



Institute of Technology Management and Entrepreneurship

**FACTORS AFFECTING CUSTOMER SATISFACTION AND
RETENTION IN RETAIL STORE**

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Master of Science in Human Resource Development

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**FACTORS AFFECTING CUSTOMER SATISFACTION AND RETENTION IN
RETAIL STORE**

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**A thesis submitted
in fulfillment of the requirements for the degree of Master of Science
in Human Resource Development**



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2021

DECLARATION

I declare that this thesis entitled “Factors Affecting Customer Satisfaction and Retention in Retail Store” is the result of my own research except as cited in the references. The thesis has not been accepted for any degree and is not concurrently submitted in candidature of any other degree.



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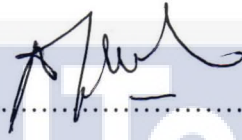
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APPROVAL

I hereby declare that I have read this thesis and in my opinion this thesis is sufficient in terms of scope and quality for the award of Master of Science in Human Resource Development.

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DEDICATION

To my beloved family, friends and society.



ABSTRACT

Retail success in today's competitive market requires a great understanding and respect of the customers. Retail stores have undergone drastic changes and developments, whereby the importance of customer satisfaction and customer retention has become retailers' main concern. This is because there is still a lack of study to explain how customer satisfaction and retention can be developed by retailers in sustaining competitive advantage against online shopping. Therefore, customer satisfaction and customer retention have been identified as important elements for a retail store to generate good sales and healthy profits. Studies about customer satisfaction and retention in retail store had been done previously but continue to remain scarce. This research identifies the factors affecting customer satisfaction and retention in retail store. Specifically, factors such as promotional mix, service quality, psychological factor and product quality are taken into consideration in order to study their effect on customer satisfaction and retention in retail store. The Kano Model and Maslow Hierarchy of Needs were identified as the two most significant theories of this research. Quantitative method was used to collect and analyze data to test the hypotheses. The sampling method used in this research is convenience sampling. University students were chosen as the target respondents whereby N=220 students were selected from the total population of 12,000 based on table of sample size determining by Krejcie and Morgan. A standard survey questionnaire adapted from previous research was distributed to the respondents and SPSS were used as an instrument to identify and examine the information and data collected from the questionnaires. It was found that factors such as promotional mix, service quality, psychological factor and product quality have a significant effect on customer satisfaction and retention in retail store. Based on the research outcome, a framework of factors affecting customer satisfaction and retention in retail store was developed. This research also contributes to the theoretical and practical implications. This research finding is valuable to the retailers as they can focus to invest ideas and efforts that create effective business strategies to attract more customers. Therefore, retailers must take significant measures that enhance retail store's competency in giving best values to the customers. Moreover, sustainability of retail stores tends to create more employment opportunities and new career prospects.

