

# THE IMPACT OF RELATIONSHIP MARKETING STRATEGY IN INDONESIA RETAIL INDUSTRIES

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## ABSTRACT

This research aimed to examine the impact of relationship marketing strategy on customer loyalty in Indonesia's retail industries. A questionnaire derived from previous studies and the relevant literature was completed by 182 retail customers in Jakarta. Multiple regression analysis assessed the impact on customer loyalty of four key constructs of relationship marketing (trust, commitment, communication, and conflict handling). The two variables (trust and commitment) had a significant effect and predicted a good proportion of the variance in customer loyalty. Moreover, they were significantly related to one another. The relationships investigated in this study deserved further research. Since the data analyzed were collected from one sector of the service industry in one region, more studies were required before general conclusions can be drawn. It is reasonable to conclude, on this evidence, that customer loyalty can be created, reinforced, and retained by marketing plans aimed at building trust, demonstrating a commitment to service, communicating with customers in a timely, reliable and proactive fashion, and handling conflict efficiently, reinforces and refines the body of knowledge relating to customer loyalty in service industries.

**Keywords:** marketing strategy, customer loyalty, retail industries

## INTRODUCTION

Indonesian retail market growth in 2014 reached 10%, the data obtained through the Indonesian Retailers Association (APRINDO) estimates the value of modern retail sales in 2014 reached Rp162.8 trillion. This data shows that the retail market in Indonesia is very prospective. The highest demand occurs in the product categories of fast moving consumer goods, especially foods and beverages with a contribution of 60%. Also, some of the driving factors that cause it are rising income levels, increasing population, growing the middle-class income society, urbanization, optimize the level of consumer and commercial property growth. According to AC Nielsen research cited by Marketing.co.id (2013), 48% of the total expenditure FMG comes from middle-class income communities, where nationally the proportion of middle-class society continues to increase the proportion of income

by 56,5% in 2010 to 68,4% in 2015.

The high growth of modern retail provides an indication that the retail market is in demand by the people of Indonesia. People prefer to shop in modern retail for the cleanliness, comfort and family recreation. The companies engaged in the modern retail industry continue to grow to meet customer demand. Thus, more and more companies will impact the high level of competition in the modern retail business.

The company's ability to respond to the high demand in the retail market can be seen from the ability to perform relationship marketing strategy so that it resulting in customer loyalty to the retail market services. It is important to empirically examine the actual impact of the underpinnings of relationship marketing of customer loyalty. Such understanding will assist in better management of firm-customer relationship and in achieving a higher level of loyalty among customers. The research study reported the

impact of four underpinnings of relationship marketing – trust, commitment, communication, and conflict handling – on customer loyalty in Indonesia. However, Ndubisi (2005) has cautioned that relationship marketing means different things to different cultures and marketers should be as wary of prescribing universal solutions for exchange bases as they are of developing universal product and promotion for all markets.

Karadeniz (2010) stated that the analysis is now unavoidable for the company to create customer satisfaction and build loyalty. The economic crisis and the decline in the potential purchase of the company were the main reasons for developing new marketing strategies. In this context, the importance of the role of marketing relationships is to be prepared for future strategies. Similarly, due to rapid technological developments such, companies need to study the behavior of customers in the shop, so that in the future the need to make the application of information technology that can establish customer loyalty.

Research related to relationship marketing and loyalty is interesting to do because of the high growth of the modern market industry so that they are competing to get the number of loyal customers. High competition in modern markets requires each company to build a relational marketing strategy to get loyal customers. This study takes the research framework that has been done by Ndubisi (2005). Relational marketing research is measured using four variables which include trust, commitment, communication and conflict handling, while the loyalty variable was measured using two indicators: (1) considering the store as the first choice among other stores in the area; and (2) the first store that comes to my mind when making a decision on store purchases services.

All the reasons given, this study will examine the effect of relationship marketing on customer loyalty in the retail industry in Indonesia. The study will take samples in the Jakarta area that represents the profile of Indonesian society. This research is expected to contribute to the modern retail industry about important factors to be done in building customer loyalty so that it can be used as the basis for decision-making in the company's marketing strategy.

The philosophy of relational marketing by Karadeniz (2010) is an approach taken by companies to determine the behavior of customers about what they think of the company did. The purpose of this approach is expected that the company has good relations with customers and understanding what customers think.

