



## THE DETERMINANTS OF CUSTOMER LOYALTY IN RETAIL INDUSTRY

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### ABSTRACT

*Customer loyalty is the core of business sustainability. In the disruptive era of digital business, it is important for the conventional retail business industry to focus on some determining factors that influence customer loyalty. This study finds that physical aspects and problem-solving are considered giving a significant contribution to building customer loyalty in the Retail Industry in Indonesia. The physical aspect that creates positive moods and security is expected by every potential customer especially in conventional business retail. The ability to solve the problem of the customers is building a positive relationship with the customers and could be the driver of positive mood and it strengthens future customer loyalty.*

**Keywords:** Retail industry, customer loyalty, physical aspect, problem solving, Indonesia.

### ABSTRAK

Loyalitas pelanggan adalah inti dari keberlangsungan bisnis secara jangka panjang. Di era bisnis digital yang serba cepat, mudah dan efisien, industri bisnis ritel konvensional harus mampu fokus pada faktor-faktor penentu loyalitas pelanggan. Studi ini menemukan bahwa aspek fisik dan pemecahan masalah dianggap memberikan kontribusi yang signifikan dalam membangun loyalitas pelanggan pada Industri Ritel di Indonesia. Aspek fisik yang menciptakan suasana hati yang positif diharapkan membangun rasa nyaman dan aman oleh setiap calon konsumen khususnya pada bisnis ritel konvensional. Kemampuan memecahkan masalah pelanggan menjadi pendorong hubungan yang positif dengan pelanggan sehingga mampu membangun suasana hati yang positif serta memperkuat loyalitas pelanggan di masa depan.

**Kata Kunci:** Industri ritel, loyalitas pelanggan, aspek fisik, pemecahan masalah, Indonesia.

## INTRODUCTION

Matahari Department Store or PT Matahari Department Store, Tbk (stock code is "LPPF") is considered as one of the biggest retail in Indonesia with the total number of outlets is 155 since it established on 24 October 1958. It received several awards from the industry - at national and international level - including Top 500 Retail Asia Pacific - 3rd Retailer in Indonesia from Retail Asia, Euromonitor, & KPMG; Brand Asia 2017 - Top 3 Most Powerful Retail Brand in Indonesia from Nikkei BP Consulting, Inc and WoW Brand Award 2019 - Gold Champion from MarkPlus Inc. In addition, the Company also won the Indonesia Netizen Brand Choice Award 2017 from Warta Ekonomi. Unfortunately, Matahari Department Store closed eight outlets in some cities due to the Covid-19 pandemic and also to minimize the loss in its fierce competition with online shops (<https://finance.detik.com>).

The pandemic Covid-19 hits the economic sectors of most businesses, including the Matahari Department Store. It needs to close some outlets. Furthermore, the young generation prefers to have leisure consumption, decreased purchasing power (Syafina, 2019), a decline and economic slowdown, a revolution from offline to online shopping (Fitriya, 2017).

The CEO of Matahari Department Store argued that the company's business last year could grow as a whole, despite increasing competition challenges from other retailers, both offline and online. Furthermore, The CEO admitted that the management sees strong growth in the online business at Matahari.com. However, the fact that Matahari only recorded a net profit of Rp 1.1 trillion, was down 42% compared to 2017 recorded at

Rp 1.91 trillion (CNBC, 2017). Matahari Department Stores at Batam locate at Mega Mall Batam Center, Kepri Mall, Nagoya Hill Super Block, Batam City Square Mall. The latest outlet is opened on 28 November 2019.

Customer loyalty is the key factor of a business to sustain its operation in the long run. As Kim, Kim, and Hwang (2020) explore that the customers' equity which is consists of value, brand, relationship equity are important to build customer satisfaction, intention to revisit and recommend to other customers. Besides,, Saleem *et al.*, (2016) emphasize that customers loyalty can be strengthen through customer's satisfaction through an effective marketing strategy. Hence, this research is intended to examine the determinant factors of how retail industry can be success in the volatile business environment. This research is focus on Matahari Department Store since has 60 years of operating the retail business in Indonesia.

Based on the selected references physical aspect, Reliability, Personal Interaction, Problem-solving, and policy are important factors to sustain a department store's market in Asia conducted by Kitapci *et al.*, (2014), Nguyen *et al.*, (2017), Ha *et al.*, (2014), Srivastava & Kaul, (2016), Sivapalan *et al.*, (2017). This research highlights the relationship between those aspect especially in the market of young generation and the level of education that they acquired to the customer's loyalty in retail industry.

