



## **The Mediating Role of Customer Satisfaction in Customer Retention Model: A Case of Local Automobile Brands in Malaysia**

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### **ABSTRACT**

The automobile industry in Malaysia is facing increasing competition from foreign makes. Local automobile manufacturers, namely Perodua and Proton, are thus losing their market share. With such rapid decline in sales, it is important to ascertain the needs of customers in determining the predictors of repurchase intention of vehicles. This research seeks to examine the mediating role of customer satisfaction and to investigate the relationship of perceived service quality, product quality, price fairness, satisfaction, and repurchase intention. Multistage cluster sampling method was employed first in the Klang Valley before extending to a few selected authorized service centres. 200 samples were collected and data was analysed using SMART PLS 2.0 to build and assess the structural equation model of the relationships between the constructs. The results show that perceived service quality has no significant relationship with repurchase intention. However, perceived product quality, perceived price fairness and customer satisfaction are important factors that influence customers' repurchase intention. Customer satisfaction also mediates the relationship between perceived product quality and perceived price fairness towards repurchase intention.

*Keywords:* Automobiles, customer satisfaction, repurchase intention, service quality, product quality, price fairness, loyalty, Malaysia

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### **INTRODUCTION**

The automobile industry is an important driving force of economic growth, 2.6 new vehicles sold every second (LeBeau, 2014). A total of 666,674 units of vehicles were sold in Malaysia in year 2015, hitting a record high according to Malaysian

Automotive Association, 2016). In spite of this growth sales of Proton and Perodua, the 2 local producers, have been declined from 2011 to 2015 (Tan, 2015). The implementation of the ASEAN Free Trade Area (AFTA) and lower import duty on cars from Australia and Japan in 2016 will further increase the competitiveness for these local brands (Choong, 2013). Furthermore, recent surveys reported both local automobile manufacturers received scores which are lower than the industry average in terms of pre-sales satisfaction and after-sales satisfaction, indicating that the standard of services does not meet customers' expectations and is more inferior to international automobile manufacturers (Tan, 2013).

Albeit the dominance of local automobile manufacturers over a decade, unsatisfactory product quality of local automobiles has been a key reason for negative brand image, resulting in low trust and shrinkage in confidence level toward local brands amongst consumers (Ing, Phing, Peng, Ho, & Ong, 2012; New Straits Times, 2014). Thus, to remain as competitive contenders in the automobile market, local automobile manufacturers need to re-examine their marketing strategy. Coupled with both external forces and internal issues, it is crucial to examine the critical factors that influence existing customers' repurchasing decision of local automobiles. These repurchase intentions have a pertinent impact on the auto industry as a whole, as much of the revenue generated by the auto industry comes not

only from the sales of actual cars but also from the continual service to customers. It is therefore important to ensure customer's confidence in the automobile industry to avoid the risk of losing out to foreign competitors. As such, the purpose of this research is to investigate the antecedents of consumers repurchase intention within the automobile industry.

## LITERATURE REVIEW

### Repurchase Intention

Repurchase intention is an individual's decision regarding revisiting a designated service or repurchasing a product from the same company (Hellier, Geursen, Carr, & Rickard, 2003). Retention of loyal customers has been shown to be more important than acquiring new ones in recent years with more emphasis placed on customer relationship (Gallo, 2014). In fact, research found that successfully increasing customer retention rates by 5% can lead to raising profit by 25% to 95% (Gallo, 2014). The key to developing loyalty and keeping customers hinges on organizations' capability to deliver superior customer value and the commitment to maintain the loyal relationship (Varga, Dlacic, & Vujicic, 2014). Therefore, to increase customers' intention to purchase, companies should evoke the commitment and positive beliefs about the product (Varga et al., 2014; Oh & Jeong, 2015). It is critical for automobile companies to recognize the importance of understanding consumers' repurchase intention because it

aids companies to better formulate business strategy (Morwitz, Steckel, & Gupta, 2007). Hence, this research seeks to investigate consumers' attitudes towards perceived service quality, perceived product quality and perceived price fairness, as well as the mediating role of customer satisfaction.