FAKTOR YANG MEMPENGARUHI KEPUASAN DAN PENGEKALAN PELANGGAN DI KEDAI RUNCIT

ABSTRAK

Kejayaan peruncit di pasaran yang kompetitif kini memerlukan pemahaman dan penghormatan terhadap pelanggan. Perniagaan runcit telah mengalami perubahan dan perkembangan yang drastik, di mana kepentingan kepuasan dan pengekaln pelanggan telah menjadi perhatian utama peruncit. Ini kerana masih ada kekurangan kajian untuk menjelaskan bagaimana kepuasan dan pengekaln pelanggan dapat dikembangkan oleh peruncit dalam mempertahankan kelebihan daya saing berbanding membeli-belah dalam talian. Oleh itu, kepuasan dan pengekaln pelanggan telah dikenal pasti sebagai pembolehubah penting bagi peruncit untuk menjana penjualan yang baik dan keuntungan yang sihat. Kajian mengenai kepuasan dan pengekaln pelanggan telah dilakukan sebelumnya tetapi masih menjadi persoalan yang penting dalam kalangan peruncit. Kajian ini membincangkan faktor-faktor yang mempengaruhi kepuasan dan pengekaln pelanggan bagi peruncit. Oleh itu, faktor-faktor seperti kepelbagaian promosi, kualiti perkhidmatan, faktor psikologi dan kualiti produk dikaji untuk melihat kesannya terhadap kepuasan dan pengekaln pelanggan. Model Kano dan Hierarki Keperluan Maslow dikenal pasti sebagai dua teori terpenting dalam kajian ini. Kaedah penyelidikan kuantitatif digunakan untuk mentafsirkan maklumat yang cuba menguji pernyataan hipotesis. Kaedah persampelan yang digunakan dalam kajian ini adalah persampelan kemudahan. Responden kajian adalah terdiri daripada N=220 orang pelajar universiti daripada 12000 populasi pelajar dan memenuhi persampelan kajian berdasarkan jadual Krejcie dan Morgan. Soal selidik yang diadaptasi dari penyelidikan sebelumnya diedarkan kepada responden dan data dianalisa dengan menggunakan perisian SPSS. Dapatan kajian menunjukkan bahawa faktor seperti kepelbagaian promosi, kualiti perkhidmatan, faktor psikologi dan kualiti produk mempunyai kesan yang signifikan dengan kepuasan dan pengekaln pelanggan runcit. Berdasarkan dapatan kajian, satu kerangka faktor-faktor yang mempengaruhi kepuasan dan pengekaln pelanggan dibangunkan. Hasil kajian ini dapat menyumbang kepada implikasi teori dan praktikal. Penemuan kajian ini sangat berharga bagi peruncit kerana mereka dapat menumpukan perhatian untuk melaburkan idea dan usaha bagi menghasilkan strategi perniagaan yang berkesan untuk menarik lebih ramai pelanggan. Oleh itu, peruncit perlu mengambil langkah penting yang meningkatkan kecekapan peruncit dalam memberikan nilai terbaik kepada pelanggan. Tambahan pula, kelestarian peruncit akan mewujudkan lebih banyak peluang pekerjaan dan prospek kerjaya baru.

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LIST OF ABBREVIATIONS

GDP	- Gross Domestic Product
GRDI	- Global Retail Development Index
HRM	- Human Resource Management
MDTCC	- Ministry of Domestic Trade and its Cooperatives and Consumerism
MMU	- Multimedia University
SPSS	- Statistical Package for Social Science
UTeM	- Universiti Teknikal Malaysia Melaka



LIST OF PUBLICATION

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter introduces to the research background and factors affecting customer satisfaction and retention in retail store. Besides, this chapter includes research problem, significant of research, research objectives, research questions and scope of this research. This chapter also focus on the operational definition of each research variables and the structure of the whole research according to its respective chapters. Chapter 1 ends with summary.

1.2 Research background

Ever since Malaysia declared as an independent country in the late 1957, Malaysia is considered as one of the fast developing, unique, successful and competitive nation. The World Bank described Malaysia as a successful nation that had witnessed a speeding up of economic development at 5.9 per cent in 2017; upheld by an intersection of great domestic and external factors (Zarina, 2018). Malaysia with the population of more than 32 million in 2019 (United Nations) had been classified as a fast growing and stable economy nation and been categorized as an upper middle income country. Malaysia's economy success story had been well recognised by the development of retail industry in the nation.

In highly competitive retail business, retail stores must be customer oriented in order to sustain stiff competition from online shopping. Customer satisfaction represents as a modern approach for quality in business life and serves the advancement of a purely customer oriented culture and management. Customers are requesting, have more cash to spend and

have a wide collection of goods and services to select from. Customer satisfaction can be experienced in different situations and associated to both products and services. It's a highly individual assessment that is incredibly influenced by customer's desire. Moreover, satisfaction is based on the customer's encounter of both contacts with the organization and personal results. A few researchers characterize a satisfied customer within the private segment as "one who gets critical added value" to his/her bottom line as this understanding may apply to the public services (Robert and Erika, 2016).

