

The Impact of Pricing and Service Quality toward Customer Loyalty

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SUPERVISOR'S APPROVAL

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DECLARATION OF ORIGINAL WORK

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DEDICATION

I would like to express deepest thanks to my dearest family members who give me encouragement that helped me in completion of this research paper. Thank you for giving me the opportunity and new experiences in my life to complete this meaningful research. My sincere appreciation also goes to my friends who willing to help me out whenever I was need in this research paper

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ABSTRACT

Nowadays, the market is getting competitive in all aspects of survival of the company. Companies especially in the service industry realize that in order to win the market, they need to explore new ways of approaching customers. Before making repeat purchase, customer will recall previous service quality and charging price experiences. Therefore, developing a research about the impact of pricing and service quality toward customer loyalty is important to service firms. By knowing the factor that influences customer loyalty, it definitely will enhance the sales of a business. In this research, will find out the significant factor that influence customer loyalty within fast-food service industry in Melaka. A survey was conducted to collect the perceptions toward customer loyalty. The researcher had distributed 150 questionnaires to respondents that consist of different gender, age, employment status and household income. Based on the correlation analysis, it shown that between service quality and price, service quality is the most influencing factor that will affect customer loyalty. However, it does not mean that the price is not important, but, service quality gives slightly higher influence that will lead to customer loyalty. The findings would act as a reference for food service firms to develop suitable plans that can satisfy and retain loyal customers.

ABSTRAK

Pada masa kini, pasaran semakin berdaya saing dalam semua aspek kewujudan syarikat. Bagi memenangi pasaran, syarikat perkhidmatan sedar bahawa mereka perlu meneroka cara-cara baru untuk mendekati pelanggan. Sebelum membuat pembelian ulangan, pembeli akan imbas kembali harga dan kualiti perkhidmatan sebelumnya. Oleh itu, membangunkan penyelidikan mengenai kesan harga dan kualiti ke arah kesetiaan pelanggan adalah penting kepada syarikat perkhidmatan. Dengan mengetahui faktor yang mempengaruhi kesetiaan pelanggan, ia pasti akan meningkatkan jualan perniagaan. Dalam kajian ini, akan mengkaji faktor-faktor penting yang mempengaruhi kesetiaan pelanggan dalam industri perkhidmatan makanan segera di Melaka. Soal selidik telah dijalankan untuk mengumpul persepsi terhadap kesetiaan pelanggan. Penyelidik telah mengedarkan soal selidik kepada 150 responden yang berlainan jantina, umur, status pekerjaan dan pendapatan. Berdasarkan analisis korelasi, ia menunjukkan bahawa antara kualiti perkhidmatan dan harga, kualiti perkhidmatan adalah faktor yang lebih penting untuk mempengaruhi kesetiaan pelanggan. Walau bagaimanapun, ia tidak bermakna bahawa harga tidak penting, tetapi, kualiti perkhidmatan memberikan pengaruh yang lebih tinggi kepada kesetiaan pelanggan. Hasil kajian ini boleh dijadikan sebagai rujukan bagi sektor permakanan untuk membangunkan pelan sesuai yang dapat memenuhi dan mengekalkan pelanggan yang setia.

TABLE OF CONTENT

CHAPTER	CONTENT	PAGES
	DECLARATION OF ORIGINAL WORK	ii
	DEDICATION	iii
	ACKNOWLEDGEMENT	iv
	ABSTRACT	v
	ABSTRAK	vi
	TABLE OF CONTENT	vii
	LIST OF TABLE	xi
	LIST OF FIGURES	xiii
	LIST OF ABBREVIATION	xiv
	LIST OF APPENDIX	xv
CHAPTER 1	INTRODUCTION	
	1.1 Background of Study	1
	1.2 Problem Statement	2
	1.3 Research Questions	2
	1.4 Research Objectives	3
	1.5 Scope of Study	3
	1.6 Significant of Study	3
	1.7 Summary	4
CHAPTER 2	LITERATURE REVIEW	
	2.1 Introduction	5

