FACTORS AFFECTING CUSTOMER LOYALTY IN THIRD PARTY LOGISTICS IN KENYA: A CASE OF ROY HAULIERS LIMITED

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ABSTRACT

Services are by their very nature intangible and thus their assessment and subsequent evaluation cannot be achieved prior to their consumption; this justifies their classification as "experience" products. This results in high uncertainty in customers' minds, forcing them to concentrate on certain quality signals or service attributes to decrease information asymmetries. Relationship marketing has thus emerged as an exciting area of marketing that focuses on building long-term relationships with customers and other parties. The study found that the most significant amongst factors affecting customer loyalty in third party logistics relationships in Kenya are Economic Switching Barriers followed by Customer Expectation, Price & Service Quality and finally Price. Thus, it was concluded that these factors need to be investigated in order to remediate the Customer Loyalty in Third Party Relationships in Kenya. The study adopted a descriptive research design statistics to generate the required frequencies and percentages to interpret and answer the research questions. The respondents were drawn from the employees of Roy Hauliers Limited which according to human resource department of the company has 232 employees. A sample of 20% (46 respondents) from within each group in proportions that each group bear to the population as a whole will be taken using stratified random sampling. Primary data was gathered using a self- administered questionnaire. A pilot test was carried out to test the validity and reliability of the research instruments. Data collected was purely quantitative and it was analysed by descriptive analysis. Data analysis used was SPSS to generate quantitative reports through tabulations, percentages, and measures of central tendency. Tables were used to present responses and facilitate comparison. This was to generate quantitative reports through tabulations, percentages, and measure of central tendency. Regression analysis technique was used to enable the researcher to assess the ability of an independent variable(s) to predict the dependent variable(s).

Key Words: *Logistics service providers (LSP), Logistics management, Service quality, Perceived switching barriers, Customer Loyalty and 3PLs (Third Party Logistics)*

Introduction

Services are by their very nature intangible and thus their assessment and subsequent evaluation cannot be achieved prior to their consumption; this justifies their classification as “experience” products (Nelson, 1974). This results in high uncertainty in customers’ minds, forcing them to concentrate on certain quality signals or service attributes to decrease information asymmetries. Relationship marketing has thus emerged as an exciting area of marketing that focuses on building long-term relationships with customers and other parties. In the relationship marketing literature there is a general agreement that the quality and the satisfaction of the relationship between buyer and seller are important determinants of the permanence and intensity of the relationship and the success of the firm (Berry, 1995)

There was little if any evidence in the literature linking or relating these two attributes directly to satisfaction. Moreover, the role of purchase behaviour as an antecedent of satisfaction from the service and its physical and interactive elements have received even less attention, although numerous studies (Anderson et al., 1994; Cronin and Taylor, 1992; Zeithaml et al., 1996) assumed that previous or past experiences was a primary determinant of customer satisfaction. A deeper understanding of the interactions among customer satisfaction, physical and interactive elements and customer repeat patronage should go a long way in improving management effectiveness in the service sector.

Statement of the Problem

A multitude of companies today had already identified the need to create a loyal customer base and acknowledges that maintaining existing customers and extending business with them was significantly less expensive than acquiring new customers (Stone, Woodcock, and Wilson 1996). Empirical proof of the proliferation of such customer loyalty efforts in the business world was provided in the form of loyalty programs, which many companies installed during the past years (Hallberg 2004). By engaging in efforts aimed at creating customer loyalty, which in turn fosters financial success in monetary terms (Anderson, Fornell, and Lehmann 1994), firms react to increasing competitive challenges.

The question of how loyalty develops has been subject to an abundance of research, leading to an expansive body of literature on loyalty determinants (Pritchard, Havitz, and Howard 1999). The extant literature exploring different factors and their constituent effects on loyalty, however, reveals a strong focus on consumer goods and industrial equipment settings, while industrial services had received relatively little attention so far. In addition, the majority of articles incorporates merely a few potential determinants and thus fails to draw a comprehensive picture of the mechanisms of customer loyalty formation.

Just like other businesses, logistics service providers (LSPs) were faced with increasing competitive pressure that urges them to concentrate not only on operational business processes, but also on an efficient and effective customer management. One way to meet this challenge of rapid growth and expansion, according to Langleyet al. (2005) was to focus on establishing, maintaining, and developing relationships with customers.

Statistics show there was an increase in the usage of third party logistics in Kenya (KIPPRA, 2010), hence the need for enhanced customer loyalty to support the third party relationships. However there was hardly any empirical study that was conducted to determine the factors affecting customer loyalty in third party relationship. Hence this study sought to evaluate these factors affecting customer loyalty in Third Party Logistics in Kenya.

Overall Objective

The overall objective of this study was to investigate Factors affecting Customer Loyalty in Third Party Logistics.