In the competitive marketing strategies presented by Kanagal (2009) disclosed that relationship marketing is one key to success in growing the business performance. Relationship marketing is defined as the identification, establishment, maintenance, enlargement, modification and termination by the customer to create value for customers and profits for companies that have a close relationship between them.

Sharma (2007) revealed that the concept of relationship marketing experience in the development of the company towards the end of the 1980s and early 1990s. Some companies have been doing marketing research that highlights the importance of developing customer relationships for efficient marketing. In this era, Center for Relationship Marketing was established at Emory University that brought the issue of relationship management into the mainstream.

Ndubisi and Chan (2005) revealed that the marketing literature has theorized key virtues that underpin relationship marketing, such as trust, commitment, conflict handling, and communication or sharing of secrets. These have been linked in this study to customer loyalty. Ndubisi (2005) has suggested that companies should make sacrifices and worthwhile investments in building relationships with loyal, or at least potentially loyal, customers. It is argued here that the four identified underpinnings of relationship marketing are directly linked to and are capable of predicting customer loyalty.

Some of the marketing literature that became the link between relationship marketing with loyalty customers as submitted by the Ndubisi (2005) which address the variables of trust, commitment, conflict handling, and customer communication.

Trust, defined by Ndubisi and Chan (2005), is a customer's willingness to rely on the belief that the company owns. A betrayal of the trust of the company for services received will affect the defection. Ndubisi (2005) defined confidence as a reliable promise statement. Other literature defined beliefs about opportunistic behavior, shared values, each goal, the uncertainty, and a positive action to keep the promise.

Sherrell (2007) revealed that the concept of relationship marketing has been popular since the 1990s because consumers have an important concern for the company in defining marketing strategies and competition. The Company continues to increase attention to the good relations with customers and increase the value of the products and services received by customers. Companies can promote good relations to customers will be higher competitive advantage in the competition.

Ndubisi and Chan (2005) found a significant relationship between conflict handling and customer loyalty, indirectly through the trust and perceived relationship quality. The ability of the product or service provider to handle conflict well will also directly influence customer loyalty.

Similar research in the service industry have been carried out by Ndubisi (2005), the study examines the effect of relationship marketing on customer loyalty in the banking services industry in Malaysia, said that a loyal customer who will pay homage to the trust, commitment, communication, and low conflict. The study also provides information on socio-demographic factors that women are more faithful than the men, customers who have a high level of income tend to have a high attention to service companies. Thus, the research proposition is that there

is a significant positive relationship between customer loyalty and trust, commitment, communication and conflict handling.

## METHODS

The following figure shows a schema relating the four researches constructs to the dependent variable, customer loyalty. Four key constructs of relationship marketing (trust, commitment, communication and conflict handling). The method of analysis uses multiple regression analysis. This method that is carried out to obtain the variables of relationship marketing is the dominant influence on Customer loyalty.

Data was collected through a field survey of retail industries customers in Jakarta. All 30 stores in the city were invited to participate in the survey. The sampling frame thus consisted of the customers of the volunteer stores only. Systematic quasi-random sampling selected every second customer to enter the store on each day of the survey, starting with the first to come through the doors at the start of business, at 7.00 am. This sampling method was chosen because it permits analysis of possible selection bias or error Ndubisi (2005). In the questionnaire completed by customers, items to measure the construct dimensions were adapted from previous studies of Ndubisi (2005) for the dimension of trust, communication, commitment, conflict handling, and loyalty.

In establishing indicators and dimensions of items used references from research studies conducted by Ndubisi (2005). There are a total of 18 items in the five dimensions. Within trust, there are five indicators that can explain the variable of trust, namely: (1) The store is very concerned with security for my transactions; (2) The store's promises are reliable; (3) The store is consistent in providing quality service; (4) Employees of the store show respect to customers; and (5) I have confidence in the store's services.

Next, in commitment, there are four indicators that can explain the variable commitment, namely: (1) The store makes adjustments to suit my needs; (2) The store offers personalized services to meet customer need; (3) The store is flexible when its services are changed; and (4) The store is flexible in serving my needs.

On the other hand, in communication, there are four indicators that can explain the variable communication, namely (1) The store provides timely and trustworthy information; (2) The store provides information when there is new banking service; (3) The store makes and fulfills promises; and (4) information provided by the store is always accurate.