2.2 Customer Loyalty	6
2.2.1 Benefits of Customer Loyalty	6
2.2.2 Trust as Driver of Loyalty	7
2.2.3 Factors That Influence Customer Loyalty	7
2.3 Price	7
2.3.1 Price Fairness	8
2.3.2 Price Acceptance	9
2.3.3 Relationship Between Price and Customer Loyalty	9
2.4 Service Quality	9
2.4.1 Dimensions of Service Quality	10
2.4.1.1 Tangibles	11
2.4.1.2 Reliability	11
2.4.1.3 Responsiveness	12
2.4.1.4 Assurance	12
2.4.1.5 Empathy	12
2.4.2 Relationship Between Service Quality and Customer Loyalty	13
2.5 Theoretical Framework	13
2.6 Hypothesis	14
2.7 Summary	14
CHAPTER 3 RESEARCH METHODOLOGY	
3.1 Introduction	15
3.2 Research Design	16
3.3 Methodological Choice	16
3.3.1 Quantitative Research	17
3.4 Primary and Secondary Data Sources	17
3.5 Research Location	18
3.6 Scope and Sample	18

3.7 Time Horizon	18
3.8 Research Strategy	19
3.8.1 Pilot Test	19
3.9 Sampling Technique	19
3.10 Questionnaire Design	20
3.11 Analytic Tool	21
3.12 Reliability	21
3.12.1 Internal Consistency	21
3.13 Validity	22
3.13.1 Construct Validity	22
3.13.2 Internal Validity	22
3.13.3 External Validity	23
3.14 Data Analysis	23
3.14.1 Pearson Correlation Coefficient	23
3.14.2 Hypothesis Testing	24
3.15 Summary	24
CHAPTER 4 DATA FINDING AND ANALYSIS	
4.1 Introduction	25
4.2 Validity analysis	26
4.2.1 Pilot Test Result	26
4.3 Respondent Profile	27
4.3.1 Gender	28
4.3.2 Employment Status	29
4.3.3 Current Household Income	30
4.3.4 Frequency of Consume Fast Food	32
4.3.5 Average Expenditure for an Individual Fast Food	34
4.3.6 Acceptable Price for an Individual Fast Food	36
4.4 Reliability Analysis	38

4.5 Inferential Analysis	39
4.5.1 Pearson Correlation Analysis	39
4.5.2 Multiple Regression Analysis	41
4.5.2.1 Regression Analysis of Service Quality Dimensions	41
4.5.2.2 Regression Analysis of Pricing and Service Quality	43
4.6 Hypothesis Test	45
4.7 Summary	47

**CHAPTER 5 CONCLUSION AND
RECOMMENDATIONS**

5.1 Introduction	48
5.2 Discussion of Research Objectives	49
5.2.1 Research Objective 1	49
5.2.2 Research Objective 2	50
5.2.3 Research Objective 3	51
5.3 Implications of Study	51
5.4 Limitations of Study	52
5.5 Recommendations for Future Study	53
5.6 Summary	53
REFERENCES	55

LIST OF TABLES

TABLES	TITLE	PAGES
2.1	Dimensions of service quality	10
4.1	Statistical Analysis of Total Respondents	27
4.2	Respondent's Gender	28
4.3	Respondent's Employment Status	29
4.4	Respondent's Current Household Income	30
4.5	Frequency of Consume Fast Food	32
4.6	Respondent's Average Expenditure for an Individual Fast Food	34
4.7	Respondent's Acceptable Price for an Individual Fast Food	36
4.8	Guideline for Cronbach's Alpha	38
4.9	Reliability Result	38
4.10	Rules of thumb about Correlation Coefficient	40
4.11	Correlation	40
4.12	Regression Analysis of Service Quality Dimensions	41
4.13	Multiple Regression Analysis	43
4.14	ANOVA table	43
4.15	Regression Analysis on Coefficients	44
4.16	Regression Analysis on the Multi Regression Equation	45
4.17	Guideline for Interpreting Hypothesis Test	45