Specific Objectives

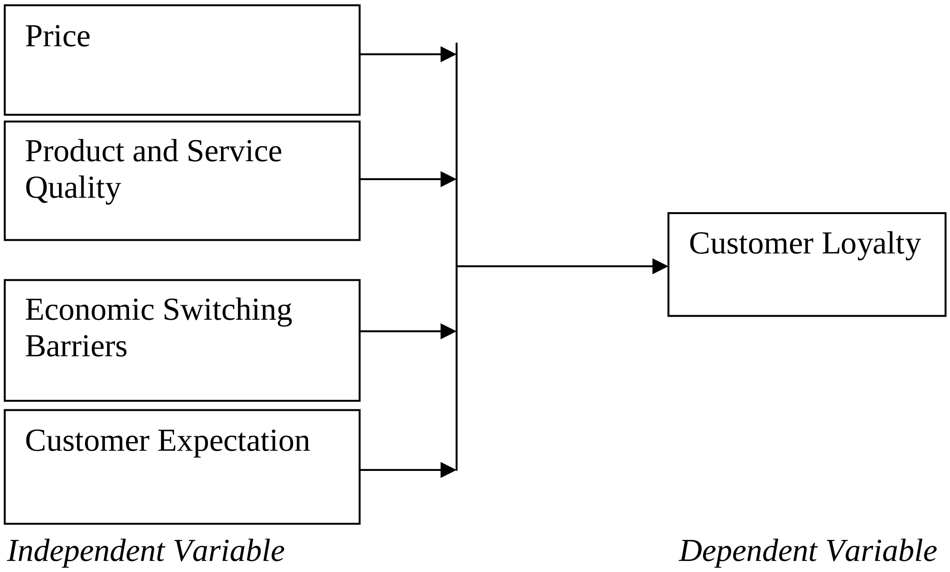
The study guided to achieve the following specific objectives:

1. To investigate whether pricing affect customer loyalty in Third Party in Roy Hauliers Limited.
2. To establish whether product and service quality affect customer loyalty in Third Party in Roy Hauliers Limited.
3. To find out whether economic switching barriers influence customer loyalty in Third Party in Roy Hauliers Limited.
4. To determine whether customer expectation influence customer loyalty in Third Party in Roy Hauliers Limited.

Justification of the Study

Kenya, like other developing economies requires large quantities of affordable and good quality Logistic supplies to sustain private investments and growth. Ensuring efficiency in service delivery and competitiveness in Logistic prices will be central to attainment of the objectives of the vision 2030. Vision 2030 will be Kenya’s new development blueprint covering the period 2008 to 2030. It aims to transform Kenya into a newly industrializing, “middle-income country providing a high quality life to all its citizens by the year 2030” (GOK, 2008).

Conceptual Framework



Scope of the Study

The study covered Roy Hauliers Limited in the year 2013. The study considered the following variables: prices, product and service quality, economic switching barriers, and customer expectation.

Operational Definition of Terms

Logistics service providers (LSP)

If a company employs an outside provider to perform some or all of its logistics activities, this outside provider is termed a logistics service provider (Bhatnagar, Sohal, and Millen 1999, p. 569).

Logistics management

This was seen as that part of Supply Chain Management that plans, implements, and controls the efficient, effective forward and reverses flow and storage of goods, services and related information between the point of origin and the point of consumption in order to meet customers' requirements.

Service quality

This follows the definition of Zeithaml (1988) that service quality was a consumers appraisal of a services overall excellence or superiority.

Perceived switching barriers

The perceived switching barriers are conceptualized as the consumers' evaluation of the resources and opportunities needed to perform the act of switching as well as the constraints preventing it (Ranaweera and Prabhu, 2003).

Customer Loyalty

In the supplier-focused perspective, customer loyalty was seen as a bundle of measures that aim at improving relationships with customers. The supplier was the centre of attention and the customer was only be regarded as the factor at which success of customer loyalty becomes manifest.

3PLs (Third Party Logistics)

As Third Party Logistics form the point of reference for logistics outsourcing as dealt with in this study, the existing notional ambiguities in research have to be examined. According to Razzaque and Cheng (1998, p 93), Muller (1993) seemed to be the first author to identify different types of Third Party Logistic Services. To him, there are four distinct classes of Third Party Logistic Services.

Literature Review

Social Exchange Theory

Social exchange theory deals with "the relational interdependence, or relational contract, that develops over time through the interactions of the exchange partners." (Lambe, Wittmann, and Spekman 2001, p. 3) While this concept has only entered marketing theory in the 1980s, the discussion goes as far back as to the Greek philosopher Aristotle, who distinguished social exchange from economic exchange in his Nicomachean Ethics (Aristotle 1999, 1162a34-1163a24). Later, sociologists such as Homans (1958), and as well as social psychologists such as Thibaut and Kelley (1959) worked on the concept of social exchange.

