Chapter 25
Understanding the Antecedents of Customer Loyalty by Applying Structural Equation Modeling

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ABSTRACT

The objective of this chapter is to form a model of customer loyalty for supermarkets in the Turkish retailing sector, which investigates the extent to which customer loyalty is influenced by customer perceptions of service quality, customer perceptions of product quality, comparative price perceptions, discount perceptions, value perceptions, and customer satisfaction. Structural equation modeling has been used to analyze the data collected from 1530 customers of four major supermarket chains in Turkey. After building a measurement model for customer loyalty and its potential antecedents, the relationships are examined. The direct effects of customer satisfaction, comparative price perceptions, and discount perceptions on customer loyalty; value perceptions, comparative price perceptions, and service quality perceptions on customer satisfaction; comparative price perceptions, discount perceptions, product quality perceptions, and service quality perceptions on value perceptions; and discount perceptions and service quality perceptions on product quality perceptions are empirically supported.

INTRODUCTION

The retailing sector in Turkey is witnessing an intensive competition. More than 145 supermarket chains having more than 10 stores are in permanent competition in Turkish retailing sector. The growth of market, which over 12089 stores existed in 2012, increased dramatically so that over 5000 stores entered into Turkish market in the period of 2012-2014. With this increasing competition in the sector, customer preferences for retailing practices are also increasing and changing fast. So, customer loyalty becomes a central focus for retailers to maintain market shares.

Understanding customer needs and the process making them loyal customers can provide subjective performance measures for retailers. These performance criteria such as information and knowledge ownership, efficient use of technology, customer portfolio, customer satisfaction, product/service quality, customer loyalty, assistance to community and environment which are more sophisticated, less concreted, and more difficult to measure, have taken the place of the traditional profitability criterion for retailers (Şimşek & Noyan, 2009). These performance criteria especially customer loyalty have become more important concepts in positioning problem in marketing. Initially, customer loyalty provides necessary and vital information to retailers about their own status in the market to plan the future and to take action for the deficiencies. In this respect, customer loyalty refers to retailer's self-recognition.

The conventional definition of customer loyalty is customer's intention to repurchase a particular product or services in the future repeatedly (Jones & Sasser, 1995). Customer loyalty can also be described incorporating its behavioral and attitudinal dimensions, which is a reciprocal action or coaction between customers' relative attitudes towards a store or brand alongside their repurchase behaviors towards that brand or store (Dick & Basu, 1994). The more comprehensive characteristics of customer loyalty have been described as usually choosing the same store, frequent repurchase intention, a high impact of a positive word of mouth, and willingness or voluntariness to pay higher prices (Topçu & Uzundumlu, 2009).

According to Rhee and Bell (2002), store health largely depends on customer loyalty. Customer loyalty can be described as long-term or short-term loyalty. Long-term loyal customers not easily change their store and product choice while short-term loyal customers do not sustain when they find a better opportunity (Chang & Tu, 2005).

Customer loyalty provides a desirable atmosphere for firms because it makes flow of profit steady, reduces marketing costs, raises referrals, and promotes price premiums. Loyal customers are not easily convinced by the promotional efforts of competitors (Reichheld, 1996, Sirohi et al., 1998; Reinartz & Kumar, 1999; Yi & Jeon, 2003). The most attractive property is that loyal customers generate a stable portfolio for the products or services of a retailer. As stated by Wallace et al. (2004), a small shift in customer retention rates can make a large difference in earnings, and this influence accelerates over time. Virtually, the cost of getting new customers are larger than the cost of keeping existing customers; the difference between the costs shows that improvement in existing customer loyalty is critical (Wright & Sparks,1999; Yi & La, 2004).

Increasing number of the both large-scale supermarkets chains and the stores belonging to them in the Turkish retailing sector, entails to emit their claims about providing better service and more economical products to customers by using their scale advantage (Okumuş & Temizler, 2006). Dramatic increase in the number of supermarkets has created an important competitive environment in terms of price advantage, product and service quality. In order to attract customers to their own supermarkets, managers have conducted marketing campaigns and expect that these campaigns really help in attracting customers to their own supermarkets. Retailers want to know and understand the extent to which customer loyalty is improved by their efforts.

In this study, customer loyalty is measured using parameters such as customers' willingness and intention to purchase in future, recommendation to others, and their choice behavior. The main propose of this research is to determine the antecedents that affect supermarket customers loyalty and to test the relationship among these. Based on the previous research on supermarket

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