

Predictors of Customer Loyalty in Business to Business Trading

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ABSTRACT

The changing world motivates companies to use intermediaries to ensure their distribution channels are efficient and effective. Many firms serve as intermediaries in delivering products and services to other business organizations. This is known as business to business trading. In business to business (B2B) trading the company becomes an agent to deliver goods to another company. They resell the product to others without transforming or modifying the products. This research was conducted at Petrucom Sdn Bhd Terengganu, a supply based company who is facing challenges in building long-term relationship with their customers. Most of Petrucom Sdn Bhd customers' are not repeated customers. Therefore, this paper focuses on the factors that contribute to customer loyalty in Petrucom Sdn Bhd. Among the factors highlighted that may influence customer loyalty are responsiveness, communication, trust and customer satisfaction. The results of the study indicated that the most significant factor influencing customer loyalty is customer satisfaction. Customers will make repeated purchases when they are satisfied with the service or product offered. In conclusion, the company should be focusing on how to ensure customers are satisfied with their services whether its' good quality, affordable price, minimizing mistakes, ease in communicate and high responsiveness in creating customer satisfaction.

KEYWORDS: Business-to-Business, Trust, Communication, Responsiveness, Customer Satisfaction.

INTRODUCTION

Trading companies are businesses offering different kinds of products for sale to consumer, business or government purposes. Trading companies buy a specialized range of products, maintain stock or a shop, and deliver products to customers. Trading companies have been around since the colonial times when they were developing trade between nations. Different circumstances make for different types of business. Usually, two kinds of businesses are defined in trading. Importers or wholesalers maintain a stock and deliver products to shops or large end customers. Moreover, a trading company can only be intermediaries in distributing goods or product to the end customers. A trading company is not necessarily a big importer or wholesaler. Small businesses that act as intermediaries to deliver the product to customers can also be called a trading company.

The changing times also altered the practical business in the world. Companies use intermediaries to make their business more efficient and effective. In addition, there are many business entities that conduct their business activity with other organizations. This type of transaction is also known as business-to-business (B2B) trading. In B2B trading the company becomes an agent to deliver goods to another company and not to the end user. They resell the product to others without transforming or modifying these items.

Early research in B2B markets indicated the importance of customer service. This research was conducted at Petrucom Sdn Bhd, Terengganu, a supply based company who is facing challenges in building long-term relationship with their customers. Most of Petrucom Sdn Bhd's customers are not repeated customers. The company's operations have been slow due to fewer offers to bid price from the customers. The company has been operating with more customers, but only a few transactions. The company also faced issues with reducing the offer to bid the price.

LITERATURE REVIEW

Customer Satisfaction

The first key element of customer loyalty is customer satisfaction. Customer satisfaction is complex and hard to describe and measure. According to [26], satisfaction and dissatisfaction can be linked to disconfirmation of consumers' expectation. A positive action leads to customer satisfaction and a negative action leads to customer dissatisfaction. According to [22], satisfaction is conceptualized as an overall, customer attitude towards a service provider. Similarly, in [2] purchase and consumption experiences. Therefore, client satisfaction in this study will be measured through the overall satisfaction toward the services.

One of the most critical elements in new B2B markets is the development of client relationships. Effective and satisfactory business relationship are of the greatest importance in the marketing of both professional services and products, in view of its high demand as well as the complexity and the long-term nature of the business relationship. According to the principles of relationship marketing, successful business relationship enhances customer satisfaction and thus enhances the performance of firms.

In the past, relationship satisfaction has been conceptualized as a prerequisite for relationship quality. Three levels of relationship satisfaction were identified by [31] (a) Interactions with personnel (b) Core service/product (c) the organization (supplier). All three levels of relationship contribute to overall satisfaction in business to business transactions. In a business context, relationship satisfaction has been defined as a positive affective state resulting from a firm's appraisal of all aspects of its working relationship with another firm. Also, higher satisfaction has been proposed to be related to higher loyalty [5]. Similarly, it supports that repurchase intentions are strongly related to stated satisfaction across product categories and services provided [30]. In [17] said that one of the reasons customers do not switch brands is when they are satisfied with what they get. In conclusion, organizations should try to fulfill their customers' needs and wants.

Customer Loyalty

Customer loyalty has been defined as a favorable attitude towards a brand in addition to purchasing it repeatedly [8]. Other than that, customer loyalty gives the meaning of a situation when repeat purchase behavior is accompanied by a psychological bond [19]. Additional definition for customer loyalty is a repeat purchase intention and behavior. Thus, customer loyalty can be described as a situation where a customer makes repeated purchases and have a favorable attitude towards the products or services provided by the company.

