

The Evaluation of Customer Retention's Predictors in Automobile Services

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ABSTRACT

This paper conducted a study to determine the factors that may influence the satisfaction and retention level of customers visiting car service provider in the state of Terengganu, Malaysia. In Malaysia, many service organizations only focus on generating short term profit and sales without motivating customer to make repeat purchase and maintaining loyalty among them. In service industries, focusing on better service value and entertaining customer will help a service firm to generate continuous sales and maximize profits in the long run. In this study, a total of 200 respondents were identified as the target respondents from an estimated population of 450 customers who service their automobile at Pro Ibai Auto Services Sdn. Bhd., an automobile service center in Kuala Terengganu, Terengganu, Malaysia. The aim of the research is to determine the relationship between 4 postulated independent variables (service explanation, speed of delivery, sociality concept and customer service) on the customer's retention at the Pro-Ibai Services Sdn. Bhd. The findings of the research revealed that 2 of the factors; service explanation and speed of delivery have positive and significant influences to the dependent variable. On the other hand, the remaining 2 independent variables, sociality concept and customer service did not show any association with customers' retention and loyalty. Furthermore, these 2 variables were found to have strong collinearity with each other. It also discover that the changes in the customer's retention and loyalty level are explained by the changes in the speed of delivery and service explanation by more than 60%, as shown by the R-square (r^2) value in the multiple regression analysis. These mean that there are more variables that need to be explored in order to accurately measure the possible factors that may help service outlets to improve their customer retention and loyalty.

KEYWORDS: Customer Retention, Loyalty, Sociality Concept, Speed of Delivery, Customer Service.

INTRODUCTION

The automobile industry is one of the most lucrative industries and also an indicator of a nation's progress and success of a nation's economy. Many developed country such as Japan, South Korea, Germany and United States of America have a successful automobile industry. Realising the potential of this industry to revitalise the Malaysian economy, the Malaysia government created its first automobile manufacturer in 1984, even though the automotive industry in Malaysia was first established in 1963. The first local manufacturer is known as Proton (Perusahaan Automobile Nasional). It provides a catalyst for the nation's quest for advancement in manufacturing technology and the development of intellectual property in the automotive industry. Initially, the Proton project was a joint venture project with Mitsubishi Motors Corporation of Japan to produce the first model, Proton Saga in 1985. After the success of the first national, the second national car project was established in October 1992 which called Perusahaan Otomobil Kedua Sdn. Bhd. (PERODUA). It was the result of an agreement between UMW Corporation Sdn. Bhd., Daihatsu Motor Co. Ltd. of Japan, Med-Bumikar Mara Sdn. Bhd., PNB Equity Resources Corporation Sdn. Bhd., Mitsui & Co. Ltd. of Japan and Daihatsu (Malaysia) Sdn. Bhd. PERODUA was set up to increase the automotive product range and to further support the components and parts manufacturing. The industry is not without its flaws but it has proven as one of the success story in the Malaysian economy. The automotive industry in Malaysia, therefore can be considered as one of the most important and strategic industries in boosting the country's gross domestic product. Moreover, it is postulated that the automotive industry in Malaysia will help the country to become a developed nation by 2020 by creating new vendors and suppliers that support the primary automotive manufacturer [1].

In the scope of the service industry, the automotive services industry is considered as an extension to the main manufacturing activity and considered as part of the operations management. Automotive services industry includes car servicing, mechanical repairs, car body repairs and breakdown and recovery services. This paper

looks at the after sales service in the automotive industry and hope to investigate customer's preference of service provider which we postulate to include four variables; service explanation, speed of delivery, sociality concept and customer service. In the perspective of the research, it argues that the variables are important factors in influencing the loyalty and retention of the customer's visiting an automobile service center. Specifically, the authors also hope to determine the satisfaction level and loyalty of customers who visited an automotive service provider, Pro Ibai Auto Service Sdn. Bhd. in Terengganu, Malaysia. The Auto Service Sdn. Bhd. is the official service center for a Malaysian automobile manufacturer, PERODUA.

