THE EFFECT OF CUSTOMER VALUE, CUSTOMER SATISFACTION, AND SWITCHING COSTS ON CUSTOMER LOYALTY: AN EMPIRICAL STUDY OF HYPERMARKETS IN TAIWAN

MING-TIEN TSAI
National Cheng Kung University, Tainan, Taiwan, ROC
CHUNG-LIN TSAI
National Cheng Kung University and Chang Jung Christian University, Tainan, Taiwan, ROC
HAN-CHAO CHANG
National Applied Research Laboratories, Taiwan, ROC

Hypermarkets play an increasingly important role in the retail industry in Taiwan. In this study hypermarket customers in Taiwan were surveyed, using switching costs as a variable, to explore the relationship between customer value, customer satisfaction, and customer loyalty. The results indicate that a customer with a more positive perception of the value of products/services has a more positive evaluation of the hypermarket, greater satisfaction, and loyalty. Greater satisfaction combined with greater concern over nonmonetary switching costs also increases customer loyalty to the hypermarket. These findings may help hypermarket operators to develop their businesses further in Taiwan’s competitive retail sector.

*Keywords:* hypermarket, customer value, customer satisfaction, customer loyalty, nonmonetary switching costs.
In Taiwan, the retail sector is highly competitive and hypermarkets try to appeal to customers by offering lower prices than small-scale retailers and convenience stores. However, the hypermarket sector has entered a saturated phase, with market overlapping occurring and low average profit. With such fierce competition, hypermarket operators must work to reduce costs, retain customers, and increase profits to ensure sustainable development of their businesses.

In this study, hypermarket customers in Taiwan were surveyed using switching costs as a moderating variable to explore the relationship between customer value, customer satisfaction, and customer loyalty.

A review of the literature and the empirical evidence showed that rising customer power gradually replaces business operators to dominate market orientation (Bitner, 1990; Kotler, 2002; Müller, 1991). Bitner considers customer satisfaction as an antecedent variable that positively impacts customer loyalty, while Müller argues that customer satisfaction becomes a key factor for business success. Kotler considers that customers constantly think about what kind of product or service can maximize value, and thus establish an expectation of value as a shopping reference. Customer value expectation can significantly affect customer satisfaction and the likelihood of continued consumption. Lam, Shankar, Erramilli, and Murthy (2004) hold that customer satisfaction has a strong impact on customer loyalty, especially when a customer accounts for significantly lower switching costs. Business operators must pay special attention to customer satisfaction when low switching costs result from a special incident.

Hypermarkets, which are characterized by low gross profits and high turnover rates, have avoided negative gross profits as a consequence of their fierce competition. Hypermarket operators have worked to improve their own brands of merchandise and have created multifunctional shopping environments to satisfy customer demands for one-stop convenience or an extended stay arrangement. In this study, it is assumed that the present retail industry should look seriously into continued consumption from the customer perspective to enhance customer value, satisfaction, and loyalty related to customer concern over switching costs. The results of this study will, hopefully, serve as a basis for hypermarket operators to develop further their management and marketing strategies.

THEORETICAL FRAMEWORK AND RESEARCH HYPOTHESES

CUSTOMER VALUE THEORY

Because customers have established an expected value as a shopping reference (Kotler, 2002), a business that fulfills customer value expectations is more likely
to increase customer satisfaction and the chances of continued consumption. A number of researchers have pointed out that customers are cognizant of value (also termed customer-recognized value: e.g., Engel, Blackwell, & Miniard, 1995; Naumann, 1995; Woodruff, 1997). In other studies customer profitability has been analyzed from previous consumption data to estimate lifetime customer value, that is, current and future value of customers to businesses (e.g., Hughes, 1994; Mulhern, 1999; Stone, 1995).

Woodruff (1997) considers that customer value comprises customer preferences over service attributes, performance attributes, and results. According to Sharma and Lambert (1994), a business-expected customer value can be quite different from a customer-expected customer value. A business is likely to make mistakes when it offers what it perceives as value to its customers, resulting from these different perspectives. Therefore, a business should learn to look at customer value from the perspective of customers to minimize the difference between these two perspectives.

