IMPACT OF LOYALTY ON RETAIL SALE: AN EMPirical INVESTIGATION OF SERVICE OPERATIONS AND CUSTOMER BEHAVIOR AS MEDIATORS

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1. INTRODUCTION

From the past few decades the passive role of retailer has changed, as their role now is not like as it was few years back. Now situation is different, there is change of influence from producer to retailer, due to different added value given or introduced by retailer (Ramanathan & Ramanathan, 2013). Various big names like Lucky One in Karachi and Packages Mall and Emporium Mall in Lahore, Pakistan, in the field of retailer proved their management competencies like in sale and operational attributes in order to compete in the market. At the present time, retail stores have started offering sale discounts on mostly branded and non-branded things. Retail firms’ management capabilities help them to be competitive in market (Bititci et al., 2011). Moreover from the literature we can easily see that satisfaction plays an important role in retaining the customer and ultimately improve the sale of customer (Au, Ngai, & Cheng, 2002). As in the competitive market, loyalty and satisfaction of the customer is very hard to achieve through the customer services (Krishna & Dangayach, 2012). As loyal customer is always ready to purchase more and play a role of advocate for the firm, so basically losing the customer is more costly than creating the new one (Harris & Goode, 2004). Therefore, now the main concern is that in which ways the resources of retail network are used to have customer in their pockets. The efficiency in retail can be got through providing unique services to customer viz display of items and location of retail stores. Some customer wants to have best operational services provided by retailers while some have the priority to go to shopping areas whether the places have a long distance. Simultaneously western retailers placing an eye on developing countries wanted to find ways of investment in potential areas where growth is possible. The ways of spending of customer has changed in developing countries which has pushed the retailers to do the changes in the strategic priorities (Diallo & Cliquet, 2016). As old and traditional western markets have got their saturation point due to competition, emerging markets which have fewer tariffs rates, rising incomes are more attractive (Cao & Pederzoli, 2013). Therefore, in developing countries, Pakistan’s market is showing positive growth towards the retail sector. Retail business in Pakistan is contributing 18.5% in GDP (www.sbp.org.pk). When entering in the emerging market, international retailers don’t always get success due to local competitors having experience related to their local context (Diallo & Cliquet, 2016). For that reason, this study helps the retail managers in understanding the complexities of emerging markets having their own distinct culture and geographic needs like Pakistan. Moreover in the last years, there is great improvement in the promotion schemes given...
by the Pakistani retail stores, which can be observed by cross shopping behavior. We confirm the idea by using the survey data collected from retail sector located in Lahore, Pakistan. This paper helps in creating the managerial abilities by understanding the behavior of customer and understanding of retail network values. Application of this paper helps in generating the abilities of managers by understanding the role of customer behavior through the loyalty schemes and service operation attributes in the retail sector. The rest of the paper is organized into literature review and hypotheses development, methodology, analysis, discussion and conclusion.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

At present time customer is of leading importance, especially in the field of retail network. Different sales offer with good discount can highly attract the customer towards the retail sector and eventually create the potential loyal customers. In long term, customer loyalty affects the company’s profitability (Dewani, Sinha, & Mathur, 2016). At the same time different theories related with the capability suggested that firms capabilities make them perform better financial wise by outpace their competitors (Barney, 1991; Winter, 2000). Capability is the ability of entrenching the resources by organization in providing the output (Makadok, 2001; Teece, 2007).

2.1 Service Operations

Conceptual model in this study is based on the affect theory of social exchange (Lawler, 2001) that during a social joint exchange venture by different partners, gain of implicit and explicit benefits defines the sensitivity and nature of experience (Lawler, 2001). If either of the partner feels a non-beneficial exchange then bad emotions arises and as a result negative relation builds but when exchange is beneficial for both partners like for customer and retailer then relationship strengthens (Raggio & Folse, 2009). In the literature, customer satisfaction is totally dependent on the customer service (Krishna & Dangayach, 2012). As we can easily see that friendly workers helping customers to locate items and store workers greeting the customer by showing helpful attitude that definitely create the liking towards the store that create the loyalty. The studies vis (Baker, Grewal, & Parasuraman, 1994; Pugh, 2001; Tsai & Huang, 2002) have shown that affective purchase behavior of customer can be influenced by the combination of the measures of positive employee means like the availability and positive response towards the customer. There is lot of literature that surpassed about wide variety of traditional techniques of attracting customers e.g. television advertisement, magazine advertisement, pamphlets, and billboards which are still in action. But in view of changing scene the techniques have also been changed like advertisements on social media and information through reference groups. Introduction related to brand through new techniques plays pivotal role (Ramanathan, Subramanian, Yu, & Vijaygopal, 2017). Store location is also an important aspect as the elderly customer wants to visit that store having less distance from their houses and then there are customers, whose priority is to go to that retailer which is near to their office while coming back to homes. Some retailers prefer to have convenient display strategy of product which appeals to customer, similarly convenient way of payment of cash is also an edge, as some young families wants to pay through credit cards or debit cards. Service operations and convenience factors such as access, transaction and benefit play a considerable role in customers’ perceptions about the retail outlet (Belvedere, 2014 Nguyen, Dewitt, & Russell-Bennett, 2012). Based on this discussion, we posit our first main research hypothesis.