### **Perceived Quality**

Quality can be viewed as objective quality and perceived quality (Mitra & Golder, 2006). Objective quality includes the technical, measurable, and quantifiable nature of the product or service, processes and quality control. A car's objective quality attributes are the horse power of the engine, materials used, size, safety features and others. Consumers buy based on prior experience, existing knowledge, overall product quality, durability, reliability, safety, technology, and functions (Mitra & Golder, 2006; Hidrue, Parsons, Kempton, & Gardner, 2011). Perceived quality however refers to the overall subjective judgment of the product quality (Zeithaml, 1988) which is an overall assessment that involves attitude (Bei & Chiao, 2001) and a higher-level of abstraction, rather than a specific attribute of a product.

### **Perceived Service Quality**

Firms that provide a high level of service quality tend to generate greater profits compared to firms that provide low level of service quality (Bhat, 2005). Excellent service quality reduces cognitive dissonance and enhances their belief in

choosing a right brand (Solomon, 2013). In the context of the automobile industry, a customer will encounter two distinctive types of customer service experiences, which are salespersons' service quality (pre-purchase) and service-centres' service quality (post-purchase). Salespersons are responsible for selling the firms' product/brand to the customers while car service centres provide a series of maintenance procedures which are performed periodically (KT Motors, 2013).

The role of salespersons is essential in building customer satisfaction and brand loyalty (Darian, Wiman, & Tucci, 2005). However, the relationship between salespersons' service quality and customer satisfaction has only been tested rarely for the automobile industry (Yu, Wu, Chiao, & Tai, 2005; Yieh, Chiao, & Chiu, 2007; Wong et al., 2011; Yee & Ng, 2011). According to Vigripat and Chan (2007), it was found that there is no direct relationship between service-centres' service quality and repurchase intention albeit Wong et al. (2011) found there is an indirect relationship between service-centres service quality and repurchase intention. The inconsistency of these findings postulates the following hypotheses below:

*H1: Perceived service-centres service quality is positively related to repurchase intention.*

*H2: Perceived salespersons' service quality is positively related repurchase intention.*

### **Perceived Product Quality**

Product quality is defined as the difference in quality amount to difference in the quantity in the desired ingredient or attributes (Abbott, 1955). Both product and service quality play a significant role in consumers' decision-making process (Kim & Na, 2015). Product quality is important when customers are purchasing high-involvement products (Solomon, 2013). Instead of trying to improve every attribute of a product, companies should place greater emphasis on the right attributes which will illuminate a better unique selling point and a valid justification of setting a premium price (Garvin, 1984). Often the final decision made by suppliers or customers is very much based on the product quality (Chumpitaz & Paparoidamis, 2004). When buying an automobile, the significance of product characteristics such as design, colours, functional needs and utilitarian needs varies (Haubl, 1996). Previous research found that perceived product quality has a significant positive relationship with purchase intention (Brucks, Zeithaml, & Naylor, 2000; Asshidin, Abidin, & Borhan, 2016). In addition, a study by Wong et al. (2011) indicated that there is indirect effect between perceived product quality and repurchase intention. Based on the evidence from previous studies stated, the following hypothesis is postulated:

*H3: Perceived product quality is positively related to repurchase intention*

### **Perceived Price Fairness**

The concept of perceived price fairness has been an area of research that has gained considerable attention in the marketing literature (Xia, Monroe, & Cox, 2004). Perceived price fairness is defined as the consumers' assessment and associated emotions of the difference (or lack of difference) between a seller's price and the price of its competitor (Xia et al., 2004). This worthiness of the product is usually based on their perception of the cost of producing the product or delivering the service. As services are often immeasurable, the perceived price fairness will be judged based on "normatively acceptable" price (Thaler, 1985).

When customers perceive unfair pricing, this situation will evoke their price-consciousness in order to avoid being cheated (Sinha & Batra, 1999; Xia et al., 2004). In addition to that, unfair pricing might lead to customer complaints and subjugation of refunds from the sellers (Xia et al., 2004). In a worst-case scenario, customers might protest against unreasonable pricing and boycott the organization (Kahneman, Knetsch, & Thaler, 1986). Past studies indicated that overpriced products or services reduce customers' repurchase intention (Lichtenstein, Ridgway, & Netemeyer, 1993), indicating there is a negative relationship between perceived price fairness and repurchase intention (Bell, Biyalogorsky, & Cormon, 1997; Wu, Liao, Chen, & Hsu, 2011; Haddad, Hallak, &

Assaker, 2015). As such, we postulate the following hypothesis:

