Inti International University

Master in Business Administration

Factors Influencing Customer Preference In Grocery Retail Industry

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Executive summary

In the past 15 years, majority of researches conducted in regards to customer satisfaction shows that high satisfaction scores is more often contradicting preference scores and it does not adequately explain the relationship of preference formation versus satisfaction. The predictors generated from the previous researches are therefore, insufficient to help in sustaining the ability to meet customer's preference.

This research identifies the most important elements to formulate the marketing strategies. It is intended to outline the understanding of customer's perceptions in forming their buying preferences. The aim is to focus on customer preference factors that contribute to better business performance in grocery retail industry buy determining the different factors like price, quality, brand and location that forms customer preferences and to recommend a possible customer retention models and suggestion for future marketing strategies.

This research used a survey method and interview to conduct research on customer preference. The researcher would like to collect predetermined information from the pool of customers in order to have better insights of influences of the chosen factors in forming buying preferences at consumers' end.

This study can serve as a model for the marketers to understand how customers think, feel, reason, and select between different alternatives (e.g., brands, products, and retailers). Understanding customer preference is the key to enhance the customer loyalty as well as customer relationship management.

Keywords: Customer Preference, Grocery, Retail Industry, Product Quality, Price of Product, Brand Effects, Location Strategy.

Logical Sequence

CHAPTER 1

INTRODUCTION

1.1 Background

The wholesale and retail sector falls under the supervision of the Ministry of Domestic Trade and Consumer Affairs (MDTCA). In 1995, the committee was set up with the purpose to regulate and supervise the industry. The scope of the committee includes the regulation and supervision of foreign participation as well. Verification and approval from the Committee is required for foreign companies that want to set up wholesale or retail operations locally, including opening and relocation of branches. The government has also amended the guidelines of Foreign Investment Committee (FIC), to provide higher flexibility on foreign equity participation in local companies. In the event of acquisitions, foreigners have been allowed up to 70% of share, as long as they have met the main criterion: At least a 30% share is owned by the Bumiputera, which known as indigenous Malays and other ethnic groups. (Company Act 1963, Malaysia)

Since April 2002, the minimum capital of MYR1 million is required to incorporate the wholesale and retail locally for specialty outlets. Moving forwards, a minimum capital of MYR5 million for supermarkets. For department stores, MYR10 million is required and on top of the range, MYR50 million for hypermarkets. As for direct selling businesses, only MYR0.5 million is required.

With effective 1 December 2004,

- Malaysia government restrict foreign involvement in certain retail formats, i.e., mini-market (less than 400sq m), supermarket (between 400 and 2,000sq m), provision shop/general vendor, 24 - hour convenience store, medical hall, petrol kiosk with or without convenience store, permanent wet market and permanent pavement store.

- A study on socio-economic impact needs to be conducted before the opening of hypermarkets, department stores, specialty stores and superstores (previously, an impact study had to be done only for hypermarkets and department stores openings).
- Each outlet has to sell at least 30% of goods or products manufactured by the local people which known as Bumiputera, who fully owns small medium enterprise within the industry. It also known as small and medium sized industries (SMIs).
- At least 30% of the shelf space within the building has to be allocated for products manufactured or supplied by Bumiputeras.
- The applications of Superstores will only be reviewed and approved for locations that have at least or more that 250,000 of population.

All these governmental regulated rules implied that Malaysia government intended to protect the local industries. Thus, the local industries could be the inbound partners for the retail giants. Furthermore, it provides the employment opportunities for the local community.

Due to negative impacts of the economic downturn, retailing has recorded slower growth in 2009 compared the previous year although the figure was not showing negative value. The Malaysian government has redefined its GDP forecast in May 2009 from a 4% decrement to a 5% decrement for the year of 2009. In which, is a more than a 1% contraction of estimation in reduction after taking the consideration of the global economic outlook that was down turning. Consumers reduce their level of disposal income and normal spending intuitively because of lacking the confidence towards the rise of regional economy. Retailers have reacted on the other end, by having longer promotion periods hoping that customers spending can be stimulated.

At that point of time, unemployment rate was increasing and people started to look for opportunities of secondary income. Thereafter, direct selling was becoming one of the hot topics among the people because these people started to advocate it a secondary source of income in supporting themselves and their families. It has reported that sales force of direct selling was increased rapidly.