Before this, the researchers only focus on loyalty to tangible product but in [15] extend the concept of loyalty to intangible products. Even when a company sells tangible products, they should also put serious thought on the overall service that they provide to their customers. It is considered an important factor because in business, customer loyalty is a benefit to the company.

In addition, in [10] agreed that customer loyalty comes from the service that is provided by the company. If the service provided is good, the customer tends to make repeat purchases or business dealings with the company. Customer loyalty does not solely mean that the customer is satisfied with the business, it is purchase behavior and it is an attitude [16]. When the company has loyal customers, they will act as positive word of mouth, business referrals, providing references and publicity [6]. The company also has the advantage to control the price. Loyal customers are reluctant to switch to another competitor and they make more purchases compared to less loyal customers [4]. When they are loyal to the company, the company gains advantage in controlling the product offerings.

Responsiveness

Responsiveness reflects the way the company responds to issues, provides information, consults and seeks feedback on issues, timeliness and relevancy of the information provided [29]. Responsiveness is considered important as it shows how much the company care for their customers. A large component of responsiveness is the way both parties are able to communicate their needs. The organization needs to be concerned with their customers' needs. As stated by [20], customer responsiveness is the action on concerns about their target customer needs. According to [27], responsiveness is one of the elements in the SERVQUAL which it also influences the customer satisfaction. In other words, responsiveness can be a quick action on the customer feedback. The researchers noted that responsiveness is one of the factors that can influence customer loyalty because most of the process in the business deals directly with the customer when a problem occurs. There are many dimensions or factors that can influence the service quality and customer satisfaction, but the most related dimension in this study is responsiveness.

Communication

Communication with customers is a necessary process of relationship marketing. It helps in relationship development, builds trust, and provides the information and knowledge needed to undertake the cooperative and collaborative activities of relationship marketing [28]. By establishing proper communication channels for sharing information with customers, a company can build a close bond with their customers. The organization must provide a variety of channels of communication to obtain feedbacks from their customers such as email, phone, social network and so on. In addition to communicating with customers, it is also essential to establish intra-company communication, particularly among all concerned individuals and corporate functions that directly play a role in managing the relationship with a specific customer or customer group.

According to [33], good communication with the customers can make sustaining impact on the relationship. In B2B scope, communication can be more effective to reduce marketing cost. Better communication is a tremendous benefit to the company. Other than that, more satisfied customers, stronger profitability and more effective planning also give benefit to the company [11]. Information from both the

selling company and the customers identified two elements of effective communication: internal and external. Nevertheless, many researchers such as in [27] stress the importance of external communication with customers in order to build long term relationship.

Trust

Trust is generated when both parties can anticipate a consistent level of performance and behavior from each other [29]. This means that both parties would be satisfied with the transaction, services or products offered by their partners or collaborators. On the other hand, trust from the customer's perspective will take more time for the competitor to steal away the customer to change their loyalty [32]. That means trust is very important to make the customer loyal. In [34] hypothesized that trust experienced by customer is dependent upon their past experience with a business organization. If their experience is good, they would trust the organization and vice versa.

Many past researchers have highlighted the importance of external relationship outcomes where one of the important elements is trust [18]. This fact also indicates the importance of trust in creating customer's loyalty. In the context of this study, trust maybe useful when the staff performs courtesy visits to meet the customer, doing presentations to suggest new product and other one to one marketing practices. Furthermore, in [23] explicitly mention trust as a factor in creating repeat purchase, when they included trustworthy contact personnel as a factor within service quality. In general, the people or organization will do business with the party they trust, especially in B2B. The reason is that every single transaction will often occur in large amounts. In conclusion, the company should concentrate on building trust with their customers in order to encourage repeat purchases.

Another determinant in the competitiveness of the supplier is inter organizational trust. According to [13] about the concept of long term business relationship, B2B interaction is interested not only in classic underlying parameters of economic exchanges, but also take into account non-economic characteristics, especially trust and commitment, which is considered as an important characteristics in social exchange-based relationships. Furthermore, in [3] stated an interorganizational trust is an important factor affecting the actions and performance of organizations engaged in dyadic and network relationships such as strategic alliances. While [28] proposed that trust is a key factor for the development of partnerships among the different agents of a supply chain, distinguished between interpersonal and inter-firm trust. Trust has also been related to desirable outcomes including firms' performance, and reduced conflicts, competitive advantage, and other favorable economic outcomes. According to [18] suggests that trust in B2B ecommerce is relevant and important in exchange relationships. It reduces transaction costs of an exchange, resulting in efficient transactions.