\[ H_1: \text{Service operations are positively related to customer behavior.} \]

2.2 Loyalty

There is a wide variety of models about customer loyalty in literature. Macintosh and Lockshin (1997) developed a model of multilevel relationship between customers and stores. They are of the view that to create relationship with a customer that can result in commitment and create trust level will ultimately increase shopping attitude towards retail outlet (Macintosh & Lockshin, 1997). Ramanathan et al. (2017) asserted that loyalty is also related with financial status and education level. For some customers, it is very tough to change their loyalty from one brand to another brand although promotional sale is given by many retailers. In early times customers had few retailer store options and limited number of brands therefore, purchase intention toward the same product was there. But now situation has changed number of brands are more, options of retail stores are more, offering sale discount are available that is creating competition. These types of competition prompt the customers to switch to another retailer which is offering better options (Ramanathan et al., 2017). Under the huge competition the retailers are introducing the different loyalty schemes / loyalty store cards. To understand the behavior of customers towards these types of activities conducted by different retailers, academic research is in progress. Due to internet, customer is saving time and price in search of the brands they want to purchase. As competition has increased, it is difficult to retain customer because different type of price discount scheme has entered by different retailers. The above statement is established with attachment theory that proposes that the physical and psychological satisfaction of customer is fulfilled by the brand value will ultimately increase the willingness of customer to get purchase-related objectives (Feeney & Noller, 1990). The willingness of
customer to buy the same brand is being influenced by the satisfaction gained through reduction of price, creates perception of additional utility without paying extra. This utility creates greater level of customer hope and decreased level of perceived risk (Hallowell, 1996), which produced a result of comfort with the same brand (Jones & George, 1998). Based on above discussion, the second hypothesis is:

\[ H2: \text{Loyalty has the positive impact on retail sale.} \]

2.3 Customer behavior

Service operations (e.g. display, location), customer satisfaction and the loyalty, created through different techniques say loyalty scheme, price dependency, etc. certainly affect the behavior of customers. As the equity theory suggested that exchange partners (customers and the retailer) creates the equal ratio between the input and the benefits of the relation (Walster, Berscheid, & Walster, 1976). If the customer is satisfied from the store then the customer wants to visit again, and this shows the customer loyalty towards that particular store. Impact of convenience features in customer behaviors is measured through their intention to visit again and recommend the shop and their favorite items to friends and relatives (Ramanathan & Ramanathan, 2013). Therefore it can be hypothesized as follows:

\[ H3: \text{Customer buying behavior is positively linked to retail sales} \]

\[ H4: \text{Service operations mediates the relationship between loyalty and customer behavior} \]

In this study the development of the hypotheses is based on the model given by Ramanathan et al. (2017). From hypothesis developed above and the model referred herein there are four variables under investigation namely loyalty (independent), service operations (mediator), customer behavior (mediator) and retail sale (dependent). It is not out of context to reiterate the definitions of variables before embarking on to operationalization of variables.

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Loyalty</td>
<td>Loyalty is a characteristic of that customer who shows willingness to engage with the company and continue to do business with it (Zineldin, 2006).</td>
</tr>
<tr>
<td>2</td>
<td>Service Operation</td>
<td>The system in which different ventures and process carryout to attain business success (Johnston, 2005).</td>
</tr>
<tr>
<td>3</td>
<td>Customer Behavior</td>
<td>Customer behavior is defined by the values of customer that has significant influence on the purchasing and repurchasing intentions and to have a close relation with the firm (Wang, Lo, Chi, &amp; Yang, 2004).</td>
</tr>
<tr>
<td>4</td>
<td>Retail Sale</td>
<td>Retail sale is defined as the sale or re-sale of real or tangible, new and used personal property through the physical format of ware house clubs and super centers (Hortaçsu &amp; Syverson, 2015).</td>
</tr>
</tbody>
</table>

Based on the data collected from the Pakistan retail sector, the model of relations as hypothesized has been tested in methodology section.

