

CUSTOMER LOYALTY, SATISFACTION AND MARKETING MIX:
EMPIRICAL EVIDENCE FROM INFANT FORMULA INDUSTRY

By

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–Your time is limited, so don't waste it living someone else's life. Don't be trapped by dogma - which is living with the results of other people's thinking. Don't let the noise of other's opinions drown out your own inner voice. And most important, have the courage to follow your heart and intuition. They somehow already know what you truly want to become. Everything else is secondary”.

Steve Jobs

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Table of contents

	<u>Page</u>
Acknowledgement	i
Table of contents	ii
List of tables	vi
List of figures	viii
Abstrak	ix
Abstract	x

		<u>Page</u>
Chapter 1	INTRODUCTION	1
1.0	Introduction	1
1.1	Background of the study	3
1.2	Problem statement	10
1.3	Research objectives	11
1.4	Research questions	12
1.5	Significance of study	12
1.6	Scope of study	15

1.7	Definitions	15
1.8	Structure of report	16
Chapter 2	LITERATURE REVIEW	18
2.0	Introduction	18
2.1	Customer loyalty	18
2.2	Defining customer satisfaction	27
2.3	Defining marketing mix and the four Ps	35
2.4	Theoretical framework	54
2.5	Hypothesis development	55
2.6	Summary of chapter	60
Chapter 3	RESEARCH METHODOLOGY	61
3.0	Introduction	61
3.1	Research design	61
3.2	Sample and population	62
3.3	Data collection procedure	64
3.4	Instrumentation	65
3.5	Statistical analysis technique	68
3.6	Summary of the chapter	73

Chapter 4	RESULTS AND ANALYSIS	74
4.0	Introduction	74
4.1	Profile of characteristics of respondent	74
4.2	Goodness of measures	77
4.3	Reliability test	81
4.4	Descriptive analysis	81
4.5	Correlations	82
4.6	Hypothesis testing	83
4.7	Summary of findings	86
4.8	Summary of the chapter	87
Chapter 5	DISCUSSION AND CONCLUSION	89
5.0	Introduction	89
5.1	Recapitulation	89
5.2	Discussion	90
5.3	Implications of the study	96
5.4	Limitations of study	100
5.5	Directions of future research	102
5.6	Conclusion	102

References	104
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Appendices

Appendix 1: Frequencies	114
-------------------------	-----

Appendix 2: Factor analysis	119
-----------------------------	-----

Appendix 3: Reliability analysis	146
----------------------------------	-----

Appendix 4: Correlations	156
--------------------------	-----

Appendix 5: Regression analysis	158
---------------------------------	-----

Appendix 6: Questionnaires	174
----------------------------	-----

List of tables	<u>Page</u>
Table 2.1 Key classifications of customer loyalty	22
Table 2.2 The marketing mix and proposed extensions of 4Ps	40
Table 2.3 Marketing strategy implications of consumer goods classification	45
Table 3.1 Items of marketing mix	65
Table 3.2 Items for satisfaction	67
Table 3.3 Items for customer loyalty	67
Table 4.1 Demographic profile of respondent	75
Table 4.2 Current brand of infant formula of respondents	76
Table 4.3 Factor analysis for marketing mix	78
Table 4.4 Factor analysis for customer satisfaction	79
Table 4.5 Factor analysis for customer loyalty	80
Table 4.6 Reliability analysis	81
Table 4.7 Descriptive statistics on variables	82
Table 4.8 Pearson correlation coefficients for all variables	83
Table 4.9 Regression analysis between marketing mix and customer loyalty	84
Table 4.10 Regression analysis between customer satisfaction and customer loyalty	85
Table 4.11 Regression analysis of customer satisfaction, marketing mix and customer loyalty	85

List of figures	<u>Page</u>
Figure 2.1 The relative attitude-behavior relationship	20
Figure 2.2 The loyalty construct (1950-199)	21
Figure 2.3 Phases in the development of customer loyalty and associated characteristics	25
Figure 2.4 Schematic of theory	29
Figure 2.5 Six representations of satisfaction and loyalty	32
Figure 2.6 Decisions within the four elements of the marketing mix	37
Figure 2.7 Customer buy benefits, not products	44
Figure 2.8 Theoretical framework of marketing mix, customer satisfaction and customer loyalty	54