Other than that, online selling has also increased because of unemployment. Some of the jobless folks started to setup online businesses. The motivators of setting up online businesses are: capital involved is minimal and improved IT infrastructures that allow the transactions to be completed in a much easier way. At the tough time, retailing that is being done online has also allow the consumers to enjoy lower price as comparison of prices has become easier. Other than that, savings on transportation costs has become possible because the goods purchased online, are being delivered buy the sellers to the consumer's doorstep.

Due to the initiatives of direct sales and online shopping, Malaysia's retail scene is getting competitive because of new entrants in the industry. The modernized shopping methods have significant impacts on conventional shopping. Furthermore, expansion plans undertaken by foreign players are competing with the local retail industry. When the consumers have higher awareness in price and become more careful with spending, retailers need to be very competitive in term of the price of products on the shelves. The battles in price among the major retailers are impacting the businesses of small retailers. Small retailers are always having less bargaining power on the price offered by suppliers, compared to the major retailers who are taking advantages of economical of scale. However, foreign major players that brought in fierce competition will motivate the local retailers to utilize technology, to put in more efforts to streamline operational procedures for cost reduction, to increase productivity and most importantly, start looking into initiatives that allow them to better understand consumer preference.

The continuous battles among major retailers will still impacting small retailers that unable to compete in price. However, shopping malls in Malaysia have become one stop hubs. These shopping malls offer not only places for shopping. Within the malls, entertainment elements such as cinemas, theme parks, indoor games and other recreation activities. Example of shopping malls as described are: Mid Valley, Suria KLCC, Sungai Wang Plaza, The Curve, Sunway Piramid and One Utama. These shopping malls have recently been related to a buzzword call "shoppingtainment". The ongoing development of similar shopping

malls in Malaysia reveals that, major retailers are more likely to continue with the existing approach of operation: Operate under single root rather than having their own premises for retails. These complementary elements should also be considered to study the customer preference.

Nevertheless, there are some retailers managed to overcome competition in the industry by using location strategies and customers segmentations (middle class). However, the researcher has includes location as one of the factors that might be influential and important to determine the customer preference.

1.2 Operational Definition

Grocery product - A grocery store has been defined as a store established mainly for the retailing of food initially. A grocer, who is known as the owner of a grocery store, stocks different kinds of foods. These foods are from various places and cultures. The grocer obtains it from the suppliers and sells them to customers. Grocery stores that operate in a larger scale usually stocks products other than food. The main reason of selling other product is to diversify the product range for higher sales. Some examples of products other than food that large grocery stores sell are clothing and household items. These large scale grocery stores are also known as supermarkets.

Customers are expected to look for the products they want, grab it and proceed to the cashier to realize the purchase. These types of retail stores usually sell foods, household products, equipments and sometimes electronic gadgets. The trend of growth can be interpreted as a trend of cost reduction and marketing simplification that getting benefits from the principle of economical of scale in developed regions. It is undeniable that, the rise of middle class has contributed significant influences towards the growth of markets. Women were started to join the workforce and lacking of time to prepare foods. Consequences of the changes of preference have increased the popularity of refrigerators, which allow people to shop and purchase food on weekly basis rather than daily basis. Since women are working, higher household income was generated. With higher purchase power, triggered the growth of car ownership and they started

to opt for journeys to distant stores and conduct purchases in big volume. This has been interpreted as opportunities and has encouraged some companies to venture into the markets, particularly in Asia regions. The development of supermarkets from the beginning has growth larger and became hypermarkets. Examples of similar investments are Makro and Metro whose operate in a very large scale.

In this research grocery product is here in referring to the common products which are available on the racks within the compound of selected stores or shopping complex. Items are segregated into 2 categories as following:-

Foods: fresh vegetables, fresh fruits, refrigerated items, frozen, condiments and sauces, canned foods, spices and herbs, dairy products, meat, seafood, beverages, baked goods or materials, snacks, themed meals, baby stuffs and pet foods.

Household: personal care products, medicine, kitchen, cleaning products, office supplies, carcinogens, automotive related products, newspapers and magazines.

Clothing: shoes, clothes and wears accessories for mankind.

Targeted Respondent - Respondent is here in referring to the visitor whom has visited to the selected store or shopping complex and purchased any of the defined grocery products. This includes the customer from all level, income and age. This is because the visitors could be the potential buyers in the future.

In this research, target respondents are to be categorized into 4 categories as following, assuming that differences in household income has a role in forming the preferences:-

- 10,000 ~25,000 (RM)
- 26,000 ~40,000 (RM)
- 41,000 ~55,000 (RM)
- 56,000 ~70,000 (RM)
- 71,000 and above

There will be no particular in differentiating the respondents by race and religion due to the assumption of similarities in life style.