3. METHODOLOGY

The philosophy of this research is positivism and deduction approach is applied. It is a cross-sectional independent quantitative research. The behavior of customer towards purchasing has been analyzed by getting information through survey questionnaire. Data have been collected at the spot from the shoppers of leading stores located in Lahore, as it is metropolitan city of Pakistan. In order to collect the data non-probability technique (i.e. convenience sampling) has been used. To get the data from customer of retailers, 380 questionnaires were distributed among shoppers and out of which 250 valid responses have been used for further analysis. As Krejcie and Morgan (1970) proposed that when the population size is greater than 20,000 than sample size must be 377. In the questionnaire, Likert scale 1 (strongly disagree) to 7 (strongly agree) has been used. All questions in questionnaire are adopted (Ramanathan et al., 2017). Mall intercept has been used as a method of data collection (Emporium mall and packages mall) through survey questionnaire. Survey data has been typed manually in Microsoft Excel. Structure Equation Modeling (SEM) has been employed as technique of data analysis. Adanco 2.0.1 has been used as a tool of applying SEM.

To do the analysis of measurement model one has to start from the validity and reliability test. For reliability and convergent validity one has to evaluate Dijkstra-Henseler’s rho ($\rho_A$), Average Variance Extracted (AVE) and factor loading values (Dijkstra & Henseler, 2015; Henseler, Hubona, & Ray, 2016). Construct scores are reliable if the $\rho_A$ value is greater than 0.707 (Sitgeareves, 1979). In the Table 1 given below, values of $\rho_A$ of service operations (0.7487), loyalty (0.8186), customer behavior (0.7525) and similarly retail sales (0.7618) are greater than 0.70 that proves our convergent validity. To measure the reliability of construct “Cronbach’s alpha ($\alpha$)” is used and “Composite Reliability” is used as a replacement (Bagozzi & Yi, 1988). Table 1 is showing all values of “Cronbach’s alpha ($\alpha$)”.

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The values of factor loading must be greater than 0.707 at 95 \% level of significance. Moreover the value of AVE is the accepted measure for the convergent validity of the proposed model and its’ value should be greater than 0.5 (Fornell & Larcker, 1981). AVE value of customer behavior (0.6683) and retail sale (0.8071) is more than 0.5 so convergent validity holds. The factor loading values of indicators are ranging from 0.7 to 0.9 that shows they are reliable.

Constructs are different theoretically; this is being checked by the discriminant validity test. For that reason constructs should be different statistically. In the HTMT ratio of correlation criteria, discriminant validity of factors hold if the factor value is greater or lower than 0.850 but it should not be 1 (Dijkstra & Henseler, 2015). We can see in the Table 3, the value between loyalty and retail sale is less than 0.850, similarly the value of HTMT between customer behavior and retail sale is also greater than 0.850 not 1 shows that discriminant validity holds.

<table>
<thead>
<tr>
<th>Table1. Reliability of Construct</th>
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<tbody>
<tr>
<td>Construct</td>
</tr>
<tr>
<td>Service Operations</td>
</tr>
<tr>
<td>Loyalty</td>
</tr>
<tr>
<td>Customer Behavior</td>
</tr>
<tr>
<td>Retail Sales</td>
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</tbody>
</table>

In the latest studies, researchers check the discriminant validity of the constructs through Fornell-Larcker criterion (Fornell & Larcker, 1981), the HTMT ratio (Dijkstra & Henseler, 2015) and cross-loadings evaluation. In the Fornell-Larcker criterion the one factor must have relation with the others factors lower than square root of AVE (Fornell & Larcker, 1981). In other words the latent construct must shows better variance with its’ own indicator rather
than with other construct. In Table 4 the value of service operation with its’ own construct is having more value (0.4943) than with the other construct such as with loyalty (0.2569), customer behavior (0.3396) and retail sales (0.2354).

**Table 4. The Fornell-Larcker Criterion**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Service Operation</th>
<th>Loyalty</th>
<th>Customer Behavior</th>
<th>Retail Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Operation</td>
<td>0.4943</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loyalty</td>
<td>0.2569</td>
<td>0.4321</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Behavior</td>
<td>0.3396</td>
<td>0.1548</td>
<td>0.6683</td>
<td></td>
</tr>
<tr>
<td>Retail Sales</td>
<td>0.2354</td>
<td>0.1604</td>
<td>0.3369</td>
<td>0.8071</td>
</tr>
</tbody>
</table>

Above analyses confirmed the reliability and validity (convergent and discriminant) of the constructs. The coefficient of determination ($R^2$) of customer behavior is 34% that means service operation shows variance of 34 % towards the customer behavior. Customer behavior and retail sale together, they show variance of 37.2 %.