### *Physical Aspect*

According to Sivapalan *et al.*, (2017), the Department Store should focus on the physical aspects such as a clean, comfortable, and attractive environment that will present a positive and safe

atmosphere. The physical aspect creates easy access to purchase and make a recommendation for prospective customers. Nowadays, social media is at the hand of each customer, hence the positive and negative effects are easy to be spread out.

### **Reliability**

Reliability is the main predictor that affects customer loyalty. Department Store employees should check the availability of products and deliver services on time. By maintaining product availability, it can reduce canceled transactions. Moreover, the products' availability is considered as the reliability services that increasing the records of Department Store product's sales. This is supported by Nguyen *et al.*, (2017), Kandampully *et al.*, (2015), Ha *et al.*, (2017), Saleem *et al.*, (2016), Sultan & Wong, (2014), Kitapci *et al.*,(2014), Famiyeh *et al.*,(2017), Sivapalan *et al.*,(2017), Vohra & Bhardwaj, (2019).

### **Personal Interaction**

Personal interaction services between Department Store sales and customers are associated with positive emotional interaction determines the success or failure of a transaction. On the other hand, a negative emotional interaction will create a negative response from the potential customer. It may decline the shopping interest of the customers. (Carmen-Maria, 2016).

### **Problem Solving**

The ability to handle the customers' complaints is the significant competency that should be acquired by the department store employee as the problem-solving competency. According to Bijmolt *et al.*, (2014) when the complaints from customers can be resolved appropriately, it will be strengthen customer's relationships. In the case that customers can exchange a purchased product under

the clear term and conditions, it will make the customer appreciate it as better service and lead to customers' loyalty (Nguyen *et al.*, 2017). Furthermore, Ha *et al.*, (2014) stated that training employees to demonstrate attitudes and behavior when dealing with customer problems is required.

### **Policy**

Customers need the security of products and services offered to them. In this case, the policy of the company that protects customer's security becomes a fundamental requirement to be fulfilled. As Bouranta & Psomas (2018) stated that one of the most important aspects that influence the purchase intention is the department store should assure that the product must comply with the policy as government regulation or social norm. The trust in the product will strengthen the customer's loyalty.

## **RESEARCH METHODOLOGY**

To collect the empirical data, a survey to young millennials of 161 respondents was conducted. The instrument is adapted from Ha *et al.*, (2014). The first part used a nominal scale and the second part used a five-point Likert scale. As the purpose of this research is to investigate the relationship of determinant factors that influence customer loyalty in the retail industry, the respondents is chosen based on their experience for shopping at Matahari Department Store, as it is the top brand of the retail industry in Indonesia.

The data is then analyzed using A structural equation model (SEM) with PLS 3.0. The CMV (Common Method Variance) test is using This Harman's technique to assess whether errors or differences in data are caused by a single factor or not. The initial eigenvalue is used as the indicator of CMV that cannot be exceeded by 50%.

The next phase is an outer model evaluation based on Average Variance Extracted (AVE) s measurement of convergent validity which measures a valid statement on a construct that has an AVE value > 0.5. The reliability of the instrument is to measure the internal consistency that assumes all indicators are equal using the score of Cronbach's alpha A construct is reliable when the value of Composite Reliability is above 0.708. After measuring the validity and reliability of the data the next is Evaluation of the Inner Model. In this study, the evaluation of the inner model is needed to review and evaluate the relationship of the hypotheses. If the T-statistic value exceeds 1.96 and or the level of significance at 5%, it can be stated that a hypothesis or relationship between variables can be significant. While to measure the accuracy of a model is using the Coefficient of Determination (R square). If the R square value indicates a value of 0.75 (strong), 0.5 (moderate) and 0.25 (weak) predictive accuracy. (Hair *et al.*, 2018).

**RESULT AND DISCUSSION**

**Result of Data Analysis**

*Result of Outer Model Evaluation*

The convergent validity at the construct level which is shown by AVE score of all variables have met the standard of a minimum 0.5 (Ghozali & Latan, 2015).

Table 1. Validity Test Result

Constructs	AVE	Remark
<i>Physical Aspect</i>	0.775	Valid
<i>Reliability</i>	0.815	Valid
<i>Personal Interaction</i>	0.757	Valid
<i>Problem solving</i>	0.888	Valid
<i>Customer Loyalty</i>	0.826	Valid

The reliability test based on composite reliability shows that all variables have CR values greater than 0.7.