4.18	Hypothesis Test done through Regression Analysis on Coefficients	46
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LIST OF FIGURES

FIGURES	TITLE	PAGES
2.1	Theoretical Framework for Customer Loyalty	13
3.1	Likert Scale	20
4.1	Respondent's Gender	28
4.2	Respondent's Employment Status	29
4.3	Respondent's Current Household Income	30
4.4	Frequency of Consume Fast Food	32
4.5	Respondent's Average Expenditure for an Individual Fast Food	34
4.6	Respondent's Acceptable Price for an Individual Fast Food	36

LIST OF ABBREVIATIONS

UTeM	University Teknikal Malaysia Melaka
WOM	Word-Of-Mouth
RATER	Reliability, Assurance, Tangibles, Empathy, Responsiveness
SPSS	Statistical Package for Social Science
ANOVA	Analysis of Variance

LIST OF APPENDIX

APPENDICES	TITLE	PAGES
A	Questionnaires	62
B	Gantt Chart PSM 1	68
C	Gantt Chart PSM 2	68

CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

Due to the growth of service industry, the competitions among the service firms become very competitive whereby customer loyalty that significant in the creation of competitive advantage in the service industry has made industry practitioners pay increasing attention to customer loyalty (Ndubisi, 2007). Most of the service firms will endeavor to maintain customer loyalty because it not only increases the business values but also allow services firms to uphold a lower cost than those related to attract new customers (Khan, 2014).

Paul, Hennig-Thurau, Gremler, Gwinner, & Wiertz (2009) stated that understand the reasons for the repeated customers purchase from a service firm is an important issue that matters. According to Parasuraman & Grewal (2000); Zeithaml (1988) merchandise quality, prices and service quality play an important role in driving perceived worth which in turn leads to customer loyalty. However, this study focuses on two antecedents of customer loyalty in food-service industry which is price and service quality. These particular variables are selected because if customers estimated value to obtain services, they usually think of price and service quality.

1.2 PROBLEM STATEMENT

Some of the service firms had offered high quality of service to retain customers. However, Dlugosz (2010) and Wang (2011) point out that each customer is a unique personality who has his or her wish while being served where there are no identical customers who would express the same requirement for the quality of provided services. Some of the customers would prefer high quality of service whereas some are seeking low price service that affordable by them. Therefore, service firms should handle customer's perceptions of customer loyalty as well as understand preference service that expected by customers because service orientation that incompatible with the purpose and high service price is a result of the inferior quality of service (Rangkuti, 2009). In addition, Inamullah, (2012) also pointed that once a firm understands the mind of their customers they could make a durable profitable relationship with customers and can make them loyal. Thus, this research study was conducted to clearly define customer preferences and perceptions toward customer loyalty.

1.3 RESEARCH QUESTIONS

Main purpose of this research is to investigate the significant factor that will influence customer loyalty. Therefore, the researcher comes out following research questions to be defined in the research as below:

1. What are the factors that influence customer loyalty?
2. What are the most preferred services quality and pricing among customers?
3. Which variable has significant influence on customer loyalty?

1.4 RESEARCH OBJECTIVES

This research purpose is to test a theoretical framework to understand the key concept of customer loyalty. Customer perceptions toward customer loyalty are the main tools that will be focused on this research.

Therefore, the researcher comes out with several research objectives of this research as below:

1. To explore factors that influence customer loyalty
2. To identify the most preferred pricing and service quality among customers
3. To examine whether pricing or service quality has significant influence on customer loyalty

1.5 SCOPE OF STUDY

The scope of this project was to identify factors that influence customer loyalty. Food service industry will be chosen in this research study because service sector contributes to the largest share of economy in Melaka. The results of study will show the most preferred pricing and service quality among customers. The targeted respondent will focus on Melaka people who had consumed fast food.