The focus of the paper is to evaluate on how the management and staff of the service firm may manipulate the variables discuss above in order to influence the satisfaction and loyalty of their customers. Creating loyalty and retaining customer in any business is a challenging task. At present many business entities focus only on short term profit within a specific timeframe without designing activities or programs that would motivate the customers to stay loyal to the firm and its product or service offerings. In order to enhance customer loyalty and retention, the core service offering and products must be affordable and meet the needs and wants of its target better than its rival firm. This effort will create a long term sustainable advantage that will help the firm reap continuous profit. Factors that are related and significant to the customer retention must be conducted properly to maintain the performance level of the intake of car. The factors (variables) are discussed in the next section of the paper.

REVIEW OF LITERATURE

The review of literature includes the following concepts which are included in the conceptual framework of the paper. It will discuss the following concepts; customer retention, service explanation, speed of delivery, customer relationship and service quality.

Customer Retention and Service Quality

Customer retention is the main goal of almost all business entity. It is a concept that can be defined as an assessment of the product or service quality and value provided by a business that measures how loyal its customers are. Customer retention can be defined as the assessment of a product or service quality provided by an organisation and a measurement of the loyalty of its customers. Statistically, it is typically expressed as a percentage of long term clients, and they are important to a business since satisfied and loyal customer tend to spend more, cost less and make valuable references to potential customers thus creating positive word of mouth for the firm [2]. Moreover, customer retention can also be considered as the activity a company undertakes to prevent customers from defecting to alternative companies. Successful customer retention starts with the first contact and continues throughout the entire lifetime of the relationship with customer.

In comparing between self-service and full scale service, in [3] argues that in a self-service concept, the main focus is primarily on the value-creating knowledge and capabilities of the customer. In contrast, with full scale service, the aim of the service provider is focused primarily on the value-creating knowledge and capabilities of the provider and its partners. Self-service should therefore draw upon what customers already know and enable them to bring their knowledge and capabilities to bear in particular settings. Full scale service, in contrast should be manifested by the knowledge and capabilities of the larger provider-customer service system, enabling them to help solve customer problems and removing customer burdens. Self-service consequently co-creates more value overall when most of the relevant knowledge and capabilities are located with the customer. On the other hand, full scale service creates more value when most of the relevant knowledge and capabilities are located with the provider and its partners, or when customers see additional value in having the provider assume many of the tasks they previously performed.

Past scholars such as [4] suggested that customer retention can be defined in a comprehensive way that not only includes repurchase intention but also other related aspects such as word of mouth communication, willingness to pay more and complaining behaviour. They also determine a positive and direct association between service quality and purchase intentions, but found this association to be relatively weak. They found that a relevant indirect effect of service quality on purchase intention. Service quality affected customer satisfaction which in turn has a strong effect on purchase intentions. There seems to be little or no doubt that service quality positively and indirectly influences purchase intentions.

Customer Relationship

A central principal of marketing is that satisfying exchanges build strong and intimate customer relationship. The work of past scholars suggested that the associations between customer satisfaction and loyalty are well established [5-7]. As the relationship (i.e., tenure) continues to lengthens, the customer develops more trust toward the seller [8]. According to [9], the outcome of trust is relationship commitment. This suggests that

long term customer would increase the propensity to repurchase a specific product or service from a service provider.

A long term relationship could also indicate greater inertia on the part of the customer [10], as well as higher risk aversion [11]. This argument implies that most customers prefer to continue with the certainty of the current relationship rather than risk a relationship with another provider, even though there is the possibility the other provider may create a better relationship. These 2 factors suggest that a customer who has a longer purchase history for a particular product from a provider could have a higher inclination to continue past behaviour. From the perspective of creating customer loyalty, building relationship with the customer is an important element in maintaining a sustainable business and arguably, the existence of many successful businesses depends on establishing sound relationship with their clientele. It argues that there is lack of empirical research on this issue.