Retaining customers in today's business environment is important for any company's survival as it represents their company's next sales. Relationship between the customer and a retailer indicates their long term business benefits (Eva et al., 2017). Managing retail customer's relationship will increase the overall value of their customer as customer retention is significant for its success. Customer retention plays an important role for a retail store to increase its organizational profits and maximize the numbers of customer's patronage. In order to build a long term relationship with customers, retail store must first strengthen their existing customers bonding (Turki, 2016). Based on Jens (2015), the improvement of customers buying experience should be the retailer's main priority.

Studies about retail store's customer satisfaction and retention had been done previously but continue to remain scares. Therefore, this research discusses the factors affecting customer satisfaction and retention in retail store. Based on previous researches, studies and literatures, factors such as promotional mix, service quality, psychological factor and product quality are the few factors taken into consideration in order to study their effect on customer satisfaction and retention in retail store. The Kano Model and Maslow Hierarchy of Needs were identified as the two most significant theories of this research. A framework of retail store's customer satisfaction and retention had been developed based on the results of the tested hypotheses.

1.3 Research problem

Retail store plays an important role towards the growth and the development of a country's economy. Retailing sales continued to develop in 2017, driven by the development in both store-based and non-store based retailing. In today's highly competitive retail market, customer satisfaction and customer retention become the crucial perspective in deciding the successfulness of a retail store which creates value to the customers as well as the retailers. It is critical for a retail store to take effort to improve customer satisfaction and customer retention which will help them to boost their sales revenue (Nikhashemi, 2014). Retail stores remain as the most common and basic shopping channel for customer and are surely above online shopping when it comes to customer experience. Having a retail store is a remarkable way to express a vision for your brand, offer an experience to your customers and reach modern markets (Shackleton, 2016).

Retail stores play an important role in high-level exposure of businesses and widespread distribution of products (Bhasin, 2019). Besides, the number of establishments of retail stores in Malaysia recorded 469,024 as compared to 370,725 establishments in earlier years with an annual growth of 4.8 per cent (Uzir, 2021). Thus, it had contributed to an increase in the number of employment opportunities and enhance new career prospect. According to the Pareto Rule, 80% of sales in retail market come from 20% of existing customers (Marshall, 2013). Retail store allow customers to see what they are buying up close and, as opposed to online stores; they provide instant satisfaction, because the customers walks away with their purchases immediately. Friendly and helpful retail employees also help to build customer loyalty, ensuring that customer will return again and again. Moreover, retail stores allow price negotiations between the customers and the retailers. Furthermore, retail stores will provide personal attention to customers and help them

in obtaining information about the preferred products and goods that they had planned to purchase (Eugine and Bulomine, 2016).

The most important issue among today's retailers is the need to understand how customer satisfaction and customer retention can be developed in sustaining competitive advantage against online shopping. Online shopping becomes one of most regular shopping vehicle for customers to purchase their goods due to rapid growth of technology. Thus, customer has to select between the experiences of retail shopping against the emerging new channel such as online shopping (Rajesh, 2017). However, online customers tend to face many problems and difficulties when it comes to customer experience compared to a retail customer. This had caused both marketing academicians and practitioners to look into various factors affecting customer satisfaction and retention in retail store. It is understandable that there is still a lack of study to explain how customer satisfaction and retention can be develop by retailers in sustaining competitive advantage against online shopping.

Moreover, researches should target customers from different and wider demographic and geographic areas in order to provide more representative findings (Liyana, 2015). It must also be noted that, not many retail based studies have been conducted on university students. Studies on university students are important because university students represent an important segment of shoppers among the Malaysian customer segments (Muniady et al., 2014). Besides, university students' expenditure has been identified as one major part of the overall customer spending in Malaysia (Shahryar and Teck, 2014). Very few researches have been carried out to better understand this group of customers (Muniady et al., 2014). Understanding this group, especially their shopping behaviour, is important for retailers to develop strategies to target them.

