Determinants of Customer Satisfaction in a Philippine Retail Chain

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Abstract: Satisfied customers would likely repurchase and influence customer loyalty, thus understanding customer satisfaction can provide organizations with information to streamline their operations. It is the aim of this paper to explore the determinants of customer satisfaction in a Philippine retail chain using factor analysis and aid retail managers and decision makers with valuable knowledge on customer satisfaction to improve company performance. Using survey results of 110 customers of a Philippine retail chain, this study showed that the determinants of customer satisfaction can be classified into three main factors, namely: quality and quantity of goods and services offered, customer experience, and value for money. This is similar to the three dimensions identified by the American Customer Satisfaction Index. Consequently, the SERVQUAL framework captures the entire customer experience factor but has limited use in the other two factors identified in this study. Recommendations for retail managers and future researchers were provided.

Key Words: customer satisfaction; SERVQUAL; American Customer Satisfaction Index; retail

1. INTRODUCTION

Understanding customer satisfaction can provide companies with information to streamline their operations and focus improvement programs on achieving cost efficiency to ultimately achieve better performance (Ilieska, 2016). Satisfied customers would return to purchase and spread positive word of mouth (Pham & Ahammad, 2017) thus greatly influencing customer loyalty (Choi & Kim, 2013). It is therefore helpful to identify determinants of customer satisfaction to improve company performance.

Product quality, service quality, and value for money were significant drivers of customer satisfaction based on an analysis of hierarchical regression model of online survey results to 188 customers of a large European financial service provider (Evanschitzky, Sharma, & Catja, 2012). The same three factors were also determined to be drivers of customer satisfaction based on results of exploratory factor analysis, telephone survey, and structural equation modeling in Indian telecommunication services market (Chakraborty & Sengupta, 2014). Specifically, they found that

generic requirements measured in terms of service quality and perceived value; flexibility measured in terms of adequacy of consumer promotion schemes and availability of latest services; and price measured in terms of tariff rates, overall billing costs and costs of calls were significant determinants of customer satisfaction.

Perceived product quality was also found to have a significant positive relationship with customer satisfaction in automobile manufacturing sector based on the results of structural equation modeling in the study of Lu, Blankson, and Prybutok (2017). More studies, however, focused solely on service quality as a significant driver of customer satisfaction.

Results of survey to 200 customers of commercial banks in Ghana revealed that customer service elements such as physical facilities, security, and product offerings significantly impact customer satisfaction (Asiedu, Sarfo, Adjei, Asiedu, & Adusei, 2014). The results of questionnaire, focus group discussion, and interviews with water supply service customers in Ethiopia showed that customer satisfaction was highly dependent on service quality dimensions (Kassa, Chernet, Kelemework, Zewde, & Woldemedhin, 2017).

Although not based on a service firm, Feng, Wang, and Prajogo (2014) found that customer service can significantly impact customer satisfaction based on an analysis of theory-based structural equation model on 214 Chinese manufacturing companies. Azman and Gomiscek (2015) conducted computer-aided telephone interviews in service centers of four European automobile manufacturing firms in Slovenia and found concave functional shape for service quality on customer satisfaction.

A customer satisfaction framework applicable to seven major economic sectors including retail is the American Customer Satisfaction Index (ACSI). ACSI is a national economic indicator used by US household consumers to evaluate quality of products and services. It is based on three drivers of customer satisfaction, namely: customer expectation, perceived quality, and perceived value (Fornell, Johnson, Anderson, Cha, & Everitt Bryant, 1996). Studies that have determined elements of customer satisfaction using the ACSI model includes Unyathanakorn and Rompho (2014) for banking services, and Alqahtani and Al Farraj (2016) for telecommunications services.