The research is then looking into the differences of purchasing preferences in between male and female respondents.

Location - The importance of retail store location should not be overlooked. However, choosing a store location by looking into the chances of success of operation should not be overly emphasized. Often a store or shopping complex, for whatever reason, is faced with selecting an additional site. In such critical moment, the owner should always review the value of traffic count, as an approach to assure the location has high potential in getting the customers to visit the store. Nevertheless, a location that has been considered as a good location for a particular type of store is not necessary a good location for the other types of business.

Seremban is the transportation hub. Buses and taxis are available from this hub to various towns within Malaysia. The hub is the most important point for travel to Port Dickson and Kuala Lumpur. There are also buses to Johor Baru, Melaka and even the KLIA via Sepang. Transport to the north and east coast are also available. The terminal is now connected to the Seremban railway station by a covered walkway. Therefore, conducting survey in Seremban is ideal as it allow the researcher to reach the respondent which is not only within Seremban but also from the surrounded area.

Most of Seremban bound express buses nowadays depart from the makeshift terminal next to the Klang River - between Pasar Seni LRT station and Kuala Lumpur railway station/Dayabumi building. There are express bus companies like Transnational that plies between Kuala Lumpur and Seremban. There is also a popular bus pick up point near Pasar Seni/Daya Bumi in Kuala Lumpur to hop on to the next bus heading for Seremban. Besides, The North South PLUS highway had made the journey between KL and Seremban easy unless there is more than usual massive traffic jam during certain peak hours, holidays, road accidents or sudden heavy downpour.

Taking the assumption of citizen within the surrounded areas tend to have similar perception and preference, the researcher believe that the main target audiences are to be capture at the selected store of shopping complex that is within the area of Seremban, Negeri Sembilan, regardless of the respondent is a citizen in Seremban or not. As long as the respondent is a citizen of Malaysia and they are living within or area that is surrounded the chosen city, would be able to represent the similarity in their preferences. The survey is to be taken at the selected store or shopping complex with the intension to eliminate the respondent that is not from the surrounded area.

1.3 Problem Statement

Since the downturn of Malaysia economy in year 2008, slower growth in retail industry was recorded. Consumers reduce their level of disposal income and normal spending intuitively because of lacking the confidence towards the rise of regional economy. Retailers have reacted on the other end, by having longer promotion periods hoping that customers spending can be stimulated. However, consumers have changed their preference; they started to purchase products over the internet and through direct sell channels although extensive promotions efforts have been initiated by the retailers. Such phenomenon indicated that there is a preference switch at consumers' end, from traditional retail stores which presented at a physical location to other channels like direct selling and online stores. The main different of physical stores compared to direct selling and online stores is, consumer does not present physically when conducting purchase. Items which have been purchased are to be delivered to the house of the consumer directly. However, there was not much of research conduct in the field of customer preference that allows us to have better understanding on such phenomenon and how the businesses that have been impacted negatively should react to the switch of customer preference efficiently.

Assuming that such changes in the process of delivery ease the tasks at consumer's end because of consumers gain higher satisfaction, the researcher has conducted literature review in the area of customer satisfaction. However, findings tells that high satisfaction scores is more often contradicting preference

scores and it does not adequately explain the relationship of preference formation versus satisfaction. Since customer preference has been considered as the ability of a company to deliver product or service that is meeting the preference from a particular customer base and helps retailers who run business at physical stores to have a better insight of customer preference, there are values to be gained in conducting a research in customer preference topic, which is able to help the industry to better understand on factors that influencing customer preference and ease the tasks for retailers in forming their market strategies to overcome the mentioned phenomenon. Therefore, the researcher intended to look into factors such as Price, Qualiy, Brand and Location, which have their individual potential in influencing customer preference.

1.4 Research Question

Understanding customer preference is the key for business success. Organizations are aware about the factors that increase the high customer preference. The efficient CRM procedure of an organization could be able to gather and understand the changing customer preference. Fitting customer preference in development of new product features will definitely increase the success rate of the product in the market. Nevertheless, the approaches and levels of engaging customer in the process of product development and product life cycle extension are varies as different organizations tend to engage the customer in different ways. This is due to the nature of businesses are varies from each other in terms of flexibility of strategies, requirements of resources and the most importantly, motivation requirements. Not all the organizations are able to achieve all the requirements. The researcher has formulated the research questions as followed to meet the business requirements as mentioned above:

- How do factors like price, quality, and brand and customer service *location* contribute to the customer preference?
- Which factor is most influential in forming customer preference?