Based on the discussion above, this research highlights the needs of retail store and its contribution towards economic growth. As many past literatures and studies had highlighted the importance of this factors in determining customer satisfaction and retention in retail store, factors such as promotional mix, service quality, psychological factor and product quality are taken into consideration in order to study their effect on customer satisfaction and retention in retail store. This research will help and guide retail stores to be more competitive against online shopping and attract more potential customers. Furthermore, this research will assist retail stores to increase their customer lifetime value and customer retention by understanding the needs and demand of their customers.

1.4 Significant of research

Business success in today's competitive market requires a great understanding and respect of the customers. Economically balanced and firm countries such as United States, China and Japan are those countries well known for their retailing businesses. United States is recognized as one of the most successful nation in retailing which had attracted numerous investors to invest wisely in the sector. Nowadays, effective business strategy and appropriate business approaches is the key in order to sustain in the market. Thus, it is important for the retailers to gain competitive advantage against online shopping and increase their innovation while fulfilling their customer's needs and demands. This can guide retailers to attract more customers and retain the existing customers.

The first objective of this research is to identify the factors affecting customer satisfaction and retention in retail store. Amit and Deepika (2016) research explains the relationship between the choices of retail formats in India with marketing strategies, store's features and demographic of customers. Their research argued about the criteria such as

talented employees, effective security, parking conveniences and its effect on customers who prefer traditional retail store as their preferred shopping channel. Their research findings concluded that retail customers pointed out shopping malls and speciality stores as their main shopping channels in order to purchase their preferred products such as attires and grocery items. Moreover, the research outcome also had stressed that customers really enjoyed the experience they had obtained in the retail store shopping environment.

This research will provide a quality insight to the future researchers on how factors such as promotional mix, service quality, psychological factor and product quality affect customer satisfaction and retention in retail store. Healthy competition among local and international retail stores will help retailers to provide best products and services to the customers. These enhance retailers to satisfy their customers according to their preference and increase store patronage intention among them. Thus, it is safe to conclude that retail stores can provide better shopping environment to the customers compared to the online shopping dilemma.

Further, this research aims to provide an understanding on its contribution towards various parties such as retail stores and Malaysia's economy.

- Retail store

This research will guide and support the retailers to form successful marketing plans and strategies which can contribute towards their business developments. The development, growth and sustainability of retail store tend to create more employment opportunities and enhance new career prospect. Also, this research can assist retailers to be more competitive by expending their business markets while fulfilling their customer's needs. Moreover, findings of this research will give retailers abundant knowledge and tools in order for them to sustain in this competitive market. Besides, understanding customers buying behaviour is

important for the retailers because it helps them to predict customer's acceptance level of their store as well as the demands of the customers. Thus, level of customer's satisfaction and retention will significantly increases towards the retail store. Furthermore, it is important for retailers to identify the factors that affect customer satisfaction and retention in retail store as it will guide them to meet their business goals.

This research outcome can support retailers to access their weakness in term of customer service and the production planning. This research will give retailers the opportunities to motivate their customers by understanding the basic requirements of a retail environment. Next, this research will indicate how customer's purchasing intention determines their choice of shopping channel. Thus, retailers can provide the best value to their customers in order for them to select retail store as their premier shopping channel. Moreover, findings of this study can improve retailer's understanding of consumer behaviour of Malaysian university students. Understanding this group, especially their shopping behaviour, is important for retailers to develop strategies to target them.

In short, this research will provide an insight on how customers' cultural background influences their choice or preference of the type of stores and their shopping intention. It is important for retailers to learn and understand how customers' background can affect their purchasing behaviour.

- Malaysia economy

The success of retail stores today, helps to strengthen and empower Malaysia's economy. It also enhances Malaysia's economy to be more competitive against developing ASEAN countries such as Singapore, Thailand and Vietnam. Strong Malaysia's economy encourages existing retailers to be more productive and opens the door for new retailers to venture into the industry. Thus, it creates more job opportunities which can significantly