*H4: Perceived price fairness is positively related to repurchase intention.*

### **Customer Satisfaction**

The feeling of disappointment or pleasure as a result of the performance of the product or service should match the buyer's expectation (Oliver, 1999; Kotler & Armstrong, 2008) indicating customer satisfaction. Customer satisfaction is an important precursor of future purchase intention (Mittal & Kamakura, 2001) and is achieved when the expected standard of quality is met or surpassed. In most cases, high (Low) level of customer satisfaction leads to high (low) level of repurchasing intention (Hellier et al., 2003; Fang, Chiu, & Wang, 2011). Failure to carefully take into account customers' satisfaction can lead to brand switching behaviour or discontinuation of future purchase (Durvasula, Lysonski, Mehta, & Tang, 2004) as customer satisfaction and repurchase intention are interrelated (Dawes, Dowling, & Patterson, 1993; Oliver, 1999; Durvasula et al., 2004). Hence, the following hypothesis is postulated:

*H5: Customer satisfaction is positively related to repurchase intention.*

### **The Mediating Role of Customer Satisfaction**

Service quality affects customer satisfaction (Bei & Chiao, 2001) and mediates between

perceived quality, brand loyalty and behaviour intention. (Mosahab, Mahamad, & Ramayah, 2010; Osman & Sentosa, 2013). This indirect influence is also evident between perceived product quality and purchase intentions (Sweeney, Soutar, & Johnson, 1999; Llusar, Zornoza, & Tena, 2001). While perceived price fairness is important for customer satisfaction, there is insufficient research on the mediating effect of customer satisfaction between perceived price fairness and repurchase intention especially in the automobile industry in Malaysia. As such, we postulate the following hypotheses:

*H6: Customer satisfaction mediates the relationship between perceived service-centres' service quality and repurchase intention.*

*H7: Customer satisfaction mediates the relationship between perceived salespersons' service quality and repurchase intention.*

*H8: Customer satisfaction mediates the relationship between perceived product quality and repurchase intention.*

*H9: Customer satisfaction mediates the relationship between perceived price fairness and repurchase intention.*

## **METHODOLOGY**

### **Data Collection**

Prior to the actual data collection, the questionnaire was tested on 5 respondents

to obtain feedback and comments to test respondent understanding of questions from which further improvements can be made. Minor adjustments on the sentence structures and formatting were made. Furthermore, a pilot test of 30 respondents was conducted to verify the reliability of each construct. Instruments were adapted from the following sources: - Repurchase Intention (RP) (Lin, Chen, Chiu, & Lee 2011); Customer Satisfaction (CS) (Zeithaml, Berry, & Parasuraman, 1996); Perceived Service-Centres' Service Quality (SQa) (Yieh et al., 2007); Perceived Salespersons' Service Quality (SQb) (Kennedy, Ferrell, & LeClair, 2001); Perceived Product Quality (PPQ) (Kennedy et al., 2001; Vantamay, 2007); and Perceived Price Fairness (PPF) (Andreas, Lan, Kent, & Frank, 2007). From the reliability test, only one item was deleted in SQb. Cronbach's Alpha value of each construct is above than acceptable value of 0.7 (Nunnally & Bernstein, 1994).

Multistage cluster sampling method was used in the study, with the first cluster sampling area in the Klang Valley and the second cluster sampling area confined to a few authorised service centres within the Klang Valley. A total of 250 questionnaires were distributed to local automobile users at various time intervals for a month. Only 200 questionnaires were usable due to missing data and outliers. The final data set consists of 100 data for each brand (Proton and Perodua) to avoid biasness.

## DATA ANALYSIS

Partial Least Square (PLS) based Structural Equation Modelling (SEM) was employed due to the software's lower restrictions on data distribution, sample size, and measurement scales (Urbach & Ahlemann, 2010). PLS maximizes the explained variance of the endogenous variables compared to covariance-based SEM which focuses on best fit for the research model (Gefen, Straub, & Boudreau, 2000). Bootstrapping method (1000 resamples) was used to determine the significance levels of the loadings, weights, and path coefficients.

Common method variance was checked using the Harman one-factor test and results of the factor analysis showed that the total variance explained by a single factor is 40.78%, which is lower than the suggested value of 50% by Podsakoff, MacKenzie, Lee and Podsakoff (2003). Hence, we can conclude common method variance is not a major issue for this research.