Equity Theory

Equity theory represents an extension of social exchange theory by adding the aspect of fairness. While the concept dates back to Homans (1958), equity theory was primarily coined by Adams (1963, 1965). At that time referred to as "theory of inequity", it was introduced to explain wage inequities. The basic assumption underlying equity theory was that each party in a relationship compares its input-output-ratio to that of the other party. Analogous to social exchange theory, social as well as economic considerations are incorporated in the evaluation of fairness. In case the ratio was balanced, the perception of being fairly treated was conveyed.

Commitment Trust Theory

Morgan and Hunt (1994) first introduced commitment trust theory in their article on successful relationship marketing. According to them, commitment and trust function as key mediating variables between five antecedents (relationship termination costs, relationship benefits, shared values, and opportunistic behavior) and five outcomes (acquiescence, propensity to leave, cooperation, functional conflict, and decision-making uncertainty). By highlighting commitment and trust, Morgan and Hunt's theory was based on the fundamental ideas of social exchange theory.

Research Methodology

Research design

Research design refers to the method used to carry out a research. The study adopted a descriptive research design. A descriptive study was undertaken in order to ascertain and be able to describe the characteristics of the variable of interest in a situation (Kothari, 2004).

Target population

The target population of the study was composed of all the firms in the Third Party Logistics Companies in Kenya. The respondents were drawn from the employees of Roy Hauliers Limited which according to human resource department of the company has 232 employees. Mugenda and Mugenda (1999), explain that the target population had some observable characteristics, to which the researcher intends to generalize the results of the study.

Sample Size and Sampling Technique

The sampling plan describes the sampling unit, sampling frame, sampling procedures and the sample size for the study. The sampling frame describes the list of all population units from which the sample was selected (Kothari, 2004). From the above target population of one hundred and thirty eight, proportional allocation was used to calculate the sample size from each strata using stratified random sampling which gives each item in the population an equal probability chance of being selected. Stratified random sampling technique was used when population of interest was not homogeneous and subdivided into groups or strata to obtain a representative sample.

Data Collection Method

This study collected quantitative data using a self-administered questionnaire. Nevertheless, where it proves difficult for the respondents to complete the questionnaires immediately, the questionnaire was left with the respondents and picked later.

Data Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. Data collected was purely quantitative and it was analyzed by descriptive analysis. The descriptive statistical tools will help in describing the data and determining the extent used. Data analysis used Statistical Package for the Social Sciences (SPSS) version 17.0 to generate quantitative reports through tabulations, percentages, and measures of central tendency.

Results

Inferential Analysis

This research had the overall objective of investigating Factors affecting Customer Loyalty in Third Party Logistics in Kenya. Since the measures that are used to assess the primary constructs in the research model are quantitative scales, regression analysis was used to achieve this end. Regression analyses are a set of techniques that can enable the researcher to assess the ability of an independent variable(s) to predict the dependent variable(s).

The F-statistics produced ($F = 114.489$) was significant at 1 per cent level (Sig. $F< 0.01$), thus confirming the fitness of the model. Therefore, there is statistically significant relationship between Price, Product and Service Quality, Economic Switching Barriers, and Customer Expectation. The coefficient of determination R^2 value was 0.834. This shows that 83.4 per cent of the variance in dependent variable (Customer Loyalty) was explained and predicted by independent variables (Price, Product and Service Quality, Economic Switching Barriers, and Customer Expectation). These research results are a strong pointer to the fact that Customer Loyalty in the Third Party Logistic Service Providers is a function of Price, Product and Service Quality, Economic Switching Barriers, and Customer Expectation. These research results support the views expressed by, Grewal (1996,), Dabholkar P.A.(1995), Lee,J., & Feick, (2001), Machleit (2001) on the Price, Product and Service Quality, Economic Switching Barriers, and Customer Expectation respectively on the Third Party Logistics Service Providers.

It can be observed that every time Economic Switching Barriers are increased by 1 unit, Customer Loyalty is increased by 0.650 when all other variables are held constant. When Customer Expectation are increased by 1 unit, Customer Loyalty is increased by 0.510 when all other variables are held constant and when Price are increased by 1 unit Customer Loyalty is increased by 0.235 when all other variables are held constant. When Product and Service Quality is increased by 1 unit, Customer Loyalty is increased by 0.320. Therefore, Customer Loyalty is caused by Economic Switching Barriers, Customer Expectation, Price & Service Quality and Price in that order.

