

# INTI INTERNATIONAL UNIVERSITY

## MASTER OF BUSINESS ADMINISTRATION

### EVALUATING THE LINKS BETWEEN RELATIONSHIP MARKETING AND CUSTOMER LOYALTY IN THE MALAYSIAN RETAILING INDUSTRY

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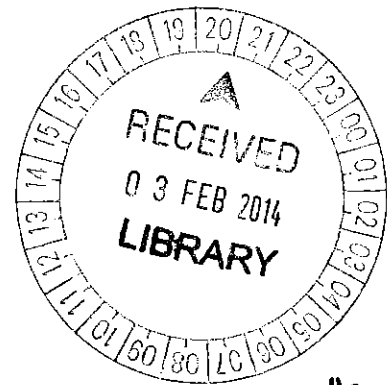
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## **Abstract**

In today market, organizations from retail industry are fighting for survival in today's intense market place. Such dynamic challenges placed loyalty customer as an important asset to maintain the retail store's success. Thus, the strategies that retailers using to build and to maintain the relationship with customers are extremely important. Therefore, this research is conducted to evaluate the link between Relationship Marketing and Customer Loyalty in the Malaysian retailing industry. Based on a detailed literature review, research constructs and a proposed model is developed. A quota sampling methodology, questionnaire survey is conducted to target 400 respondents from Petaling Jaya, Subang Jaya and Klang. The SPSS 17.0 is employed to test the hypotheses in accordance with the research objective. Result reveals that "Trust", "Commitment", "Relationship Strength" and "Service Quality" has significant positive relationship with customer loyalty. Recommendations to retailers and suggestions for future study are provided at the end of this paper.

**Keywords:** Relationship Marketing, Customer Loyalty, Trust, Commitment, Service Quality, Relationship Strength, Malaysia, Retailing Industry

### **Declaration**

"I hereby declare that this research project is of my own effort except for those summaries and information of which the sources are clearly specified"

10<sup>th</sup> December 2012

Phua Tin Chew

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## Chapter I

### Introduction

#### 1.0 Chapter Introduction

In this chapter the author will present the general background of the retailing industry worldwide and then zoom into the Malaysian environment. It will show some statistics to explain the purpose of this study in relationship marketing in the Malaysian retail industry. The chapter will also indicate the problem statement, and develop the research objectives and research questions. Last but not least, this section will set out the significance of the study, assumptions, limitations, and the study's scope and structure.

#### 1.1 Background

##### 1.1.1 An overview of the retail industry

Retailing is a commercial transaction in which a buyer intends to consume goods or services through personal, family or household use. Retailers are business firms engaged in offering goods and services directly to consumers. The goods or services involved in a retailing commercial transaction are food, beverage, tobacco, health-related products, fast-moving consumer goods, fashion and apparel. The retail sector comprises hypermarkets, supermarkets and convenience stores (PwC, 2012).

According to a survey done by Economy Watch in 2007, from the world's top ten retail players in terms of total sales, six are from America. The combined sales of the top ten market players computed by Deloitte was USD 978.5 billion. Major retail giants include Target, Home Depot, Tesco and Wal-mart (Economy Watch, 2010). From the World retail data and statistics, it shows that the estimated total sales from store retailers worldwide stood at € 108,449.8 million in 2007 (World Retail

Data and Statistics, 2008/2009). Undoubtedly, the retail sector is vital to the world economy, as it provides large scale employment to skilled and unskilled labour, minors and casual and part-time workers.

Malaysia's retail environment has experienced a marked and continuous change over the past few years. As such, to be able to achieve the dream of 2020, the Malaysian government has identified 12 sectors for the ETP (Economic Transformation Programme) as these sectors could generate the highest possible income for the country over the next few years approaches 2020. These sectors are called NKEAs (National Key Economic Areas) and one of the sectors is the Wholesale and Retail sector.

The Wholesale and Retail Sector is the fourth biggest contributor to the nation's Gross National Income (GNI) among all 12 NKEAs. The sector contributed about RM57 billion to GNI in 2009 and RM83 billion in 2010 (ETP annual report, 2011). A research by Retail Group Malaysia (RGM) shows that Malaysian retailers sold RM83.2 billion worth of items ranging from clothing to jewellery and food to souvenirs in 2011 (the data did not take into account big ticket items like houses and cars) (Business Times, 2012).

### **1.1.2 The future of Malaysia retailing industry**

As mentioned above, Wholesale and Retail sector is the fourth biggest contributor to nation's Gross National Income (GNI) among all 12 NKEAs. Thus to achieve the 2020 GNI target, retail will be a key driver of domestic consumption, which will in turn spur economic growth.

	2020 Target
	RM38.2 billion
	364,686

**Critical targets for 2012**

- 500 TUKAR shops
- 50 ATOM Workshops
- End-to-end nationwide virtual mall
- 35 per cent increase in CIF compared to 2010 baseline
- Completion of 20 PAKAR sites

Figure 1.1 - The summary of Wholesale and Retail NKEA for year 2020. Source: ETP Annual report 2011

The ETP has set the target for the Wholesale and Retail sector for year 2020. The target will be to achieve the incremental GNI impact of RM38.2 billion and provide additional 364,686 job opportunities to the nation (Please refer to Figure 1.1). To be able to achieve these goals, ETP has come out with 13 EPPs (Entry Point Projects). These 13 EPPs have been grouped along the themes of 'Modernise, Globalise and Revolutionise'. (ETP Annual report, 2011)

The EPPs within the 'Modernise' theme addresses the process and system gaps in the traditional retail outlets. The aim is to modernize this sector with the expansion of modern format stores, improve the skills of small retailers in information technology, customer services, and stock management etc (ETP Annual report, 2011).