ABSTRAK

KESETIAAN PELANGGAN, KEPUASAN DAN CAMPURAN PERMASARAN: BUKTI EMPIRIKAL DARI INDUSTRI RUMUSAN BAYI

Tujuan utama kajian ini dijalankan adalah untuk meneroka konsep rangka kerja campuran pemasaran - dengan 4P dan kepuasan pelanggan sebagai antisiden kesetiaan pelanggan dalam persekitaran B2C bagi industri rumusan bayi. Berdasarkan model kognitif-afektif-konatif, kesetiaan pelanggan (konatif) diandaikan dipengaruhi oleh kedua-dua komponen kognitif (diwakili oleh elemen 4P dari campuran pemasaran) dan afektif (diwakili oleh kepuasan pelanggan). Kajian ini berbentuk kuantitatif dan bukan eksperimen. Respons survey daripada ibu-bapa dengan anak dalam lingkungan umur 0-3 tahun dari lima klinik pakar kanak-kanak swasta di negeri Pulau Pinang yang dianalisis menggunakan model regresi berganda mendapati andaian hipotesis bahawa kedua-dua campuran pemasaran dan kepuasan pelanggan akan mempengaruhi secara positif kesetiaan pelanggan disokong dari segi rekomendasi, pembelian semula dan kesediaan untuk membayar lebih. Implikasi dapatan kajian kepada industri adalah bergunanya model kognitif-afektif-konatif dalam perancangan strategi pemasaran ke atas pelanggan (ibu bapa) jenama rumusan bayi.

ABSTRACT

CUSTOMER LOYALTY, SATISFACTION AND MARKETING MIX: EMPIRICAL EVIDENCE FROM INFANT FORMULA INDUSTRY

The main purpose of this study is to explore the conceptual framework of marketing mix elements - the four Ps and customer satisfaction as antecedents of customer loyalty in the B2C environment of the infant formula industry. Based on the cognitive-affective-conative model, customer loyalty (conative) is assumed to be influenced by both the cognitive (represented by the 4Ps) and affective (represented by customer satisfaction) components. This study employs a quantitative method and non experimental. Survey responses from parents with infants at 0-3 years obtained from five private pediatrics' clinics in Penang analyzed using multiple regression model supported the hypotheses that marketing mix elements and customer satisfaction have positive influence on customer loyalty in terms of recommendation, re-patronage and willingness to pay more. The findings confirm that brand's marketing mix elements and customer satisfaction were positively correlated to customer loyalty. Findings implication to industry is on the usefulness of the cognitive-affective-conative model in the strategic marketing planning of infant formula brands on the customers (parents).

CHAPTER 1

INTRODUCTION

1.0 Introduction

Customer loyalty can have positive impact to the firms' performance and profitability (Heskett et al, 1994). Hence, firms with higher number of loyal customers are considered to have competitive advantage over the others (Heskett et al., 1997; Rust et al., 2000; Woodruff 1997). According to Reichheld and Sasser (1990), customers with high level of loyalty are relatively more cost-effective to serve as compared to others. This is because; loyal customers know the product or service's features and benefits better and therefore expect lesser information than others. In addition, customer loyalty can reduce marketing costs and study showed that profits can be increased by increasing customer loyalty (Bowen and Chen 2001).

According to Reichheld (1993), Wright and Sparks (1999) and Zeithaml et al. (1996) customers with high level of loyalty are willing to increase purchases, pay premium price and provide positive word-of-mouth, hence the relationship between loyalty and profitability are established. Besides that, Oliver (1997) stressed that customer loyalty retains a group of faithful consumers for the company's product or service that make the earnings sustainable overtime. As a result of the benefits, customer loyalty is regarded as the critical aim of many marketing strategies and an underlying objective for strategic marketing planning (Jacoby and Chestnut 1978; Kotler 1997).

In order to understand customer loyalty fully, one cannot deny the strong linkage between customer satisfaction and customer loyalty. The mediating role of customer satisfaction to customer loyalty and customer value has been confirmed by Lam, Shankar, Erramilli, and Murthy (2004) in the business-to-business (B2B) environment. Customer satisfaction is also an important driver for re-patronage and customer loyalty (Liao et al., 2009; Eggert and Ulaga 2002). In addition, Nam, Ekinci and Whyatt (2011) have confirmed the brand equity and brand identification on brand loyalty are fully mediated by customer satisfaction in the hotel and restaurant industry.

Oliver (1991) refers customer satisfaction as the response or feedback from the customer as the results of the customer's emotions or feelings based on the past purchase experience and their expectations towards the product or service purchased. On the other hand, American Marketing Association (2011) defined marketing as "the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large". Besides that, according to the textbook of Mullins and Walker (2010), marketing is vital for a company's ongoing success and to achieve sustainable profit for long term. This is because marketing is trying to anticipate and get to know the requirements of customers by customizing goods or services that will satisfy their needs. In order to achieve this, there are 6 criteria to be observed:

- i. Needs of customer groups to be targeted should be in-line with the company's capabilities and resources.
- ii. Customize services or products to address the needs of the customers.
- iii. Products/ services should be available to customers.

- iv. Company's offerings should be able to create customer awareness and enhance value of appreciation.
- v. Continue to innovate and renovate products/ services to enhance the quality of the firm's offerings based on the feedback from the market.
- vi. Customer loyalty is paramount, hence secure long-term relationships with the customers.