## Assessment of Measurement Model

Discriminant validity is achieved when the square root of the (Average Variance Extracted) AVE is greater than the correlation with other constructs (Hair, Hult, Tomas, Ringle, & Sarstedt, 2017). The loadings of all reflective indicators are above 0.70 except SQa1, SQa2, PQ3 thus were deleted. The values of composite reliability for all reflective constructs are above 0.70 (Hair et al., 2017) and the AVE for each construct is above 0.50 (Fornell & Larcker, 1981) suggests convergent validity shown in Table I.

Table 1  
*The Summary of Measurement Model*

Constructs	Items	Loadings	CR <sup>a</sup>	AVE <sup>b</sup>			
SQa	SQa3	0.73	0.91	0.58			
	SQa4	0.72					
	SQa5	0.75					
	SQa6	0.75					
	SQa7	0.73					
	SQa8	0.85					
	SQa9	0.80					
	SQb	SQb1			0.83	0.95	0.69
		SQb2			0.83		
SQb3		0.81					
SQb4		0.84					
SQb5		0.79					
SQb6		0.86					
SQb7		0.85					
SQb8		0.81					
PPQ	PQ1	0.87	0.94	0.81			
	PQ2	0.92					
	PQ4	0.92					
	PQ5	0.88					
	PPF	0.90					
PPF	PF1	0.90	0.93	0.73			
	PF2	0.73					
	PF3	0.91					
	PF4	0.92					
	PF5	0.80					
CS	CS1	0.92	0.96	0.84			
	CS2	0.90					
	CS3	0.93					
	CS4	0.93					
	CS5	0.91					
RP	RP1	0.93	0.95	0.78			
	RP2	0.93					
	RP3	0.72					
	RP4	0.90					
	RP5	0.92					

a Composite Reliability (CR) = (square of the summation of the factor loadings) / {(square of the summation of the factor loadings) + (square of the summation of the error variances)}.

b Average Variance Extracted (AVE) = (summation of the square of the factor loadings) / {(summation of the square of the factor loadings) + (summation of the error variances)}

Table 2  
*Discriminant Validity*

	CS	PPF	PPQ	SQa	SQb	RP
CS	<b>0.91761</b>					
PPF	0.604367	<b>0.85405</b>				
PPQ	0.812914	0.538321	<b>0.89974</b>			
SQa	0.415367	0.381441	0.459788	<b>0.82911</b>		
SQb	0.479574	0.392603	0.503498	0.632378	<b>0.76318</b>	
RP	0.739968	0.615301	0.680859	0.346191	0.398086	<b>0.8831</b>

### Assessment of Structural Model

To assess the structural model, a nonparametric bootstrapping procedure (1000 resamples) was employed to generate standard errors and t-statistics to evaluate the statistical significance of the path coefficients shown in Table II. The results revealed that H1 and H2 are not supported, but H2, H3 and H4 are supported. Mediation effect happens when the presence of the mediating variable

strengthens the link between independent and dependent variables (Kumar, Talib, & Ramayah, 2013). Tests on the mediation hypotheses (H6, H7, H8, H9) removed direct effect path to obtain the indirect paths and the corresponding standard deviation to calculate t-statistics (Preacher & Hayes, 2008) where results are shown in Table III. The R<sup>2</sup> value for repurchase intention in the model is 60.6%.

Table 3  
*Hypothesis Testing for Direct Effects*

Hypothesis	t- value	Standard Error	(95%) Lower Limit and Upper Limit	Decision
H1: SQa → RP	0.121	0.069	[-0.128, 0.142]	Not Supported
H2: SQb → RP	0.322	0.059	[-0.143, 0.089]	Not Supported
H3: PPQ → RP	2.370**	0.085	[0.039, 0.373]	Supported
H4: PPF → RP	3.267**	0.074	[0.109, 0.399]	Supported
H5: CS → RP	4.629**	0.091	[0.249, 0.605]	Supported

\*p<0.05; \*\*p<0.01

Table 4  
Hypothesis Testing for Mediation

Hypothesis	Indirect Effect a*b (Constraint Model)	t- Value	Std Error	(95%) Lower Limit and Upper Limit	Decision
H6: (CS) mediates (SQa) and (RP)	(SQa-> CS) 0.067 * (CS-> RP) 0.740 = 0.04958	0.857	0.057	[-0.062, 0.161]	Not Supported
H7: (CS) mediates (SQb) and (RP)	(SQb-> CS) -0.023 * (CS-> RP) 0.740 = -0.01702	-0.026	0.063	[-0.141, 0.106]	Not Supported
H8: (CS) mediates (PPQ) and (RP)	(PPQ-> CS) 0.667 * (CS-> RP) 0.740 = 0.49358	9.383**	0.052	[0.392, 0.566]	Supported
H9: (CS) mediates (PPF) and (RP)	(PPF-> CS) 0.229 * (CS-> RP) 0.740=0. 16946	2.555**	0.066	[0.040, 0.299]	Supported