Furthermore, building relationships with customers is an important part of conducting business. Arguably, the existence of most businesses depends on establishing sound relationships with their clients and customers [12-13]. Employees that are involved in this interaction have to take the role of a socialite. A socialite is someone who participates in social activities and spends a significant amount of time entertaining and being entertained at fashionable events attended by others of similar standing. In [14] who tried to measure factors influencing customer satisfaction discovered that socialites possess 2 main characteristics; courteous expressions (using good manners in the presence of customers, promoting politeness, appreciative/thankful, ask how the customer is doing or displaying friendliness) and personal connection (humorous, asking customers personal likes and dislikes, talking about customer's career). Courteous expressions and personal connection accounted for approximately 75% of the variance in customer satisfaction. However, courteous expressions contributed to nearly half of the unique variance in customer satisfaction beyond that explained by the personal connection factor. Furthermore, socialites have a compilation of characteristics which include pleasantries, sociability, and privacies. Pleasantries include small talk on subjects related to weather, sports or politics. Sociability entail disclosures that lack serious conversational implications, such as those related to sharing gossip and joking. Privacies refer to more intimate revelations about one self to others [15].

Service Explanation

The majority of customers who visited Pro Ibai Auto Services are not familiar with mechanical problems, parts and components of a car. This is especially true for female customers. This example indicates that a clear and precise explanation of the service offered are very important in making sure that customer fully understand the components or spare part that they need to change for their car. In many instances, the customer would always pose the question "Why should I change that part?" or "Is it important to do this repair?" Dissatisfaction may rise if the questions are not answered in a professional manner especially if they have to pay a higher price than expected. It is therefore important that all types of repair that need to be made and the spare parts that need to be replaced is explained thoroughly to the customers. As a service provider for car maintenance should explain clearly to the customer to make sure that the customers feel that the price charged fair and satisfy their need. Hence, it proposes that the thoroughness of service explanation is very important to customers. This is where the customer comes from many of background. Most of them are not familiar with the parts, components and maintenance of automobiles especially from female customers. It proposed that the details and thoroughness explanation of services will create customers satisfaction and better understanding of the services completed on their vehicle. These efforts will create better service value for the customers.

In terms of relationship between customers and service provider, in [16-17] suggested that limited interactions in encounters and false relationships will not allow the customer and provider to get to know and trust one another at the service relationship level. However, if service providers were to use a simple courteous expression, it could lead to stronger relational growth between service providers and customers. Therefore, it is important for service provider to create better customer relationship through better social communication to create and sustain long term relationships. According to [18], customers' perceptions of communication performance were more important in explaining variation in customer satisfaction and loyalty than customer expectations. This concept implies that customers will not be satisfied or loyal to service providers who failed to provide personalised service.

Speed of Delivery

Another important factor in the creation of customers' loyalty and retention is speed of delivery. Speed of delivery can be defined as the estimated time for the service to be completed (citation). The scenario at Pro Ibai Auto Services indicates that many customers complaint that the time taken to service the automobiles is rather slow especially during religious holidays and public holidays such as the "Eid", school holidays, Deepavali,

Chinese New Year and Christmas. This is due to the extraordinary increase of customers who came to the service center during this time to service their vehicles. Furthermore, many customers did not come for the service according to the appointment time. The combination of high volume of customers and the lack of planning on the part of the customer, effects the planning of the service center to coordinate and to sort the time table for customers who made appointments and those who “walk in” for their services. The lack of coordination which is due to the unexpected increase of customers contributes to the inefficiency in the utilisation of manpower, machinery and service time.

CONCEPTUAL FRAMEWORK

Based on the literature review, the previous discussion forms the basis of the research’s conceptual framework as shown in Figure 1. It proposed the dependent variable where customer retention is influenced by 4 variables. The 4 independent variables are including service explanation, speed delivery, customer relationship and service quality.