In short, marketing is simply the activities which the firm is doing in order to find out the need and want of the targeted customers by customizing the right mix of their products' offerings with the right pricing that the customers are willing to pay, key messages that are easy to understand, and the right distribution channels to ensure availability at the location where the customers preferred (Rosenbloom and Dimitrova 2011). Based on the principle of parsimony, the core marketing strategies were further streamlined to four strategies: product, pricing, promotion and distribution (place) which are referred as the famous "4Ps" of the marketing mix by McCarthy (1960).

In this study, the relationships between marketing mix, customer satisfaction and customer loyalty for the infant formula industry are to be investigated. Based on the cognition-affect-conation (CAC) model (Oliver 1999), the cognitive and affective stimuli in this study refer to the marketing mix elements and customer satisfaction respectively which ultimately will have an impact towards the consumer behavior or customer loyalty to be specific in this context.

1.1 Background of study

Mothers around the world should breastfeed their babies exclusively for the first 6 months of life in order to ensure optimal growth and development for the infants

(American Academy of Pediatrics (AAP); World Health Organization (WHO). Thereafter, semi-solid or solid food should be introduced as complementary food and continue breastfeeding up to the age of two years and beyond. In fact, there have been numerous studies that have associated the beneficial effect of breastfeeding in infants which including lowering the risk of childhood obesity (Armstrong and Reilly 2002), asthma, allergies, respiratory illnesses and atopic diseases (Gdalevich and Mimouni 2001; Dell and To 2001; Saarinen and Kajosaari 1995). Besides that, Howie et al (1990) had proven that breast-feeding significantly lowers the risk of getting systemic infection in preterm infants. To further encourage breastfeeding, WHO and UNICEF initiated Baby Friendly Hospital Initiative in 1992 in order to promote and support breastfeeding. In Malaysia, the Ministry of Health supports breastfeeding. In Malaysia, majority government hospitals are certified as Baby-Friendly Hospitals based on the requirements of the UNICEF and WHO. With this Baby-Friendly initiative, there are a total of 122 public hospitals and 6 private hospitals accredited as Baby-Friendly Hospitals since 1993.

According to Salim et al. (2006), the Malaysian Exclusive Breastfeeding rate at 4 months and 6 months is only at 19% and 14.5% respectively. This statistics indicated that the breast-feeding rate for Malaysian is lowered than the global rate, which is 38% exclusively breastfeeding at 6 months (Moccia P, 2008). Looking back to the past 10 years, the exclusive breastfeeding rates have decreased from 29% at 4 months, even though there are more efforts in promoting breast-feeding and had higher initiation rates. Some of the factors associated with unsuccessfully breastfeeding for 6 months are mothers are not committed to give breast milk for 6 months, smoke 20 cigarettes or more per day during pre-pregnancy, maternal obesity (Forster 2006), return to work, doubts on the quality and quantity of their breast milk

and spouse's attitude which will directly affect the perception of the mother on breast feeding (Arora 2000). In addition, not supportive family members, ignorance of the benefits of breast milk and the availability of commercial infant formulas are some of the factors identified (Euromonitor 2010).

Due to the factors mentioned and coupled with the fact that there is only a maximum of 60 days of confinement leave for private sectors in Malaysia (Employment Act 1955), women will tend to choose infant formula as the substitution to breast milk once they resume back to work (Euromonitor, 2010). As a result of the current situation, infant formula like Enfalac A+, S26 Gold, Infacare and others are playing an important role in supplementing breastfeeding. Furthermore, the extensive promotion in the private hospitals and pediatrics' clinics by the manufacturers through direct marketing and health talks by healthcare professionals have increased the awareness of the consumers towards infant formulas that is of superior quality which is on par with breast milk in terms of the benefits to the infants (Euromonitor, 2010). Hence, there is a huge potential for infant formula manufacturers to market their products in Malaysia. According to King and Ashworth (1987), the increasing demand of breast-milk substitute or infant formula in Malaysia are due to urbanization, female participation in work force, increased availability of processed milk, extensive coverage of promotional activities by infant formula companies and healthcare professionals and regimentation of breast feeding.

In formula feeding, there are numerous guidelines available for mothers to ensure the nutritional intake for infants are optimized. Codex (1997) defined infant formula as food that is derived from approved sources either from the cow's milk, other animals, fish or plant origin which should provide sufficient nutrients and nutritionally complete to the infants for their optimum growth and development.