1.6 SIGNIFICANT OF STUDY

According to Rowley (2005), customers are the core assets for companies whereas they can obtain added value from customers only if they pay focus on customers. By

understanding perception of customer loyalty, it helps service firms understand and get closer to their customers. Thus, they could only promote their service by implement appropriate strategies as well as achieve business goals and survive in this ever-changing market nowadays.

1.7 SUMMARY

This chapter of this research begins with a brief introduction and background of the research topic. The main contents in this chapter were the research objective and research questions. Besides, this chapter also explained about the limitations that were faced while conducting this research. This chapter will end with the importance of the research which state out the contribution of this research towards the service firms.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

As in the chapter 1, the overall of customer loyalty is briefly discussed. In this chapter, factors that influence customer loyalty will be explained in more details. In this research, the theories use the guidelines from journals, reference books, thesis and other published material as reference to support and strengthen meaning of theoretical framework. To further understand the relationship of service quality and pricing on customer loyalty, each dimension of the factor was more likely to be discussed in this chapter. This chapter explains about the theoretical framework. These theoretical frameworks are formed in term of the knowledge collected from the secondary data such as book and journal about the customer loyalty.

2.2 CUSTOMER LOYALTY

Customer loyalty is the result of a firm that creates benefits for customers so they will maintain or increase their purchases from the firm (Anderson and Jacobsen, 2000). Customer loyalty can be achieved by focusing efforts on what the customers' needs and wants such as provide them with satisfying customers experience and as many reasons as possible to loyal to the product or services. In addition, customer loyalty is deemed to be one important component for enduring business success (Donnelly, 2009; Kumar, Batista & Roger, 2011; Roberts, 2009; Srinivasan, Anderson, & Ponnaveolu, 2002) because loyal customers can give favorable benefit to a service firm in term of reputation and profitability. In other word, the more loyal customers a service firm has the more success and profitability for the business.

2.2.1 BENEFITS OF CUSTOMER LOYALTY

When a customer become loyalty, they make more frequent purchase and provide several benefits to the service firm. Loyal customers are more likely to engage in positive word-of-mouth (WOM) behaviors and spend extra money in the operation of specialized service (Ladhari, Brun, & Morales, 2008; Tepeci, 1999; Yang & Peterson, 2004). In fact, loyal customers can help to save the marketing cost of the service firm because their endorsement is more powerful to their friends and family than any advertising campaign. Moreover, service firms require low cost to maintain loyal customers as (Kotler & Keller, 2006; Wills, 2009) had founded that firms spend more than five times as much to get new customers than to keep existing customers. In addition, loyal customers not only much less influenced by negative information about the products or services (Donio, Massari, & Passiante, 2006) but also considered to be an important factor for increasing profitability and maintaining the position of the firm (Haghighi, Dorosti, Rahnama, & Hoseinpour, 2012). Consequently, service firms that can retain loyal customers successfully will gain

competitive advantage over the competitor and also make it difficult for the competitors to enter a market or increase their share.

2.2.2 TRUST AS DRIVER OF LOYALTY

Trust is defined as the level of confidence in an exchange partners reliability and integrity and is demonstrated through relational qualities such as consistency, competency, honesty, and benevolence (Morgan & Hunt, 1994). Trust operates to reduce customer's uncertainty and vulnerability in highly intangible service contexts. (Kim, Vogt, & Knutson, 2015). Customer loyalty to the firm is consequently considered to be greater where the customer trusts the firm and believes the firm has the required capacity to respond to his or her needs (Delgado-Ballester & Munuera-Aleman, 2001; Hennig-Thurau et al., 2002).

2.2.3 FACTORS THAT INFLUENCE CUSTOMER LOYALTY

Customer loyalty can be retained through different approach whereas price and quality are two important factors of value that can lead to customer satisfaction and also customer retention (Malik, Yaqoob, & Aslam, 2012). Based on the assertion above, pricing and service quality are two of the factor that will consider influence customer loyalty.

2.3 PRICE

According to Kotler & Amstrong (2012) price is the amount of money charged for a product or service. In marketing literature price is shown as the most important factor,