Regression Coefficients

	Co-efficients	t-values	Significance	R Square	Adjusted R. Square	Model F-value
Constant	0.263	1.648	0.101	.846	.839	114.49
Customer-Loyalty Relationships(Price)	0.235	1.867	0.032			
Product and Service Quality	0.320	5.274	0.000			
Economic Switching Barriers	0.650	2.567	0.013			
Customer Expectation	0.510	12.013	0.000			

Findings and Discussions

Pricing

The study sought to investigate the relation of Price and Customer Loyalty in the following areas; price-quality ratio, price fairness, price transparency, price reliability and relative price. These dimensions constitute the determinants of price satisfaction, and consequently their satisfaction and relative importance should therefore be measured continuously. The study also found that Third Party logistics service providers in Kenya agree, on average, that there are price regulatory impositions and inducements on their firms to customer loyalty. Price has a weak and positive association to customer loyalty and that the relationship is statistically significant.

The implications are that in Kenya, there are no price regulations that dictate business organizations to perform customer loyalty activities. Nevertheless, if prices change, customers should be informed properly and in a timely manner, in order to built trust and maintain a long-term relationship. Studies show that practices like demand-based pricing, such as dynamic pricing, are generally considered unfair by consumers, and that they are harmful to trust building (Garbarino and Lee, 2003). In many industries mostly service hidden pricing is a common practice and it is generally assumed that such tactics are a good idea (Ayres and Nalebuff, 2003). Companies announce a “low” price while hiding various charges in the fine print. In the long run, however, such practices are harmful, not only for the customers who are frustrated when they find out what the product or service really costs, but also to the whole industry as they induce unfair price competition (Ayres and Nalebuff, 2003).

Product and Service Quality

The study established a weak and positive relation between product and service quality and customer loyalty through the firm's expectation to receive special recognition or award for adoption of customer loyalty. The study also found that Third party logistic service providers in Kenya agree, on average, that there are product and service quality effects to customer loyalty. Customer loyalty has a weak and positive association to product and service quality and that the relationship is statistically significant.

The effect of product and service quality on customer loyalty means that the benefit and consequently the satisfaction perceived by the customer depend both on cost and on performance aspects, the latter being represented by service quality. In addition, several authors have already examined the relationship between service quality and customer loyalty. Trust was increased in long-term relationships, if the other party demonstrates, through actions, that it was trustworthy. Such an action would be the provision of satisfactory service quality, which may express trustworthiness, both of an organization and of an individual. As proposed by Wallenburg (2004, pp. 219-220).

Economic Switching Barriers

The study sought to find out that switching barriers influence customer loyalty in the Third party logistic service providers through reducing consumer intentions to switch is an important element of service recovery (Thomas et al., 2004), because existing customers are more receptive to the firm's marketing efforts and are an important source of profit for the firm. According to Pickering and Isherwood (1974), while taking into consideration of repurchase intention, customers incorporate psychological influences, economic and environmental considerations, and the customers' abilities and needs to make decision. For example, customers may repurchase a product from a specific Third party logistic service provider, not because of the better quality or value of the product, but just out of inertia or laziness to change online retailer. White and Yanamandram (2007) further argued that five major factors deter customers from switching to an alternative service provider, including switching costs, interpersonal relationships, the attractiveness of alternatives, and inertia. The study also established that Third party logistic service providers in Kenya strongly agree that there exists a significant relationship between switching barriers and customer loyalty. Switching barriers has a weak and positive association to Customer loyalty and that the relationship is statistically significant.

Customer Expectation

The study established a weak and positive relation between customer expectation and customer loyalty through the firm's positive word-of-mouth.The study also found that Third party logistic service providers in Kenya agree, on average, that there are customer expectation effects to customer loyalty due to the cognitive or affective reaction that emerges in response to a single or prolonged set of service encounters. Customer loyalty has a weak and positive association to customer expectation and that the relationship is statistically significant. According to Kim, Lee, and Yoo (2006) found that satisfied customers exhibit loyalty and provide positive word-of-mouth. Thus, customer expectation is recognized as one of the important antecedents of loyalty and hence both academics and practitioners have considerable interest to gain better understanding about customer satisfaction. The concept of 'marketing' in services is primarily concerned with satisfying customers' needs and wants, hence customer expectation can be regarded as the heart of all marketing activities (Machleit &Mantel, 2001).

Conclusions

In today's world of intense competition, satisfying customers may not be sufficient. Management should not just focus on improving customer satisfaction but also target on improving the customer perceptions of overall service quality and increasing consumer perceived value. Greater competitiveness is associated with higher levels of product and service quality, greater perceived value, customer expectation and improving customer loyalty. Therefore, service providers should continuously improve both service quality and perceived value. Managers must set quality standards that guarantee the quality of services. The process by which services are offered to customers should continuously be monitored to guarantee that customers have access to services at all times hence the choice of Roy Hauliers Limited in this study. Internationally, sustainability practices are changing apace and sharing learning across regions will benefit all.

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