Under 21 U.S.C. 321(z), infant formula is defined as an alternative to breast milk which is able to provide complete or partial nutrition to the infants as a sole source of nutrition or supplementing the insufficient of breast milk. On the contrary, the Malaysian Food regulations (1985) defined infant formulas as food that serves as an alternative to human milk. Based on the definition by Code of Ethics for the Marketing of Infant Foods and Related Products (Ministry of Health 2008), the formulas marketed for infants and children in Malaysia can be categorized into 3 categories. They are the infant formula for infant 0-12 months of age which including the ready-to-feed formula, follow-up formula for infant 6 months to 3 years of age including ready-to-feed formula and special formula (special products for infants with unique requirements or feeding intolerance such as lactose intolerance or medical purposes) including ready-to-feed formula. Example of the formulas marketed under the 3 categories by Mead Johnson Nutrition and Pfizer Nutrition are Enfalac A+ and S26 Gold as the infant formula for infants 0-12 months; Enfapro A+ for 6-18 months and Promil Gold for 6-12 months babies as follow-up formula; Enfagrow A+ and Progress Gold for 1-3 years as children formula. As for the special formulas like Enfalac A+ AR, Enfalac A+ Premature formula, Enfalac A+ LactoFree, Wyeth-LBW and so on. Furthermore, the infant formula market can be further segmented into premium and value-brand or economy category. The differences between these 2 categories are price and formulation. For formulation, premium brands are modified cow's milk based formulas with nutrient contents similar or on par with the nutrients found in human breast milk. In contrast, value brand formulas are unmodified cow's milk based formulas which contain the recommended amount of essential nutrients that meet the nutritional needs of an infant.

1.1.1 Infant formula market

The infant formula market is growing at tremendous fast rate. According to Nielsen retail audit (2010), the value growth for infant formula companies for overall market which included both infant (0-12 months) and children (1 year and above) formulas in 2010 is ranged from 3.7% to 21% while for volume growth is from 3.1% to 12.3%. Euromonitor (2010) conducted a comprehensive research on the outlook of baby food in Malaysia and according to them baby food posted a strong growth in 2010 with 8% rose in current value terms, to reach RM1,317 million for baby food category, despite the birth rate in Malaysia continues on the downward trend (Department of Statistics, 2009). Although the birth rate is not in favorable to the infant formula market, the baby food consumption in Malaysia is continued on the rise for the period of 2005-2010 and it is expected to grow at a constant value of compound annual growth rate (CAGR) at 4% over the forecast period of 2010-2015. This situation in Malaysia is attributed to the rising disposable incomes and parents are more willing to give their children the best products (Euromonitor, 2010).

Due to the aggressive promotion through above the line marketing, powder toddler formula posted the strongest growth in current value terms in 2010 as compared to other categories and it is expected to have the strongest growth as well over the forecast period of 2010-2015 at a constant value of CAGR of 5.3%. The improved economy in 2010 and higher disposable incomes were identified as the main attributes to the current situation as parents are more willing to feed their toddlers with formula milk instead of fresh milk which they believe that formula milk is of better quality with the added nutrients that can support the growth and development (Euromonitor, 2010).

In order to have competitive advantage over the others, infant formula manufacturers are investing heavily into the product development by having extensively research and development as to formulate formulas that resemble to human milk to provide an alternative for parents to look breast milk substitute. The latest development is the supplementation of docohexaenoic acid (DHA) and arachidonic acid (ARA). Throughout the years, numerous studies have shown that the benefits of supplementation of DHA and ARA can enhance the problem solving skill, neurodevelopmental performance, visual acuity for infant at different ages (Birch 1998, 2000 and Willatts 1998). Furthermore, researchers also start looking into the benefits of prebiotics and probiotics into the infant formulas. Prebiotics is having bifidogenic effects which will enhance the growth of good bacteria in the colon of the infant that have beneficial effect towards the infant. On the other hand, probiotics are good bacteria that will improve the intestinal health of the infant (Alles *et al* , 2004). In addition, by supplementing probiotics in the formula, it can reduce the allergic manifestations in infants (Kankaanpää *et al.*, 2002). Besides that, according to Aggett *et al* (2003), supplementation of nucleotides in infant formula increased the immunology and gastrointestinal effects in babies during the early years.

In Malaysia the top players in the infant formula market are Danone Dumex (M) Sdn Bhd, Nestle (M) Bhd, Dutch Lady Milk Industries Bhd, Mead Johnson Nutrition (M) Sdn Bhd, Abbott Laboratories (M) Sdn Bhd, Wyeth (M) Sdn Bhd, Fonterra Brands (M) Sdn Bhd and Snow Brand Marketing Sdn Bhd. In 2009, Danone Dumex (M) Sdn Bhd registered the highest value share at 28% while Nestle (M) Bhd had the largest decrease in 2009 due to the strong competition in toddler milk category (Euromonitor 2010). As stated by the Code of Ethics for the Marketing of Infant Foods and Related Products (Ministry of Health 2008), infant formula

marketed for 0-1 year, advertising in any representation whatsoever (written, audio, visual or electronic) is strictly prohibited in Malaysia. Hence, one of the ways infant formula companies market their formulas is through direct marketing where pregnant mothers and regular consumers are offered club membership which members will have the privilege to receive information booklets, newsletters and samples through direct mailing. On top of that, members will get to attend the parenting events organized by the respective companies and be rewarded through their loyalty program as well. To stay competitive, infant formula companies invest heavily in the product development and therefore many new products had been launched in the recent years. For instance, Nestle (M) Bhd launched their premium brand of NAN Pro infant formula and NAN HA special formula with the supplementation of active probiotic BL Bifidus in 2009 which is aimed to strengthen the immune system of the infants. In addition, NAN Pro 3 and NAN HA 3 for toddlers aged 1-3 years old have been added into the company's portfolio as well. As for Mead Johnson Nutrition (M) Sdn Bhd, they launched their Enfagrow A+ (for 1-3 years old) and Enfakid A+ (for 4 years and above) with DHA Plus and Triple Protection Guard in June 2011. The new product offers an increased level of DHA which helps to meet the FAO/WHO recommended levels of DHA as well as other nutrients like anti-oxidants for the development of brain, eyes and immune system.

