized path

Table 1: The analysis result of direct influence test among variables

Variables relationship	Path coef. (Standardized)	p-values	Description
Customer value (X1); satisfaction (Y1)	0.556	0.000	Significant
Customer value (X1); loyalty (Y2)	0.107	0.192	Nonsignificant
Loyalty program (X2); satisfaction (Y1)	0.423	0.000	Significant
Loyalty program (X2); loyalty (Y2)	0.379	0.000	Significant
Satisfaction (Y1) loyalty (Y2)	0.249	0.042	Significant
Customer value (X1) (examining the role of customer satisfaction (Y1) as the mediating variable: model without mediating variable; loyalty (Y2)	0.316	0.000	Significant
Loyalty program (X2) (examining the role of customer satisfaction (Y1) as the mediating variable: model without mediating variable; loyalty (Y2)	0.462	0.000	Significant

Table 2: The analysis result of indirect influence test among variables

Variables relationship				
Exogenous	Mediation	Endogenous	Examining result of indirect effect	Description
Customer value (X1)	Satisfaction (Y1)	Loyalty (Y2)	0.14	Significant
Loyalty program (X2)	Satisfaction (Y1)	Loyalty (Y2)	0.11	Significant

Processed data in 2011

coefficient of 0.423 with 0.000 p-value; 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.

There is positive and significant influence of loyalty program on customer loyalty. The standardized path coefficient from the PLS analysis result scores 0.379 with 0.000 p-value; thus, it is significant. The result implies that better loyalty program directly influence customer loyalty.

There is positive and significant influence 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.

Loyalty program influences customer loyalty through both of direct and indirect influence (by customer satisfaction). The influence of loyalty program on satisfaction is significant (0.423) the influence of customer satisfaction on customer loyalty is significant as well (0.249). Therefore, the indirect influence of loyalty program on customer loyalty through customer satisfaction obtains 0.14 path coefficient's score. Based on this measurement result, it reveals direction relationship since the coefficient is positive. Better loyalty program in better customer loyalty and better customer loyalty whenever there is both of a better loyalty program and customer satisfaction. Its describe customer satisfaction playing mediation role as partial mediation. Thus, hypothesis 2 is confirmed: there is mediation role of satisfaction in relationship between loyalty program on customer loyalty. 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. Like customer value, loyalty program contributes to customer loyalty through both of direct and indirect (by customer satisfaction as mediation variable). It concludes that customer value and loyalty program bring important contribution to improve customer loyalty. It implies that customer value and loyalty program 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. Based on that theory, it concludes that customer value and loyalty program has important role in creating customer loyalty. Therefore, in the tight business competition intensity, CRM concept which offers customer value and loyalty program needs to be implemented as the effort to sustain by creating customer loyalty.

CONCLUSION

According to hypothesis this study concluded that there are positive influence of customer value to customer loyalty by indirect influence with satisfaction as mediation variable. Its mean that satisfaction has fully mediation role in relationship between customer value to customer loyalty. However, loyalty program has both of direct and indirect influence to customer loyalty. It means satisfaction has partial mediation role in relationship between loyalty program to customer loyalty.

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