Within conflict handling, there are three indicators that can explain the variable conflict handling, namely: (1) The store tries to avoid potential conflict; (2) The store tries to solve manifest conflicts before they create problems; and (3) The store has the ability to discuss solutions openly when problems

arise.

In customer loyalty, there are two indicators that can explain the variable conflict handling, namely: (1) Considering the store as the first choice among other stores in the area; and (2) The store that first comes to my mind when making purchases decision on store services.

As presented by Ndubisi (2005) that the research framework consisting of four independent variables of relationship marketing is trust, commitment, communication, and conflict handling effect on loyalty. Research framework as presented in Figure 1 explains that customer loyalty in the modern market industry can be explained by four variables of relationship marketing.

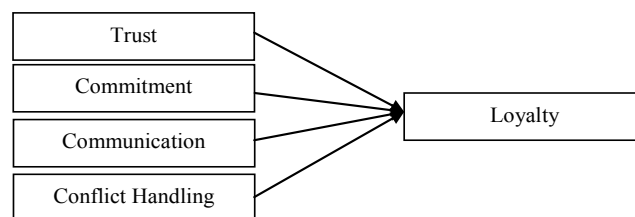


Figure The Research Framework

## RESULTS AND DISCUSSIONS

Result of this study is shown in Table 1, where before hypothesis test, and then tested the reliability of each variable to measure the level of reliability of each variable. Table1 showed the coefficient of Cronbach's Alpha. The tested five variables had a high level of reliability which is above 0,8, thus the five variables passed the reliability test.

Table 1 Descriptive Statistics and Reliability Estimates

Dimension	Mean	Standard Deviation	Cronbach's Alpha
Constant	4,12	0,23	0,88
Trust	4,06	0,62	0,82
Commitment	3,74	0,78	0,81
Communication	3,70	0,66	0,85
Conflict handling	3,88	0,54	0,84

Research results presented in Table 2 which indicates that the variable trust, communication, commitment, and conflict contributes significantly to customer loyalty ( $F = 21,12$ ;  $p = 0,000$ ). All four were significantly related to customer loyalty shown with a significance level of 5 percent. These results provide results that customers tend to be loyal Indonesian retail market if the company has the ability to be trusted, committed to service, reliable and efficient in communicating with customers; and able to handle conflict well. A positive sign in each variable indicates that the larger the company, the higher the level of customer loyalty.

Trust is a variable that has the greatest influence because it demonstrated the value of the largest beta

coefficient is 0,63, while the conflict handling is the variable with smallest degree of influence because it has the smallest beta coefficient is 0,15.

Table 2 Relationship between Relationship Marketing Underpinnings and Customer Loyalty

Variables	Beta coefficients	t-value (p-value)
Constant	1,751	2,796 (0,008)
Trust	0,63	5,673 (0,000)
Commitment	0,20	3,035(0,002)
Communication	0,15	2,223(0,008)
Conflict handling	0,14	1,320(0,010)

Notes: R Square= 0,825; F = 21,12; Sig F= 0,000

Trust is a major factor in the company as submitted by Ndubisi (2005) that the company can build trust with the customer will be realized customer loyalty. Thus, an important factor in establishing good relationships with the customer is the trust factor. Relationship marketing strategies that should be developed by the company in establishing customer loyalty should pivot to the trust factor. The greater the level of confidence of customers to the company, the greater the customer loyalty to the company.

Ndubisi (2005) used five indicators to measure trust, namely (1) The store is very concerned with security for my transactions; (2) The store's promises are reliable; (3) The store is consistent in providing quality service; (4) Employees of the store show respect to customers; and (5) I have confidence in the store's services. The fifth indicator may explain the variable trust on the customer loyalty modern market as evidenced by the p-value below 0,05.

For variable commitment, Ndubisi (2005) used four indicators which include (1) The store makes adjustments to suit my needs; (2) The store offers personalized services to meet customer need; (3) The store is flexible when its services are changed, and (4) The store is flexible in serving my needs. The fourth indicator may explain the effect of relationship marketing on customer loyalty. Variable commitment has a significant level big enough on customer loyalty with value p-value under 0,05.