In summary, the prospects for the business of infant formula remain lucrative and will enjoy steady growth over the forecast period. Sales are expected to grow despite a falling birth rate in Malaysia due to the rising affluence and growing awareness towards the nutritional benefits of infant formulas. Thus, many parents will choose to feed their babies with formula milk instead of normal diary milk or fresh milk which is a reverse phenomenon as compared to the past. Due to the rapid growth

of consumption for formulas in Malaysia, formula milk manufacturers are expected to engage in fierce competitions. Hence, they will implement and undertake various forms of marketing strategies, promotions and launch products enhancements in order to secure the highest number of loyal customers as to gain highest market share.

1.2 Problem Statement

Infant formula is playing an indispensable role as an alternative to breast milk and supplementing the insufficient of breast milk due to the increasing demand for infant formula. The situation is similar in United States where according to Chezem (2004), 54% of infants in US received infant formula feeding during hospitalization and 40% of mothers planning to breastfeed their babies resorted to infant formulas during the first month after delivery due to insufficient of breast milk. This situation has led to “Milk Wars” among the manufacturers of infant formula as to secure higher market share. To make the situation more challenging, manufacturers are required to abide to the International Code of Marketing of Breast-milk Substitutes (WHO Geneva, 1981) and the Code of Ethics for The Marketing Infant Foods and Related Products (Ministry of Health Malaysia, 2008) when comes to formulate their marketing strategies.

With intense competition coupled with the stringent rules implemented by Ministry of Health, whichever manufacturers able to formulate and customize their marketing strategies that can secure the highest number of loyal customers at the same time in line with the code of ethics will be able to stand tall among other competitors. Hence, in order to have an insight of the customer behavior when comes to the selection of infant formula, we need to have the answers to following questions: i. To

what extend the brand's marketing mix elements particularly the four Ps (product, place, price and promotion) affect the customer loyalty in the business to consumer (B2C) environment in the infant formula industry? ii. Is customer satisfaction playing an important role in influencing the customer loyalty in the B2C environment towards the selection of an infant formula? Therefore, the objective of this research is aimed to investigate the effects of marketing mix elements particularly the 4Ps (price, product, place and promotion) and the customer satisfaction on customer loyalty in the B2C environment in the infant formula industry.

1.3 Research Objectives

According to previous studies that cognitive and affective components can proceed concurrently, independently, interactively and as well as exists together (Burke and Edell, 1996; Ruiz and Sicilia, 2004). Hence, the objectives of this study are to provide answers to the following questions which will examine the cognitive and affective components independently and when they exist together.

- i. To determine whether the brand's marketing mix (product, place, price and promotion) will have any influence on customer loyalty such as recommendation, patronage and pay more.
- ii. To determine whether customer satisfaction on the brand will have any influence on customer loyalty such as recommendation, patronage and pay more.
- iii. To determine whether brand's marketing mix (product, place, price and promotion) and customer satisfaction will have any influence on customer loyalty such as recommendation, patronage and pay more.

1.4 Research Questions

In this study, we provide answers to some of the questions aroused from the three major categories:

- i. Does the brand's marketing mix elements (product, place, price and promotion) having any influence on customer loyalty (recommendation, patronage and pay more)?
- ii. Does the customer satisfaction on the infant formula's brand have any influence on customer loyalty
- iii. Does the brand's marketing mix elements (product, place, price and promotion) and customer satisfaction have any influence on customer loyalty?

1.5 Significance of Study

This study enables us to examine and analyze empirically a framework raised based on the cognition-affect-conation model that consider marketing mix and customer satisfaction as antecedents of customer loyalty in the context of infant formula industry. In addition, we should be are able to comprehend the significance of marketing mix particularly the 4 Ps and customer satisfaction on customer loyalty. The findings from this study will be important within the B2C environment particularly in the infant formula industry. Furthermore, with the outcomes identified, both academician and manufacturer are able to have a better insight on the determinants that will lead to customer loyalty in the infant formula industry. Hence, managers are able to formulate marketing strategies that comply with the International Code of Marketing of Breast-milk Substitutes (WHO Geneva, 1981) and the Code of

Ethics for The Marketing Infant Foods and Related Products (Ministry of Health Malaysia, 2008) to secure higher loyal customers which eventually will bring higher profit to the company.