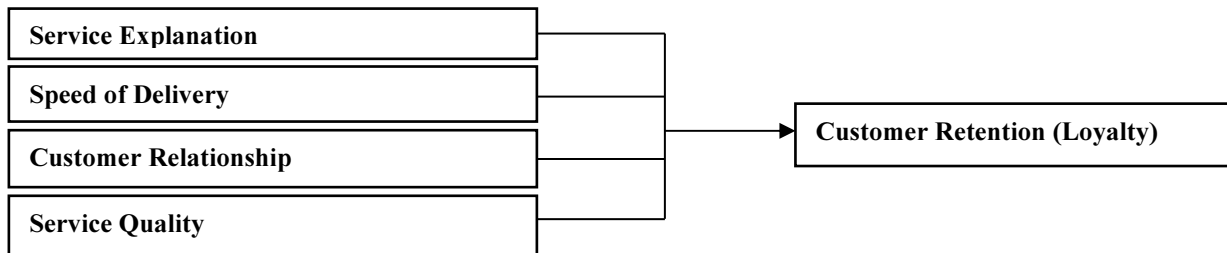


Figure 1: Conceptual framework between independent and dependent variables

RESEARCH METHODOLOGY

This paper aims to describe the characteristics of the variables of interest which highlighted in the conceptual framework. It determines the relationship between the 4 independent variables with the dependent variables, customer retention and loyalty among the customers. A survey is used to collect information and data from the customers who visited the Service Center. Since a survey was chosen as the collection method, questionnaires were distributed to the chosen customers. The researchers determined that a systematic sampling procedure was chosen as the most appropriate sampling method since it is a probability sampling technique that are most suitable in analysing the relationship between variables. In [19] defined probability sampling as a sampling procedure in which each elements of the population has fixed probabilistic change or being selected for samples. The population chosen in this study is the customers who visited Pro Ibai Auto Services Sdn. Bhd. for a total of 2 months. A total of 450 customers were identified as the population, hence a total of 200 respondents were considered as the most appropriate sample size. The questionnaires were distributed to the customers as they waited for the service to be completed. A total of 220 questionnaires were distributed to the respective customer in consideration of any incomplete and flawed answer given by the respondents. At the end of the second month, all 220 questionnaires were collected and 200 questionnaires were used in the analysing phase of the research. There were 87 male and 113 female customers whose questionnaires that they answered were used in the analysis part of the research.

DATA ANALYSIS

In order to determine the relationship between the 4 independent on the dependent variables, a correlation and Multiple Regression analysis was used. The result of the Pearson Correlation analysis in Table 1 revealed a significant and positive correlation between the independent variables (product features, website usefulness and time saving) and the dependent variable (e-shopping preference). In terms of the strength of association, it discovered that the relationship between of all the independent variables and the dependent variables have a strength of greater than 0.60. It indicates a strong correlation between all variables with a positive linear relationship.

Table 1: Pearson correlation analysis between dependent variables and independent variables

	SE	SOD	CRel	SQ	CRe
ServiceExplanation (SE)	1				
Speed ofDelivery (SOD)	0.823**	1			
CustomerRelation (CRel)	0.841**	0.878**	1		
ServiceQuality (SQ)	0.832**	0.798**	0.827**	1	
CustomerRetention (CRe)	0.764**	0.661**	0.664**	0.676**	1

**All correlation is significant at the 0.01 level (2-tailed)

No. of respondents = 200

The researcher further explored the relationship between the 4 independent (predictor) variables on the dependent variable, customer retention by using a multiple regression analysis. Based on the correlation analysis, it postulates that there is a positive linear relationship between these variables. In conducting the multiple regression analysis, the wise method step was adopted which producing 2 regression models. The results are shown in the Table 2.

Table 2: Model summary of the regression analysis

Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	0.803 ^a	0.645	0.643	0.36331
2	0.815 ^b	0.664	0.660	0.35483

a. Predictors: (Constant), Service Explanation

b. Predictors: (Constant), Service Explanation, Speed of Delivery

The researcher utilised the regression analyses to determine the influence of the 3 independent variables namely service explanation, speed of delivery, customer relationship and service quality on the dependent variable. The figures in Table 2 indicate that the best regression model is the second model where 2 predictors were shown to have a significant association with the dependent variables. In addition, the R-square of 0.664 in the second model indicates that 66.4% of the variance in the dependent variable is explained by the 2 predictors (independent) variables (service explanation and speed of delivery) in the model.

The second output of the regression analysis is the analysis of variance (ANOVA) that describes the overall variance accounted for in the model. All results of the ANOVA analysis of the second model is shown in Table 3. The F-statistics represents the expected value that the regression coefficients are equal to each other, and they are not equal to zero. Furthermore, the significant level (sig.) highlighted in the ANOVA table showed a p-value of less than 0.050 which indicating that the model is valid and strong. A higher sum of squares value for the regression relative to the residual value indicates the soundness of the regression model.