\*p<0.05; \*\*p<0.01

## DISCUSSION, IMPLICATIONS AND CONCLUSION

From the result, service-centres' service quality does not have a significant positive relationship on customers' repurchase intention (H1 not supported) and are consistent with Vigripat and Chan's (2007) findings. The insignificant relationship can be attributed to the invariant level of service quality provided by both local and international service centres which leads to the diminishing importance and appreciation of service quality. When service quality reaches a threshold, it adds no additional value to customers (Anderson & Sullivan, 1993). Furthermore, later stages of car ownership life cycle customers tend to have higher expectations of service-centres' service quality (Kennedy et al., 2001). Based on the findings, it is suggested local automobile manufacturers maintain the current level of service-

centres' service quality. Investing excessive capital in improving service-centres' service quality will not increase customers' repurchase intention. However, the result does not indicate that service-centres' service quality is not important because it may affect the perceived brand image and subsequently influence repurchase intention. Future researchers may want to look into the relationship between service-centres service quality and brand image.

The results also indicate that perceived salespersons' service quality does not affect repurchase intention (H2 not supported). This could be attributed to the fact that existing consumers have a high level of product knowledge and therefore may perceive salespersons' assistance as salesmanship rather than providing factual information or knowledge (Kennedy et al., 2001). In light of this, salespersons would then have to be extra vigilant and

sensitive to the types of customers they are serving, adjusting to the most effective approach to attend to discerning customers. Although salespersons' service quality do not have substantial influence on existing customers' repurchase intention, local automobile manufacturers still need give a proper training to the salespersons so that they possess necessary product knowledge and interpersonal skills to establish trust and rapport with interested customers (Panda, 2013).

This study shows that perceived product quality has a significant positive relationship with repurchase intention (H3 supported). Higher perceived product quality often associates with higher perceived value, resulting in repurchasing intention in the future (Toivonen, 2012). High quality cars not only help save money in the long run with less expenditure on maintenance but also provide a sense of safety and brand trust for car users. Given that local automobiles are often associated with poor product quality, these local automobile organizations would then have to be innovative with their product offerings and coupled with the right marketing strategy to keep negative perception on product quality of local automobiles at bay.

The result of this study shows that perceived price fairness has a significant positive relationship with repurchase intention (H4 supported). Low level of perceived price unfairness intensifies the perceptions of monetary sacrifice (Sinha & Batra 1999). Local automobile manufacturers mainly produce affordable

cars, aiming at the lower-end buyers. While this makes pricing strategy crucial, producers could produce cars with new designs, extra features, advanced engine technology or other valuable features which can help to increase the perceived value of the cars. The result of H5 shows that customer satisfaction has a significant positive relationship with repurchase intention (H5 supported).

This research shows that the customer satisfaction does not mediate the relationship between perceived service-centres' service quality and repurchase intention (H6 not supported) and the relationship between perceived salespersons' service quality and repurchase intention (H7 not supported). Customers view outstanding service quality as an enhancement or an ancillary benefit rather than a necessity. Hence, superior service quality is no longer effective enough to retain customers. The support of H8 shows that customer satisfaction mediates the relationship between perceived product quality and the repurchase intention (H8 supported). The durability of a car depends on how well the car is maintained. Service centres must ensure that automobiles are given the best in the long run, customers, who experience least problems with their vehicles might feel that cars are more durable which will indirectly increase customer satisfaction, ultimately resulting in likelihood repurchase intention. Lastly, the support for H9 indicates that high level of customer satisfaction might reduce the impact of negative price fairness perception thus leading to repurchase intention.

Satisfied customers are less likely to trigger fairness perception which might ultimately lead to precipitous price comparison (Xia et al., 2004).

## LIMITATIONS AND FUTURE RECOMMENDATIONS

The limitations of this research are: 1) the sampling areas mainly come from the Klang Valley. 2) this research combines the data of both Proton and Perodua. Future researchers might consider testing the issue of heterogeneity between two groups of data. 3) there is a need to include more variables into the model.

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