1.5.1 Theoretical Contributions

Customer loyalty is considered to be one of the factors that will have significant impact to the firm's performance and profitability. In addition, one of the key drivers to maintain the long-term relationship between suppliers and consumers is to ensure customer satisfaction. Hence, it is not surprise that it is being studied extensively in both the business-to-consumer (B2C) and business-to-business (B2B) environment.

Throughout the years, there were only two studies found in Malaysia context that were related to infant formula industry. They were Ramayah et al (2004) which was conducted to investigate the relationships between belief, attitude, subjective norm, intention and behavior towards the choice of infant formula based on the Theory of Reasoned Action (TRA) and Chye and Chin (2007) which was aimed to examine the perception and the attitudes of parents in East Malaysia pertaining to the infant formula and the infant feeding approaches. Therefore, the motivation to conduct this study is to extend the understanding of consumer behavior in the infant formula industry by examining the interrelationships of marketing mix elements, particularly the four Ps, customer satisfaction and customer loyalty in the B2C environment.

In addition, this study also aims to examine the conceptual framework which follows the Oliver (1999)'s model of cognitive-affective-conative behavior by linking

marketing mix elements, customer satisfaction and customer loyalty constructs. From the aforementioned model, marketing mix is regarded as cognition-based construct while customer satisfaction is regarded as affection-based construct which both of the constructs were having positive influence towards customer loyalty.

1.5.2 Practical Contributions

This study contributes to the companies of infant formula as from the results they will be able to understand and identify the important factors that are related to customer loyalty. Once managers realize and embrace the factors, it will facilitate them to initiate and implement customized strategies and initiatives involving those identified factors towards the monitoring and enhancing customer loyalty more effectively. The effects of having higher levels of customer loyalty have been associated to increased revenue, reduced customer acquisition costs and lower costs of serving regular customers which eventually will lead to higher profit margin. Furthermore, with the understanding of the impact of marketing mix especially the 4Ps (price, product, promotion and place) and customer satisfaction towards loyalty, managers are able to develop their product offerings according to the preferences of the customers. Thus, reducing unnecessary wasting of company's resources to do promotion and at the same maximize the company's profit. The findings are paramount to manufacturers as those who understand the outcomes of the study will be able to formulate more effective marketing plans that can contribute towards the brand-building activities and have competitive advantage over the others.

1.6 Scope of study

The infant formula industry in Malaysia is chosen for the empirical analysis through quantitative study. This approach is in-line with the previous research focus on the customer loyalty and satisfaction which only one particular industry is being selected (Shankar et al., 2003; Lam, Shankar, Erramilli and Murthy, 2004; Deng et al., 2010; Liu, 2011). In addition, by selecting only one industry, items in the questionnaire can meet the characteristics of the studies industry and provide proper responses. Moreover, single industry also enables us to reduce the consequences of variance not due to the measured constructs and improve internal validity. Thus, the power of our hypothesis testing can be improved. The targeted respondents for this study are parents with children aged 0-3 years which will be randomly selected in private clinics situated in Penang state. Penang state is being chosen as it is the most urbanized state in Northern region (Department of Statistics 2010). As mentioned earlier by King and Ashworth (1987), urbanization is one of the contributing factors that lead to increasing demand for infant formula. Hence, we can expect there will be a lot of parents in Penang choose to use infant formula as alternative to breast milk which will enable us to obtain higher number of respondents to increase the generalizability.

1.7 Definitions

Customer Loyalty: Both attitudinal and behavioral loyalty is categorized under loyalty. To simplify, behavioral loyalty is about customer's receptiveness to continue to buy the product and maintain a good buyer-seller relationship with the supplier. For

attitudinal loyalty, it is the degree of the customer's mental affection and support with the supplier (Chaudhuri and Holbrook, 2001; Rauyruen and Miller, 2007).

Customer Satisfaction: The response or feedback from the customer as the results of the customer's emotions or feelings based on the past purchase experience and their expectations towards the product or service purchased (Oliver 1991).

Product: It is a solution provided to the purchaser which can be measured in terms of the distribution services, performance, support services and physical attributes. (van Riel et al, 2005)

Price: The perceived value in the purchaser's mind which can be an indicator of the product benefits and quality. (Yoo, Donthu and Lee, 2000)

Place: The location where the customer can buy the product and service with reliability and easiness. (van Riel et al, 2005)

Promotion: Tools used to enhance the levels of customer awareness towards a service or product (Yoo et al, 2000)

1.8 Structure of report

Chapter one is the introductory chapter with the objective to provide an overview to the infant formula industry in Malaysia. Besides that, it also highlights the research objectives, research problem, research questions and the settings.

Chapter two is the literature review that details customer loyalty, customer satisfaction and the marketing mix particularly the 4Ps (price, product, promotion and place). Besides, it also further elaborates on the relationships of the antecedents on

customer loyalty. In addition, this chapter also details the theoretical framework and research hypotheses.

Chapter three details the research methodology of the intended study. This chapter also explains the questionnaire design and statistical techniques employed in the data analysis.

Chapter four is about data and analysis. The findings from the study through the data collection and the results from the survey will be discussed.