Table 3: Analysis of variance of dependent variable (customer retention)

Model	Sum of Squares	df	Mean Square	F	Sig.	
2	Regression	41.221	2	20.610	163.700	0.000 ^c
	Residual	20.900	166	0.126		
	Total	62.121	168			

Predictors: (Constant), Service Explanation, Speed of Delivery

The final output of the regression analysis is shown in the coefficient analysis as shown in Table 4. The figures reveal the strength and nature of association of the predictor variables on the dependent variables. It found that among the 2 independent variables, service explanation is the most dominant factor in influencing the customers' retention in visiting automotive services. This is indicated by the standardized coefficients of β value is 0.615. As for the second predictor variable, speed of delivery where β value is equal 0.232 which is the second most dominant factor in influencing the changes in the customers' retention. Both of these predictors are significant as shown by the p-value (sig.) of less than 0.050. The other two predictors, service quality and customer relationship are not significant in influencing the dependent variable as indicated by the p-value (sig.) of greater than 0.050 which is not shown in the coefficient analysis. Obviously, it can be determined that these 2 predictors are not critical in influencing the respondents' retention and loyalty towards Pro Ibai Automotive Service Center.

Table 4: Coefficients analysis of the regression analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
2 (Constant)	2.870	0.316		9.072	0.000		
SE	0.514	0.064	0.615	7.990	0.000	0.342	2.924
SD	0.169	0.056	0.232	3.013	0.003	0.342	2.924

Dependent Variable: Customer Retention, SE=Self Explanation, SD= Speed of Delivery

DISCUSSION AND CONCLUSION

Based on the relationship of the dependent and the independent variables, it indicates that the result of the Pearson Correlation analysis revealed a significant and positive correlation between the independent variables (service explanation, speed of delivery, customer relationship and service quality) and the dependent variable (customer retention or also known as loyalty). In terms of the strength of association, it discovered that the relationship between all the independent variables and the dependent variables has a strength of greater than 0.60 indicating a strong correlation between all variables indicating a positive linear relationship. This indicates that there is relationship between customer loyalty and also the service explanation, speed of delivery, customer relationship and also service quality have proven to be the indicator to recall the customer retention. Customers loyalty really pay the important role to make sure that they come back to repurchase a particular product especially the product that is categories under luxury goods.

The second element that is being observed indicates the best regression model is the second model where 2 predictors show a significant association with the dependent variables. Based on the result of R-square which is 0.664 in the second model, it indicates that 66.4% of the variance in the dependent variable is explained by the 2 predictor (independent) variables (service explanation and speed of delivery). The model carries the strong percentage where variables of service explanation and speed of delivery have become important in developing the customer loyalty. When customer could find a good service explanation, the level of confidence increase and will resolve most of the cognitive dissonance that they have. For the speed of delivery that the customers received from the dealer, it also indicates that customers will increase their confidence level.

In the ANOVA analysis, the F-statistics represents the expected value that the regression coefficients are equal to each other which not equal to zero. For significant level (sig.) as shown in ANOVA table, the p-value of less than 0.050 indicates that it is significant and valid. The independent variables such as the service explanation, speed delivery, customer relationship and service quality are related with the customer retention. It is important for the dealers to maintain the 4 elements in order for them to increase the level of customers' loyalty. Once the customers are loyal to the dealers, they will come again to purchase another product from the dealer. This result supports the study conducted by past scholars such as [20-21].

The 2 independent variables which are most influential are the service explanation and the speed of delivery, where the standardized coefficient of β value is 0.615 for service explanation. For the second predictor variable, the speed of delivery of β value is equal 0.232 which is the second most dominant factor in influencing the changes in the customers' retention. Both of these predictors are significant as shown by the p-value (sig.) which less than 0.050. Obviously, it can be determined that these 2 predictors are not critical in influencing the respondents' retention and loyalty towards Pro Ibai Automotive Service Center. This also indicates that the other elements influence in the increase in Pro Ibai Automotive Service Center. It argues that the expected value outcome have important role in the consumer retention by increasing the level of customer loyalty. These results validate the findings of research conducted scholars such as [22-24]. In conclusion, any service firms especially who has time-conscious customer need to improve its service explanation and speed of delivery in order to increase its customer retention and loyalty.

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