- What are the possible ways to improve customer preference from the results of the research?

1.5 Research Objective

This research aimed to focus on customer preference factors that contribute to better business performance in grocery retail industry.

- To determine the different factors like price, quality, brand and location that forms customer preferences.
- To identify the key factors which are vital for customer preference.
- To recommend a possible solution to increase customer preference .

1.6 Significance of Study

Research questions Linked to objectives .

This research intended to find out and outline the understanding of customer's perceptions in forming their buying preferences. The results from the research help the organizations in grocery retail industry to better understand the buying preference of target population. This is because the research outcomes would highlight the importance of the 4 defined factors that contribute to customer preference. The target population would be the end users of grocery products, whose consumes the product would be the interest group of respondents.

The research aims to identify the most vital and considerable factors of customers in grocery industry. The research analyzes the needs of understanding customer buying preference in order to create competitive advantages. The research conducted from customers' perspective will indicate how customers will make their purchases when the abovementioned factors are available. The outcomes from the research helps the organization to better understand customer preference and highlights the most influential issues in the grocery industry that must be taken into consideration towards customers.

Furthermore, the survey will examine the different influential factors from customers' perspectives, this is important for collecting, analyzing, and translating valuable customer information into managerial action. Besides, it provides solutions to escape the negative effects and weaknesses of the

industry when competing with the recent online shopping trends. By understanding customers' concerns, organizations could play an initiative role to offer the better products and services to meet the customers' expectation, and retain them for longer period.

1.7 Limitation of Study

This research concerns Quality, Brand, Location and Price as factors that influence customer's preference. Issues other than these are excluded from the research. Besides, the validity and reliability of information gathered is a key challenge. Interviewees may provide socially desired answers about their preferences and each population may have their own views.

This research concerns Quality, Brand, Location and Price as factors that influence customers' preference. Issues other than these are excluded from the research. Targeted customers from the 5 selected shopping malls may not effectively represent the whole pictures of customer pools in grocery retail industry, and the research finding may not be appropriate for other population in other regions. This research could not be able to develop a useful and create significant impacts towards customers' opinion for the nationwide. The researcher would acquire information of the area the respondents live in, such as urban, suburban and rural to better understand where they come from.

Majority of the studies may potentially encourage the response biases which are desired by society. Some statistical measures used in most studies are less likely to gain the actual response and opinions regarding the minority groups of people.

The research requires collecting the primary data from customers who visited the 5 selected shopping malls. They may have a different understanding about the 4 IVs factors and each population may have their own understanding as well as different expectation regarding each factor.

Limitations recognised.

1.8 Assumptions

Negri

Seremban is the capital of N. Sembilan and it is considered the most developed area in the state. Researcher assumes that most citizens from areas surrounded are able to represent the population of N. Sembilan due to multiple shopping centers that are available. The researcher believes that the respondents intended are able to provide the valuable opinions that contribute to the research.

Besides, the researcher assumes that each respondent should have at least one preferred factor to be taken into consideration before selecting the purchases. Otherwise, the external factors might not attract their attention and they could not be the intended respondents that meet the criteria defined by researcher. The assumption for the research assumes that factors other than Quality, Brand, Location and Price are excluded in affecting customer preference.

Clearly defined questions linked to objectives

CHAPTER 2

LITERATURE REVIEW

The literature review for the customer preference research focuses on the detailed analysis of the factors that contributes towards customer retention, and how these factors can provide bases for using the potential of customer preference with the retailers.

2.1 Customer Preference

Consumer compares one product or one service over another and making decision to choose the preferred one and give up another is not something new in the era of consumerism. Until recently, researchers have identified various factors that contributing to consumer decision making in choosing the preferred product or services over another. It allows us to be able, to find out and measure the factors in forming preference decision accurately.

Previous researches into this area, in regards to consumer preference have allowed us to have a better understanding to certain critical concerns with the common customer preference research. The key point is higher customer satisfaction does not mean that the product or service that meeting the expectation of the customer is the assurance of continued customer's preference (Duen-Ren Liu, 2004).

In the past 15 years, majority of researches conducted in regards to customer satisfaction shows that high satisfaction scores is more often contradicting preference scores and it does not adequately explain the relationship of preference formation versus satisfaction. The predictors generated from the previous researches are therefore, insufficient to help in sustaining the ability to meet customer's preference.