METHODOLOGY

For this study, the target population is the previous customers who have had business transactions with the company and they were obtained from Petrucom Sdn Bhd clients' database. The researchers use the data from RFQ, Purchase Order Listing, Invoice and Customer Data. The data were documentation for the previous history company transaction. The population is segmented into three groups which are the buyer, the receiver at the warehouse and the end user of Petrucom Sdn Bhd that is customers who has experience doing business with the company. The selected population is around 300 and the sample size is 169 as proposed by [35].

The aim of this research is to identify the factors that contribute to customer loyalty at Petrucom Sdn Bhd. The conceptual framework shown in figure 1 highlighted the relationship between the variables.

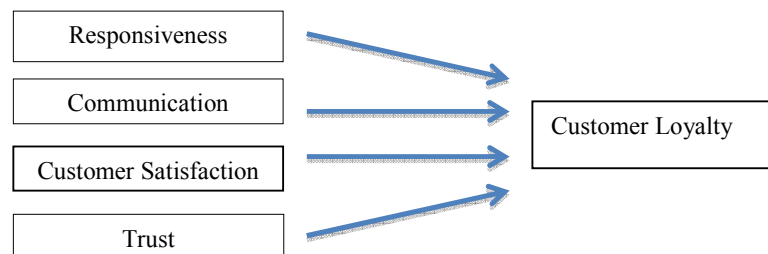


Figure 1: Conceptual framework

The questionnaire that was distributed to the respondents uses a 7 likert scale question where the scale ranges from "extremely disagree" to "extremely agree". The questions were designed in dual languages which are Bahasa Malaysia and English. The researchers use online KWIKS survey instruments to obtain the data. The researchers used internet as a method for collecting data because most of the customers' distance has limitation. Another method for data collection is the normal method of distributing questionnaires directly to the

respondents at Shared Material & Services Organization (SMSO) Petronas, Kertih and Kemaman Supply Base, Kemaman. The rate of return equals to 51.20%, where out of the 250 questionnaires distributed and 128 questionnaires were returned to the researchers. The sampling method use in data collection was convenience sampling method. The rational of using this method was to obtain the sample at convenience. The convenience sampling offer the least expensive and least time consuming method compared to all the other techniques. The sampling units were also easy to measure. Through this method, the researchers can obtain high response rate, clarify any terms that are not understood by respondents and get spontaneous response from the respondents.

FINDINGS AND DISCUSSION

The raw data collected was analyzed using Statistical Package for Social Science (SPSS) software. The analysis chosen in this study include the following; Reliability, Correlation and Multiple Regression analysis.

Reliability Analysis

The reliability analysis revealed that all Cronbach's Alpha for all sections in the questionnaire revealed a score of more than 0.700. It indicates that all items used is reliable and are able to measure the research construct successfully. The reliability score are as follows; Responsiveness equals 0.769, Communication equals 0.739, Trust equals 0.868, Customer Satisfaction equals 0.801 and Customer Loyalty equals 0.771.

Correlation

The correlation analysis is used to measure the strength and association between the independent variables with the dependent variable. The strength of the association can be measured by using the range stated below:

0.7 and above: very strong relationship

0.5 to 0.69: strong relationship

0.3 to 0.49: moderate

0.1 to 0.29: low relationship

0.01 to 0.09: very low relationship

Table 1: Table of Summary of Pearson Correlation*

Independent Variables	R Value	Relationship	Significant Value	Direction of Relationship
Responsiveness	r = 0.685	Strong	0.000	Positive
Communication	r = 0.687	Strong	0.000	Positive
Trust	r = 0.766	Strong	0.000	Positive
Customer satisfaction	r = 0.788	Strong	0.000	Positive

Correlation is significant at the 0.01 level; N = 126

*Dependent variable: Customer loyalty

Based on Table 1, the results indicate that the relationship between all the independent variables (responsiveness, communication, trust and customer satisfaction) and the dependent variable (customer loyalty) are strong and positive. This means that there is a strong and linear relationship between all the independent variables and the dependent variable.

Regression Analysis

Multiple regression analysis is another technique for measuring the linear association between independent variable and dependent variable. The regression analysis is used to show correlative coefficient that indicates the strengths of the relationship between the independent variables (predictors) and dependent variable.