Table 2. Reliability Test

Constructs	AVE	Remark
<i>Physical Aspect</i>	0.885	Reliable
<i>Reliability</i>	0.908	Reliable
<i>Personal Interaction</i>	0.905	Reliable
<i>Problem solving</i>	0.918	Reliable
<i>Policy</i>	0.862	Reliable
<i>Customer Loyalty</i>	0.931	Reliable

Table 3. The Result of Inner Model Evaluation

The result of Inner Model Evaluation

Constructs to	T	Remark
Customer Loyalty	Statistics	
<i>Physical Aspect</i>	2.445	Significant
<i>Reliability</i>	0.704	Not Significant
<i>Personal Interaction</i>	0.827	Not Significant
<i>Problem solving</i>	3.238	Significant
<i>Policy</i>	1.522	Not Significant

Coefficient Determination Measurement Result

R square test is carried out to find out the model compatibility. In table 4, the R Square value is 67.0%.

Table 4. The result of Inner Model Evaluation

Constructs	T Statistics
<i>Customer Loyalty</i>	0.670

**Discussion**

**Physical Aspect has a significant and positive effect to Customer Loyalty**

Table 3 is shown that Physical Aspect analysis has a significant relationship with

Customer Loyalty. This can be seen from the T-Statistics value of 2.445. The results of H1 is consistent with the previous research of Kitapci et al., (2014), Nguyen et al., (2017), Ha et al., (2014), and Srivastava & Kaul (2016).

Physical aspect is considered as the reason why customers are willing to go for shopping offline. The calm atmosphere is relaxing and make the customers spending time longer for window shopping and finally make the actual purchase.

#### **Reliability does not have significant positive effect on Customer Loyalty**

Reliability analysis does not have a significant relationship with Customer Loyalty. This can be seen from Table 3 which t value of 0.704. This finding is inconsistent with the conclusions of research by Nguyen et al., (2017), Vohra & Bhardwaj, (2019). However, this research is supported by Ha et al., (2014) that conducted research in Vietnam.

Vietnam as one of South East country has very close characteristics with Indonesia. The level of uncertainty avoidance for Indonesia is 48, and Vietnam is 30 (/www.hofstede-insights.com/). If this number compares to Singapore as South East Country the score is very low, only 8. It means that Singaporean prefer higher reliability than Indonesian or Vietnamese.

#### **Personal Interaction does not have a significant positive effect on Customer Loyalty**

In table 3 is shown that there is no significant relationship between personal interaction to customer loyalty based on the value of T-Statistics of 0.827. The results of H3 is inconsistent with the conclusions of research by Nguyen et al., (2017), Famiyeh et al., (2016), Carmen-

Maria, (2016). However, this research is supported by Ha et al., (2014).

The theory of reasoned action (TRA) developed by Fishbein explained how a consumer leads to certain buying behavior. It has two antecedents of attitude and subjective norms. TRA can be applied to explain the phenomena that personal interaction does not build customer loyalty directly but indirectly. Personal interaction is important to build the positive mood of the customers which is considered as subjective norms. The personal interaction will increase the customers' satisfaction. Customer's satisfaction is a significant factor to build loyalty.

#### **Problem solving has a significant positive effect on Customer Loyalty**

In table 3, it is shown that problem-solving analysis has a significant relationship to customer loyalty based on its t value of 3.238. The results of H4 is consistent with the conclusions from the research of Ha et al., (2014), Bijmolt et al., (2014), Nguyen et al., (2017).

This research finding has shown that customers put problem-solving as a priority. Thus, the retail company should create a system that gives customer's an opportunity to get the best treatment to solve their problem in the process of purchasing and also after-sales services.

#### **Policy does not have a significant positive effect on Customer Loyalty**

The table 3 shown that Policy does not have a significant relationship to Customer Loyalty based on the t value 1,522. The result of H5 is not consistent with the conclusions from the research of Bouranta & Psomas, (2018), Salem et al., (2019), Sultan & Wong, (2014). However,

this research is supported by Ha et al., (2014).

This research finding can be explained that customers have trust a big retail company such as Matahari Department Store. Thus, their policy comply to the government regulation or social norm is an obligation. It is not considered as the additional value that increase the customer loyalty.

## CONCLUSION

The research finds that physical aspect and problem solving are factors that important to be highlighted in the retail industry despite other factors that will help to strengthen the relationship of retail industry with customers. The future research could be examined the technology applied in the department store to improve the security feeling of the customers. Pandemic Covid -19 is the strongest drivers for all industries to apply better technology to make customers more secure in doing the business with others person.

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