Chapter five that provides detailed the outcomes, managerial and theoretical implications from the study. Furthermore, it also provides the limitations of the study and suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This ultimate goal of literature review is to critically review current knowledge including substantive findings as well as theoretical and methodological outcomes based on the secondary data. In this context, the antecedents of loyalty which include marketing mix particularly the 4Ps (price, product, promotion and place) and customer satisfaction and customer loyalty in the infant formula industry will be in focus for the rest of the sections in this particular chapter.

2.1 Customer loyalty

In this increasingly competitive markets, having secured the highest number of loyalty customers are seen as winning over the battles. This is because by capturing a huge pool of loyalty customers, it is associated to a sustainable competitive advantage and winning market share (Luarn and Lin, 2003; Nasir, 2005). By retaining an old customer, it is considered much more cost effective than recruiting or attracting a new customer. Hence, loyal customers are crucial to the success of a business (Reichheld and Scheffer, 2000). Due to this reason, firms maximize customer retention with the aim to increase their market share. Moreover, loyal customers not only willing to buy more, they are also less price sensitive and willing to pay a higher price as compared to new customers. Besides that, loyalty and profitability are the results of positive word of mouth from the loyal customers (Reichheld, 1993; Wright and Sparks, 1999;

Zeithaml et al., 1996). Therefore, to be able to retain a stable pool of customers whose are loyal to the brand has becoming one of the core competencies that companies are looking forward. By having this core competency, companies will have a competitive advantage over the others.

2.1.1 Defining customer loyalty

The loyalty concept has been evolved throughout the years with the first appeared in the 1940s that proposed loyalty as the measurement perspective interpreted by the researcher which is a uni-dimensional construct. During that time, two separate loyalty concepts appeared; they were “brand preference” by Guest (1944, 1955) and “share of market” by Cunningham (1956) which was later referred as attitudinal loyalty and behavioral loyalty respectively. According to Brown (1952), brand loyalty focused on purchase patterns of consumers which are further classified into four different categories, they are undivided loyalty, divided loyalty, unstable loyalty and no loyalty. Later, loyalty was measured as the probability of product repurchases (Lipstein, 1959; Kuehn, 1962). On the other hand, scholars like Day (1969) and Jacoby and Chestnut (1978) suggested that it is insubstantial by just having behavioral as the definition for loyalty. The justification from them was that the definition does not differentiate between true loyalty and spurious loyalty which could be resulted from insufficient of choices for the consumer. With the criticism, scholars proposed to incorporate attitudinal dimension and behavioral dimension when comes to measuring loyalty. In fact, Thiele (2005) suggested in his study that marketers should monitor attitudinal loyalty as it is considered as the most important construct or aspect. Dick and Basu (1994) conceptualized loyalty as the relationship between the relative attitude toward an entity (brand/service/store/vendor) and patronage behavior. In their

study, they are cross-classifying the relative attitude with repeat patronage which leads to the four specific conditions related to loyalty as shown in the Figure 2.1.

		Repeat Patronage	
		High	Low
Relative Attitude	High	Loyalty	Latent loyalty
	Low	Spurious	No loyalty

Figure 2.1: The relative attitude-behavior relationship (Dick and Basu, 1994)

Below are the summary of the four conditions:

- i. No loyalty: A low relative attitude coupled with low repeat patronage signifies a nonexistence of loyalty. This situation refers to a recent brand introduction and/or inability to communicate the brand's competitive advantages. Besides that, this situation could refer to the similarity of the competing brands in a dynamics market place.
- ii. Spurious loyalty: A low relative attitude combined with high repeat patronage .It is characterized by nonattitudinal influences on behavior. This concept is similar to the notion of inertia by Assael (1992) which mentioned that consumers purchase the same brand based on the situational cues for low involvement product as they perceive all the brands are similar. On top of that, social influence also plays the role in spurious loyalty.

- iii. Latent loyalty: This phenomenon is a serious concern for marketing managers. It is characterized by high relative attitude with low repeat purchase. This situation is attributed to a marketplace where nonattitudinal influences are similar or more influential than attitudes in determining patronage behavior.
- iv. Loyalty: It is the most preferred conditions among the others which are characterized by a strong linkage between relative attitude and repeat purchase.