Table 2: Table of Coefficient of the Multiple Regression

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig
	B	Std. Error	Beta		
(Constant)	0.547	0.239		2.228	0.024
Responsiveness	0.146	0.078	0.151	1.878	0.063
Communication	0.064	0.087	0.067	0.738	0.462
Trust	0.221	0.089	0.258	2.492	0.014
Cust satisfaction	0.429	0.076	0.447	5.646	0.000

Dependent variable: Customer's loyalty

From the correlation of coefficients results in Table 2, only two predictor variables were significant at 5% which are customer satisfaction and trust with Beta value of 0.447 and 0.258 respectively, while the other two variables which are responsiveness and communication was insignificant at 5% with Beta values 0.151 and 0.67 respectively. For trust, the coefficient can be seen as positive relationship towards customer loyalty as the value

is 0.258. It means that 1% increase in trust will increase 0.26 % in customer loyalty. In addition, the Sig. result and Beta value for customer satisfaction, indicate a positive and significant relationship with customer loyalty as the value is 0.447. It means that 1% increase in customer satisfaction will increase the value by 0.45% in customer loyalty. The table above shows how well the independent variables explain the dependent variable.

Table 3: Table of the Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.836 ^a	0.699	0.689	0.632

a. Predictor: (Constant, trust, customer satisfaction)

b. Dependent variable: Customer loyalty

The R Squared value of 0.699 indicates that 69.9% of the variance in the dependent variable (customer loyalty) is explained by the independent variables (trust and customer satisfaction). The remaining 30.1% is explained by other variables. From the result shown in Table 3, there is a positive and significant relation between two predictors; trust and customer satisfaction with the dependent variable customer loyalty.

CONCLUSION AND RECOMMENDATIONS

Presently, there is a lot of competition between the companies especially in B2B transaction. The company should work hard to maintain its loyal customer since it gives more benefit not only in the profit aspect, but also for the long-term relationship in the business. Company should increase the number of loyal customers and maintain the existing customers.

Based on the results of the study, the researchers argue that the most dominant factor to influence customer loyalty is customer satisfaction. When customers are satisfied with the product or service provided, the customer will stay with the company. When the customers are satisfied, it is hard for competitors to motivate these customers to switch to new sellers or service providers. We propose that business organisations and sellers aim to not only satisfy the customers but also to delight them. The term delight is defined as the effect of positive experience with a high level of activation or a combination of arousal and pleasure existing together [1]. We postulate that in B2B relationship, corporate reputation and offering of services and products that are not explicitly mention in contract are a catalyst in developing delight among business partners [24].

Furthermore, in addition to customer satisfaction, trust is critical in creating loyalty among consumers as manifested in the customer's repeat purchases. When the trust of the customer is broken, they will switch to other business organization. Two elements of trust that firms need to concentrate on are credibility and benevolence. Credibility is present when organizations or customers perceive that sellers or partners are able to honour their words and promises while benevolence is developed when customers believe that sellers and service providers are concerned with developing relationship in the best interests of the customers. Similarly, benevolence is present in B2B relationship when business firms believe that their partners have their best interests throughout a business relationship and willing to fulfill the promises made to each other [25]. Moreover, the elements of reciprocity, empathy and responsiveness are key elements of trust which are also proposed in the service quality model [12].

The researchers proposed that the company should be more transparent to their customers in handling customers' complaints and dissatisfactions. In terms of responsiveness and communication, the company needs to concentrate on these factors even though the effect of these predictors on customer loyalty is minimal [34].

In addition, to ensure a sustainable, profitable and long lasting relationship in the business market, a company should invest more effort on creating quality relationship that focuses both on cognitive and affective commitment [36]. Cognitive commitment is based on reciprocity of benefits, the willingness to continue the relationship in anticipation of high switching cost and the involvement of a cost-benefits analysis. On the other hand, affective commitment is related to psychological attachment, identification and affiliation with the partner and a perception on the congruence of positive business values [14, 21]. Petrocum Sdn Bhd would benefit from building long-term relationship with their business partners when business partners feel that it is worth their effort to stay in the relationship not only for economic reason but also for psychological attachment that is manifested in the unity of objective and expectation. Psychological attachment is highly related to emotional motivation. In fact, emotions of business partners may differentiate between a lasting relationship and a mere short term business transactions [7, 9]. In addition to excellent product quality and services, the emotional and affective components have a direct influence on suppliers' marketing strategies. Relationship marketing tools, activity and process should be used to strengthen the relationship-based sources means to create competitive advantage.

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