**Table 5. Coefficient of Determination $R^2$**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Coefficient of determination ($R^2$)</th>
<th>Adjusted $R^2$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Operation</td>
<td>0.2569</td>
<td>0.2533</td>
</tr>
<tr>
<td>Customer Behavior</td>
<td>0.3396</td>
<td>0.3363</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>0.3720</td>
<td>0.3658</td>
</tr>
</tbody>
</table>

**Table 6. Hypotheses Analysis**

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Suggested</th>
<th>Path Coefficient</th>
<th>T-Statistics</th>
<th>Significant @ 10% level</th>
<th>Confirmed</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Service operations are positively related to customer behavior</td>
<td>+</td>
<td>0.583</td>
<td>12.1859</td>
<td>Yes(P&lt;0.01)</td>
<td>Supported</td>
</tr>
<tr>
<td>H2 Loyalty have the positive impact on the retail sale</td>
<td>+</td>
<td>0.204</td>
<td>2.3157</td>
<td>Yes(P&lt;0.01)</td>
<td>Supported</td>
</tr>
<tr>
<td>H3 Customer buying behavior is positively linked to retail sales</td>
<td>+</td>
<td>0.500</td>
<td>4.7088</td>
<td>Yes(P&lt;0.01)</td>
<td>Supported</td>
</tr>
<tr>
<td>H4 Service operations mediates the relationship between loyalty and customer behavior</td>
<td>+</td>
<td>0.507</td>
<td>8.6902</td>
<td>Yes(P&lt;0.01)</td>
<td>Supported</td>
</tr>
</tbody>
</table>

As model shows that service operation attributes (0.583) has strong effect on the customer behavior so it is significant, similarly customer buying behavior (0.500) has strong effect on the retail sale. The relation of loyalty with retail sale is significant as path coefficient is more than 0.1.
4. DISCUSSION AND CONCLUSION

As competition in the retail market is getting harder and harder so research on customer attitude towards the store loyalty is important to study in context of the economy of Pakistan. Aim of the study was to investigate that how the value added capabilities in Pakistani retail stores can affect the attitude of customer by implementing the service operations skills. Retail customers are more loyal to stores and brands as long as they have convenience during shopping. This study shows that simple store loyalty will not attract the buyers. This research finding is in line with the findings of Su & Geunes (2012). Buyers influenced by loyalty schemes may tend to change their loyalty if they do not find the store as convenient for the shopping. In methodology section, it can be seen that the loyalty has shown less significance with retail sales. This proves that the hypothesis which shows relation of services operation with customer behavior is significant as mediator. While doing the managerial decision about the firm performance in increasing the retail sale, this paper will provide the solid base. The findings of the study also show that in Pakistani retail sector, customers’ main preference is the convenience. Loyalty cannot directly increase the retail sale but giving satisfaction through operation services can improve the retail sale in Pakistan. The main driver of retail sale is service operations and customer behavior and it affects the retail sale finally. One of the limitations of this study is that it has been conducted only in Lahore city therefore, suggested to conduct similar studies in different contexts to have further insights. Secondly, it is a cross sectional study hence, recommended to conduct longitudinal studies in future. In future data must be collected from retailers as well to have better perspective of retail sale. Thirdly, as technology has entered in our lives so, with e-commerce point of view, its’ impact is changing the consumer behavior. Therefore, in future, one can collect the data from online shoppers as well to get better insight. When entering in Pakistani retail sector; strategies should be made in such a way that operation services should be the center of focus while dealing with the customer behavior.

REFERENCES


Fornell, C., Larker, & D. (1981). Evaluating Structural Equation Models with unobservable variables and measurement error. (pp. 39-50).


Appendix 1

MEASURES

Survey responses to loyalty, service operations, customer behavior and retail sales measures are based on a 7-point Likert-type scale (1 = strongly disagree, 7 = strongly agree). The measurement scales used in the study are given below:

Loyalty
SL1 – Generally low price for all items
SL2 – I can save money by shopping in this store
SL3 – I get my favorite items cheaper in this store
BL1 – I always buy my favorite brand
BL2 – I prefer buying any item if there is promotion
SL1 – I buy only favorite brands even the price is high
SL2 – I buy favorite brands even the promotion price is high

Service Operations
CS1 – It is easy to return the products
CS4 – I get good customer support to choose items
INT1 – My friend/relative/media introduced this shop to me
disp2 – I can see a clear display of price of items
disp3 – Shopping in this store helps to improve my lifestyle

Customer Behavior
CB1 – I will visit again the shop again
CB2 – I will recommend this shop to my friends (social media)
CB3 – I will recommend my favorite item (social media) to my friends

Retail Sales
RS1 – I bought all items I wanted from this store today
RS2 – I am happy with today’s purchase of products