Related to customer satisfaction is service quality and a common framework to measure service quality is SERVQUAL. SERVQUAL was developed by Parasuraman, Zeithaml, and Berry in 1985 wherein they identified ten determinants of service quality that customers use to form expectations and perceptions. This was later compressed into five determinants which are tangibles, reliability, responsiveness, assurance, and empathy (Parasuraman et al., 1988). It was originally a framework used to measure quality in service sectors, however, it has been used in studies to explain customer satisfaction such as those of Gašević, Vranješ, & Drinić (2016) and Haldar (2017) on banking services, and Madhavan and George (2017) and Teshome and Seyoum (2014) on the tourism industry. Although these studies are concentrated in the service sector, the applicability of SERVQUAL to other industries has led to studies which focused on determinants of customer satisfaction in a retail industry.

Thomas (2013), for example, designed an exploratory study and surveyed 334 adult grocery shoppers in India's leading supermarkets. He found that product quality, store service, price, and product assortment showed the most influence to least influence on customer satisfaction. Mall shopping environment was also found to be a factor that significantly affects customer satisfaction based on surveys to 368 mall shoppers in United Arab Emirates and the results of exploratory and confirmatory factor analyses and structural equation modeling (El-Adly & Eid, 2016).

Pham and Ahammad (2017) made use of both exploratory and confirmatory factor analyses, online survey, and Chi-Square test of difference and found that post-purchase services, ease of return, and responsiveness of customer are factors that drive the satisfaction of 600 online UK shoppers.

The results of structural equation modeling revealed that there is a significant relationship among retail experience, customer satisfaction, and behavioral intention, and that product assortment and customized services had significant positive influence on satisfaction of 504 consumers of 57 retail stores in Jaipur City (Agarwal & Singh, 2018).

In the Philippine setting, Agulo et al. (2015) assessed one Batangas City department store's customer satisfaction on quality service measured in terms of employee's professional appearance, customer relation, customer service, and facilities. Zalatar (2017) predicted each gender's satisfaction among 200 individual customers of quick service restaurants to improve service quality dimensions which are tangibles, reliability/responsiveness, and assurance/empathy. Both studies emphasized on customer profile which is beyond this study's scope.

Although there had been previous studies which explored and used factor analyses to identify determinants of customer satisfaction (Chakraborty & Sengupta, 2014; El-Adly & Eid, 2016; Pham & Ahammad, 2017; and Thomas, 2013), none of these studies had focused on the Philippine retail industry. The Philippines has been ranked as the 16th most attractive retail market among developing countries in 2016 (A.T. Kearney, 2016) and 18th in 2017 (A.T. Kearney, 2017). It is expected that retail industry would account for one-fifth of the Philippines' overall economic output in the next decade with its large population, high positive growth, aggressive expansion of retail portfolio from major developers, and high level of consumer confidence, making it critical to capture growth opportunities ("Philippine retail industry booming," 2017).

It is therefore this study's aim to explore the determinants of customer satisfaction in a Philippine retail chain using factor analysis and compare it with the identified determinants in existing frameworks. Based on the ACSI and SERVQUAL frameworks, it is expected that customer expectation, perceived product and service quality, and perceived value

drive customer satisfaction in a retail company, while tangibles, reliability, responsiveness, assurance, and empathy compose the perceived product and service quality determinant.

Moreover, this study provides valuable knowledge for decision-making purposes of retail managers since functional quality (which includes courtesy, good quality of customer service, and accurate billing details) is a common factor of customer satisfaction but was not found to be a statistically significant determinant of customer satisfaction with mobile network provider (Chakraborty & Sengupta, 2014)

2. METHODOLOGY

2.1 Variables Used

Satisfaction is related to the fulfillment of implicit and explicit needs with various attributes of goods or services (Thomas, 2013). Customer satisfaction is therefore a measure of how that good or service performs with regards a set of customer requirements (Hill & Alexander, 2006).