Day (1969) further concurs that loyalty may be more complex than it is. Thus, it may include both attitudinal and behavioral loyalty. To simplify, behavioral loyalty refers to the customer's receptiveness to continue buying the product and to maintain a good relationship with the supplier. While the level of customer's mental affection and attitudinal support face-to-face with the supplier is referred to attitudinal loyalty (Chaudhuri and Holbrook, 2001; Rauyruen and Miller, 2007). Since then, the bi-dimensional concept has been incorporated and referred as composite loyalty (Jacoby 1971). Based on Jacoby and Chestnut (1978), the composite definition of loyalty should include favorable attitudes, intentions and repeat purchase. This evolution of loyalty can be illustrated as below:

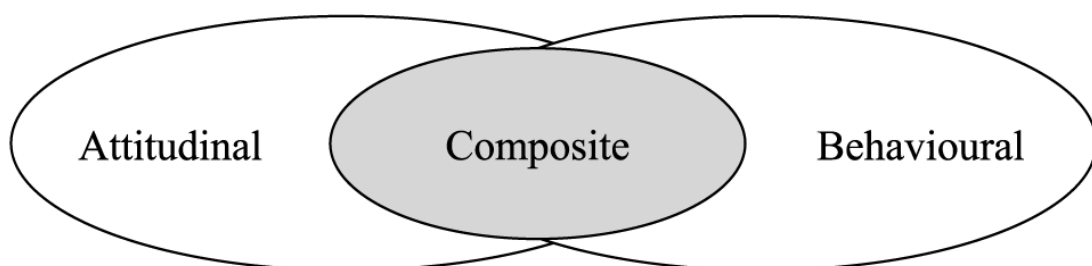


Figure 2.2: The loyalty construct (1950-1990)

To better understand customer loyalty and its contributions, Table 2.1 summarizes and enhances the explanation and knowledge of customer loyalty by quoting some of the studies conducted previously. Based on the studies, we can understand that some studies are focused more towards defining the constructs whilst the rest focused on its measurement. Besides that, the focal point for some studies is surrounding on the use of multi-item measurement scales with the aim to identify and understand the antecedents of customer loyalty.

Table 2.1: *Key classifications of customer loyalty*

Author(s), year	Contribution
Jacoby and Chestnut (1978)	3-fold classification characterizing approaches to measuring brand loyalty: Behavior Psychological commitment Composite indices
Dick and Basu (1994)	Study concentrate on the relative attitude and potential moderators of the relative attitude to repeat-patronage based on social norms and situational factors. Relative attitude is the degree to which the consumer's evaluation of one alternative brand dominates over another. True loyalty only exists when repeat patronage coexists with high relative attitude. Classification including spurious, latent and sustainable categories of loyalty.
Christopher <i>et al.</i> (1993)	The loyalty Ladder Examined the progress up or along the rungs from prospects, customers, clients, supporters and advocates.

	Progression requires increased discussion between exchange parties, commitment and trust, which develops within a consumer's attitude based on their experiences including dialogue.
Baldinger and Ruben (1996)	A composite approach. Examined customer loyalty in five different sectors on the predictive ability of behavioral and attitudinal data.
Hallowell (1996)	Investigated the relationships between customer loyalty, customer satisfaction and profitability.
O'Malley (1998)	Focus on the loyalty programmes and their effectiveness.
Raju (1980)	Measurement for loyalty with scale developed within the Exploratory Tendencies in Consumer Behavior Scales (ETCBS).
Beatty et al. (1988)	Commitment is assumed to be similar to loyalty and scale was developed to measure commitment which includes items that reflected brand commitment, ego involvement and purchase involvement.
Pritchard et al. (1999)	Based on Psychological Commitment Instrument (PCI), customer loyalty in a commitment loyalty measure is conceptualized.
Gremler and Brown (1999)	The concept of customer loyalty is extended to intangible goods and termed as service loyalty. They suggested a 12-item measure; with a seven-point scale.
Oliver (1999)	The notion of situational influences is being emphasized. A four-phase model of customer loyalty development building on previous studies is developed with the addition of the fourth action phase.
Jones et al. (2000)	Extended the investigation for customer loyalty which is termed as "cognitive loyalty". It is regarded as higher order dimension as it was referring to the consumer's conscious decision making process when comes to alternative brands before a decision is made.

	The switching/repurchase intentions are considered one of the aspect of cognitive loyalty, which focused on the analysis for segmentation and prediction purposes that is beyond satisfaction.
Knox and Walker (2001)	<p>The measurement of customer loyalty was developed based on the empirical study of grocery brands.</p> <p>Finding revealed that for customer loyalty to exist, brand commitment and brand support were necessary and sufficient conditions.</p> <p>Classification-loyals, habituals, switchers and variety seekers was produced.</p> <p>Guidance for mature brand rather than emerging or new brands was provided.</p>

2.1.2 The cognition-affect-conation (CAC) model

Oliver (1999) hypothesized that in the process of developing customer loyalty, it should include four different phases (cognitive, affective, conative and action). According to him, each phase has their unique characteristics and dimensions which act as either sustainers or vulnerabilities. Sustainers signify attracting the customer to be loyal while vulnerabilities indicate retaining the customer towards an alternative. According to McMullan (2005) whose aim is to examine the 4th phase of the model in his study on the complex linkages between the attitudinal and behavioral dimensions of customer loyalty was being investigated, the characteristics of the first three phases are based on existing validated research, while the fourth phase is remained untested. Figure 2.3 illustrates the associated characteristics and the development of customer loyalty. As observed from the diagram, the mediating factors are sustaining and vulnerability which allow modeling of the continued