Likewise with communication variables measured by four indicators: (1) The store Provides timely and trustworthy information; (2) The store Provides information when there is a new banking service; (3) The store makes and fulfills promises; and (4) Information provided by the store is always accurate. In the above table is shown that all four of these indicators can explain the relationship and the influence of communication variables on customer loyalty. Communication is one of the variables that are set to explain the relationship marketing on customer loyalty. The results of the study are shown in Table 2. It shows the value of the p-value is below 0,05, which provides information that these variables have relationship and influence on customer loyalty.

The last variable is conflict handling. It is

measured by using three indicators: (1) The store tries to avoid potential conflict; (2) The store tries to solve conflicts manifest before they create problems, and (3) The store has the ability to openly discuss solutions when problems arise. Based on the results of the analysis presented in Table 2, it is shown that the three variables can explain conflict handling effect on customer loyalty. This result is indicated by the value of the p-value below 0,05. Conflict handling is one of the variables of relationship marketing that can explain the effect on customer loyalty.

Results of the analysis presented in Table 2 have provided information that the four variables of relationship marketing have been able to explain the influence on the loyalty shown by the value of the p-value under 0,05. Thus the four variables that can explain the behavior of modern markets which loyalty can be measured by four variables of marketing relational. However, this research is still limited to certain locations and stores that were selected as samples. Further research can be conducted more in-depth by using a larger selection of shops and in wider area.

Customer loyalty variables is measured by using two indicators: (1) considering the store as the first choice among other stores in the area and (2) the first store that comes to my mind when making a decision on store purchases services. Both indicators describe how a buyer might have loyalty to the modern market so they will come back to the store and remain faithful to the store as evidence of customer loyalty.

In business, trust is a key element in building relationships to all parties. Damaging confidence would threaten the continuity of business enterprise. Companies that have built businesses in the old tempo will be destroyed in a short time when trust has been violated. Moreover, it would be very difficult to build trust within the countless hours. So trust in the relationship marketing strategies that the main shaft in the sustainability of long-term relationships.

In addition to the confidence factor, according to Ndubisi (2005), there are two factors that are more important in the company considered building relationship marketing to customers which are the factor of commitment and communication. Companies should be making a significant commitment to providing service. Commitment is usually indicated in the policy vision and mission of the company. Similarly, in communication, customer relationships are built through two-way communication between the customer and the company. Companies that have a high response to customer complaints are companies that have a good communication system.

The third factor is the handling conflict; this factor is the factor that has a low level of significance of customer loyalty. This factor shows that the conflict handling factor is the factor that is rare in the modern retail industry. However, conflict handling should also be a concern because the company's customers will be very disappointed if the problems faced by customers less response by the company. Handling conflict that is

done properly will give a professional impression and build customer loyalty to the company.

Similar research has been done before by Ndubisi (2005) regarding the effect of relationship marketing to loyalty in the banking services industry in Malaysia. That study showed that variables are variables that are dominant in trust on customer loyalty; however, the study also explains the level of trust customers based on socio-demographic factors, where women customers have more confidence in banking than men customer. The study has similarities with modern market sector, i.e., trust variables are variables that affect predominantly on customer loyalty. Other equations, the three other variables of relationship marketing provide a significant influence on loyalty. Thus, the banking sector in Malaysia with modern marketing sector in Indonesia has the same profile in this study.

Similar research in the service industry have been carried out by Ndubisi (2005), the study examines the effect of relationship marketing on customer loyalty in the banking services industry in Malaysia. It was stated that a loyal customer will pay homage to the trust, commitment, communication, and low conflict. The study also provided information on socio-demographic factors that women are more faithful than men, as well as customers who have a high level of income tend to have a high attention to service companies.

## CONCLUSIONS

This study has shown that the measurement of main variables in relationship marketing, i.e., trust, commitment, communication, and conflict handling had an impact both exhibited significantly to customer loyalty to the case in the Indonesian retail market. Between the four variables of relationship marketing, it was shown that trust is the variable with the greatest significance level, meaning the important role that your customers can trust the level of customer loyalty in the future. Companies must take important actions for the

sacrifices trust that customers have in the Indonesian retail market. However, companies should not forget the other three variables, namely commitment, communication and conflict handling.

Trust is an important factor in the relationship marketing strategy. Damage to the trust factor would tarnish the company's long-term relationship. However, not only the confidence factor that should be a paramount concern, other factors need to be considered; i.e., commitment, communication, and conflict handling. These three factors have impact on loyalty to establish long-term good of the company.

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