Following the SERVQUAL and ACSI frameworks, this study adopted the variables from the study of Thomas (2013) whose customer satisfaction model has been validated through a confirmatory factor analysis. Thus, the 16 variables used were physical environment, layout, product selection, product availability, general price level, price level given product quality, product quality compared to competitors, general product quality, product quality given price level, willingness to handle returns and exchanges, effectiveness and efficiency of service, store personnel's knowledge, store personnel's service, store personnel's courteousness, store personnel's enthusiasm, and adequacy of store personnel.

All of these variables were part of a larger-scale questionnaire which were administered to customers of a local retail chain with more than 300 stores in the Philippines and used a five-point scale where "1" is "strongly disagree" and "5" is "strongly agree" to ask respondents on the extent of their agreement on statements related to customer satisfaction.

2.2 Research Procedures

This study is an exploratory research characterized by a quantitative research design. It made use of customers' perceptions sourced from survey questionnaires to identify determinants of customer satisfaction. For the customer satisfaction survey questionnaire, a minimum sample size of 100 is acceptable when measuring customer service to be statistically valid (Cook, 2016). Thus, a total of 120 questionnaires were given out to customers of selected stores of a Philippine retail chain. Of this number, 110 were returned which represented a 91.67% response rate. Data were collected from May to June 2017. Following proper research procedures, the respondents' anonymity and confidentiality of respondents' answers were emphasized in the questionnaire. Moreover, in adherence to company management's request, the Philippine retail chain had retained its anonymity in this paper.

The sample consisted of 58 (52.73%) male and 52 (42.27%) female customer respondents. Of the 110 respondents, 106 (96.36%) are millennials, 75 (68.18%) have a single civil status, 93 (84.55%) are college graduates, 100 (90.90%) fall into lower middle class income earners or below, and only 22 (20%) are relatively new customers who have been customers for less than one year.

An exploratory factor analysis was used to identify the determinants of customer satisfaction in a Philippine retail chain.

3. RESULTS AND DISCUSSION

Presented in Tables 1 to 4 are outputs from SPSS 17.0. Table 1 shows the minimum, maximum, mean, and standard deviation for all 16 variables.

Table 1. Descriptive statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
Physical environment	2	5	3.45	0.672
Layout	1	5	3.37	0.776
Product selection	1	5	3.28	0.718
Product availability	1	5	2.95	0.675

General price level	1	5	3.49	0.687
Price level given product quality	1	5	3.16	0.736
Product quality compared to competitors	1	5	2.97	0.723
General product quality	1	4	2.74	0.713
Product quality given price level	1	5	3.12	0.726
Willingness to handle returns and exchanges	1	5	3.45	0.699
Effectiveness and efficiency of service	1	4	3.19	0.642
Store personnel's knowledge	1	5	3.13	0.718
Store personnel's prompt service	1	4	3.15	0.633
Store personnel's courteousness	1	5	3.11	0.654
Store personnel's enthusiasm	1	5	3.17	0.662
Adequacy of store personnel	1	5	2.84	0.796

To know how suited the data is to factor analysis, the Kaiser-Meyer-Olkin (KMO) and Bartlett's tests were done and the results are presented in Table 2. The KMO measure of sampling adequacy is 0.871, which is between 0.8 and 1, and implies that the sampling is adequate. At the same time, Bartlett's test of sphericity showed significance at 0.000, thus factor analysis can be done.

Table 2. KMO measure and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.871
Bartlett's Test of Sphericity:	
Approx. Chi-square	1019.749
Df	120
Sig.	0.000

Table 3 showed the results of factor analysis based on principal components analysis with rotation method of Oblimin with Kaiser normalization. Oblimin in SPSS is an oblique rotation which hypothesizes correlated factors. Table 4 showed the factor correlation analysis.