To 'Globalise' is to further develop the retail sector for Malaysia through the export of Malaysian skills and products. Malaysian mall operators are amongst the best in the region and the Malaysian government is now taking these capabilities across to other countries like Vietnam, China, India, Sri Lanka and Indonesia. The Malaysian government will also seek to offer global exposure to small and medium enterprises via virtual malls and this has begun in year 2011 (ETP Annual report, 2011).

To 'Revolutionise' the Wholesale and Retail sector, ETP is looking to deploy concepts and skills that have been fully harnessed by the industries in Malaysia. This includes the successful removal of import duties on all finished goods making shopping more meaningful for both locals and tourists. The inaugural Unified Malaysia Sales in 2011 brought together various sectors of the retail sphere and service-oriented sectors and will continue to be an annual affair (ETP Annual report, 2011).

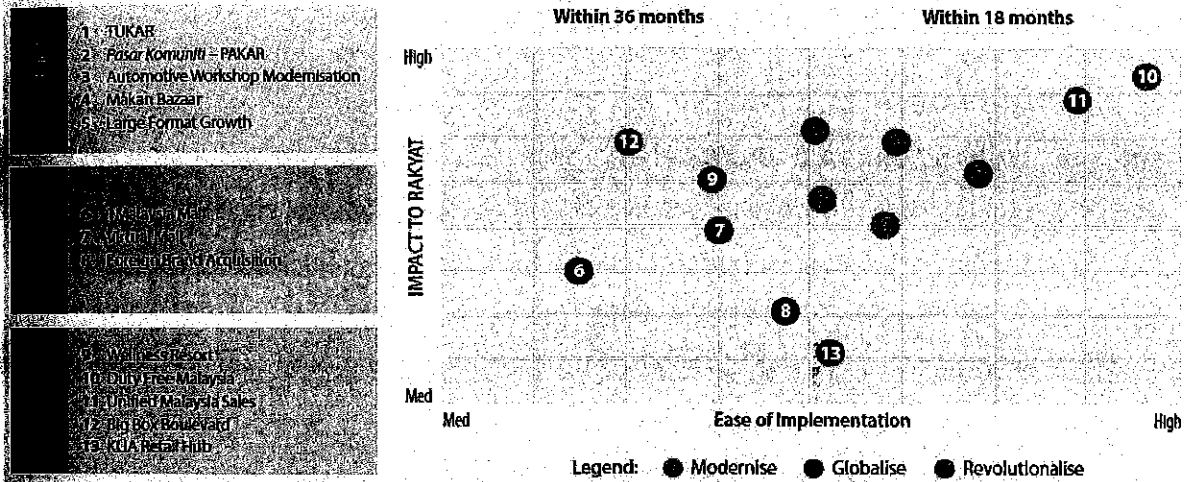


Figure 1.2 - The summary of EPPS. Source: ETP annual report, 2011

Figure 1.2 shows the grouping of the 13 EPPS and is prioritised in terms of its impact to nation and ease of implementation.

### 1.1.3 Relationship Marketing in the Malaysian Retailing industry

The rapid expansion of the Malaysian economy over the last ten years (despite the economic crisis of 1997/1998), combined with social influences and external economic factors, has created a retail boom in the country. This has directly encouraged the entry of new players and aggressive approaches by existing retailers such as competitive price wars and the introduction of new retail formats

(Ahmad *et al*, 2008; Ahmed *et al*, 2007). The Malaysian government is continuously attracting large foreign retailers, such as superstore operators and department stores to set up their operations as part of an effort to lift the tourism industry and also to promote Malaysia especially Kuala Lumpur as a shopping paradise.

From the ETP Annual Report released in 2011, the growth of the large format retail sub-sector is today evidenced by the presence of 121 hypermarkets, 113 superstores and 133 department stores run by local and foreign players. The growth and development of retailers in Malaysia has contributed to high competition among retailers, which has led to the growth of relationship marketing as a structured marketing effort used to maintain customers. Moreover, the 1997/1998 financial crisis has made Malaysians to become more cautious shoppers who are concerned about value for money and who are more focused on buying what is needed. Thus, in order to achieve a higher profit margin relationship marketing is seen as a new strategy for the retailer.

A further discussion on the impact of relationship marketing will be in the literature review chapter.

#### **1.1.4 Customer Loyalty in the Malaysian Retailing industry**

Retail giant –Tesco's General manager Michael Hawkins said that the average shopper spends about RM80 on a wide range of products on every visit. For Tesco, the loyalty customers constitute about 6% of the local customer base and represents nearly 30% to 35% of its total sales combined (The Star, 2011). Hawkins also commented that through relationship marketing, Tesco is able to locate the demographics of their customers and then provide them with offers and relevant marketing tips they would be interested in, instead of an impersonal sales approach. Besides that, Hawkins also mentioned that having one loyal customer is