Table 3. Results of factor analysis

Factor	Variable	Factor Loading	Reliability Coefficient	Eigen value	Percent of Variation Explained
Quality and quantity of goods and services offered	Product selection	0.597	0.848	7.346	45.914
	Product availability	0.683			
	Product quality compared to competitors	0.764			
	General product quality	0.842			
	Effectiveness and efficiency of service	0.528			
	Adequacy of store personnel	0.708			
Customer experience	Physical environment	0.524	0.883	1.807	11.293
	Layout	0.445			
	Store personnel's knowledge	0.842			
	Store personnel's prompt service	0.869			
	Store personnel's courteousness	0.801			
	Store personnel's enthusiasm	0.849			
Value for money	General price level	0.794	0.804	1.040	6.498
	Price level given product quality	0.569			
	Product quality given price level	0.529			

	Willingness to handle returns and exchanges	0.480

Table 4. Factor correlation analysis

Factor	Quality and quantity of goods and services offered	Customer experience	Value for money
Quality and quantity of goods and services offered	1.000		
Customer experience	0.609	1.000	
Value for money	0.682	0.574	1.000

With three factors having eigenvalues over 1, this study came up with three factors, namely: quality and quantity of goods and services offered; customer experience; and value for money.

The factor quality and quantity of goods and services offered includes product quality, service quality, product availability/quantity, and service availability/quantity. This is similar to ACSI's customer expectations dimension which measures the customer's anticipation of the quality of a company's product or service. The only difference is that this factor also considers the quantity or availability of goods and personnel. When based on SERVQUAL, one item in this factor, which is effectiveness and efficiency of service, is related to reliability or the ability to perform the promised service dependably and accurately.

The factor customer experience includes physical facilities and experience with store personnel. This is similar to ACSI's perceived quality dimension which measures the customer's evaluation of a recent consumption experience. All items in this factor can also be related to SERVQUAL's four dimensions: tangibles (physical environment and layout); responsiveness (store personnel's prompt service); assurance (store personnel's knowledge and courteousness); and empathy (store personnel's enthusiasm to understand customer needs). Thus, SERVQUAL's reliability dimension is not part of this determinant.

The factor value for money includes price and willingness to handle returns and exchanges. This is similar to ACSI's perceived value dimension which is a measure of quality relative to the price that was paid for.

Evanchitzky et al. (2012) and Chakraborty and Sengupta (2014) also found product and service quality, and value for money as key determinants of customer satisfaction. However, this study was able to merge product and service quality as one component while adding a customer experience component as a key determinant. This can be explained by the fact that a retail company, especially if selling the same goods as competitors, can differentiate itself by offering better customer experience. Mulpuru-Kodali and Witcher (2017) had recommended that retail companies should develop deep customer insights and become obsessed with customer's experience and create emotional loyalty, especially because of industry growth, boom in online retail sales, and wider use of artificial intelligence.

4. CONCLUSIONS

The results of this study showed that the three dimensions of customer satisfaction in the ACSI model, namely customer expectation, perceived quality, and perceived value, are applicable in a Philippine retail chain, but with an added emphasis on quantity aside from quality of goods and services. In addition, all dimensions in the SERVQUAL model, except for reliability, address customer experience dimension of customer satisfaction, while reliability addresses quality and quantity of goods and services offered. Thus, companies are advised to utilize frameworks, in addition to SERVQUAL, to get a more holistic view of customer satisfaction.

It is also recommended to retail managers and decision makers to focus on quality and quantity of goods and services offered, customer experience, and value for money in order to improve customer satisfaction and ultimately its company performance.

Since this is an exploratory study, future researchers are encouraged to use the results of this study to further analyze customer satisfaction and its relationship with customer loyalty (which is part of the ACSI model), employee satisfaction, and firm performance. Future researchers may also make use of structural equation modeling, similar to previous studies, and use a different sector or country.
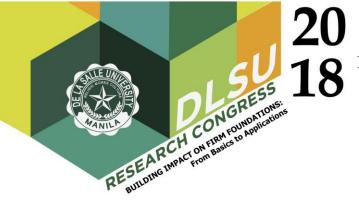
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