**CUSTOMER SATISFACTION THEORY**

In previous research customer satisfaction has been defined as a customer's overall evaluation of performance for a current offering (Gustafsson, Johnson, & Roos, 2005). Czepiel, Rosenberg, and Akerele (1974) view customer satisfaction as an overall evaluation, representing a sum of subjective reactions from a customer regarding products with varied attributes. Muller (1991) argues that customer satisfaction will become a key factor for business success in the future. Singh (1991) also notes that customer satisfaction is a dimension of multiple items evaluated as a satisfaction measurement, which can vary from business to business.

Ostrom and Iacobucci (1995) also hold that customer satisfaction is a multiple-item measurement that evaluates such items as product price, service efficiency, service personnel attitude, overall business performance, and ideal business service. Kotler (1996) proposes from his integration of various theories that satisfaction is a difference function between perception and expectation. Accordingly, customer satisfaction is an expression of pleasure or disappointment resulting from a comparison between perception and expectation of product function/effect. Customer satisfaction is a subjectively positive or negative feeling arising from a comparison between preconsumption expectation and postconsumption perception. The aim of both academic researchers and business performance investigators should, therefore, be to accurately measure the level of customer satisfaction in order to develop appropriate responses.

**CUSTOMER LOYALTY THEORY**

Selnes (1993) points out that customer loyalty involves the likelihood of future
CUSTOMER VALUE, SATISFACTION, AND LOYALTY

Consumption, continued service contracts, reduced possibility of brand change, and positive public recommendation. Jones and Sasser (1995) posit that customer loyalty is the willingness of a customer to continue consuming a specific product or service. According to their theory, there are two types of customer loyalty, namely long-term and short-term. The former is genuine customer loyalty, which means that a customer will not readily turn to another business operator. Customers with short-term loyalty are likely to switch to a different business operator for a better equivalent service. Customer loyalty lies mainly in whether a consumer will continue to purchase a product from the same business operator, translated as the competitiveness of a business in the market. Since a very loyal customer is likely to lead more potential customers to the business, many operators highlight customer loyalty as one of their main business goals.

Fornell (1992) proposes a method to measure customer loyalty in terms of repeated purchase intention and price tolerance. Similar to Jones and Sasser (1995), Oliver (1999) classifies loyalty into two types: short-run and long-term. However, Oliver measures short-run loyalty in terms of word-of-mouth, postpurchase recommendation behavior, and complaints. In contrast, long-term loyalty is identified by four different phases: cognitive, affective, conative, and active. Srinivasan, Anderson, and Ponnavolu (2002) propose two major factors for measuring loyalty: word-of-mouth and price tolerance. A customer with greater loyalty will have a higher degree of price tolerance and a greater willingness to make a recommendation to his/her acquaintances.

THE RELATIONSHIP BETWEEN CUSTOMER VALUE, CUSTOMER SATISFACTION, AND CUSTOMER LOYALTY

According to Oliver (1999), customer value will result from customer perceptions and experiences in the course of consumption. An optimal customer perception and experience is conducive to continued consumption. Butz and Goodstein (1998) consider that an unexpected higher level of customer value will result in a strong customer connection and greater customer loyalty. Hence, in this study the following hypothesis was proposed:

**H1:** Customer value will have a positive effect on customer loyalty

Reichheld and Sasser (1990) hold that a satisfied customer will have greater customer loyalty, which suggests a much greater chance for repeat purchases in the future. In their study of customer satisfaction Anderson and Sullivan (1993) found that, with antecedent and consequence variables, customer satisfaction has a positive effect on customer-repeat purchase behavior, an expression of customer loyalty. Hence, in this study the following hypothesis was proposed:

**H2:** Customer satisfaction will have a positive effect on customer loyalty

Woodruff (1997) found that an overall evaluation of products or services by a customer is a perception response resulting from multiple consumption
experiences. A positive response corresponds to a high level of satisfaction, which infers a greater likelihood of retaining the customer. In line with this finding and Kotler’s (2002) proposal that a customer will constantly estimate the maximal value of a product or service and establish an expectation of value as a shopping reference, the following hypothesis was proposed:  

**H3:** Customer value will have a positive effect on customer satisfaction.

**Switching Cost Theory**

In previous studies, switching costs have commonly been defined as the sacrifices or penalties consumers feel they may incur by moving from one provider to another (Jones, Reynolds, Mothersbaugh, & Beatty, 2007). Heide and Weiss (1995) observe that switching costs were originally defined as the potential cost incurred by the switch from one service provider to another. According to Dick and Basu (1994), switching costs involve monetary expenses and nonmonetary costs (time and energy), as well as profit losses derived from loyalty. For instance, a customer may make transaction-specific investments with a supplier. In the course of this customer-supplier relationship, routine and procedural transaction patterns may develop as a form of switching costs (Jap & Ganesan, 2000). Once the relationship terminates, all these patterns will be lost. Conceptually, switching costs can reflect the buyer’s reliance on the seller and the buyer’s desire to maintain a relationship with the supplier to achieve the consumption goal (Frazier, 1983).

A compilation of previous switching cost theories by Burnham, Frels, and Mahajan (2003) led them to conclude that there are three major types of variables: (1) Switching costs are related to time; (2) Financial switching costs are related to financial profit; and (3) Relationship switching costs are related to emotions. Finally, Shapiro and Varian (1999) point out that an individual consumer views switching cost as a sum of costs to both the consumer and the supplier, suggesting that both are crucial in measuring switching costs.

**The Moderating Effect of Switching Costs**

When customers make a series of purchases over time, they face increasingly higher costs in switching to a new supplier, and thus consider the commitment to a particular supplier as relatively permanent (Yanamandram & White, 2006). Lam et al. (2004) consider that customer satisfaction and switching costs have an interactive effect on customer loyalty. In general, dissatisfaction would dissuade a customer from recommending the service provider to others. Higher switching costs are likely to highlight the relationship between customer satisfaction and customer loyalty. In addition, a customer would expect a relationship with an economic attribute to include switching costs. The relationship represents an investment of special attributes by a customer with regard to efforts, time, and
money, and it presents an obstacle when a customer who is dissatisfied with one supplier considers switching to another. Thus, we proposed the following hypothesis:

**H4:** Switching costs will have a significant moderating effect between customer satisfaction and customer loyalty.

**METHOD**

In this study we explored whether or not a positive view of customer value held by a customer would have a positive effect on customer satisfaction, and whether or not switching costs as a moderating variable would affect customer value and customer satisfaction in relation to customer loyalty. As indicated in our literature review, while numerous studies have been conducted on customer satisfaction and customer loyalty, few of those studies involving both customer satisfaction and switching costs have included an investigation of the relationship between customer satisfaction and customer loyalty.

**SAMPLE**

Customers who had been shopping in hypermarkets in Northern, Central, and Southern Taiwan completed a questionnaire survey. To facilitate data collection, the researchers adopted convenience sampling with questionnaires either distributed at hypermarkets or placed online for customers to complete. The sampling method resulted in a total of 236 valid responses to the questionnaire. In terms of gender, 52.7% of the respondents were female while 47.3% were male. The biggest group of respondents in terms of age were 21-30 (45.8%), followed by 27.8% aged 31-40, and 18.4% aged 41-50. In total, respondents in these three age brackets accounted for 92% of the population sampled, indicating that people in the age range of 21-50 are the group that consume the most.

**MEASUREMENT SCALES**

A 7-point Likert scale was used to measure each of the constructs in the model, apart from the basic information about the respondents. The questionnaire was constructed for this study based on previous research and it was modified for the customer context. The questionnaire was tested and found to have high reliability and validity, as shown in Table 1.
TABLE 1

SUMMARY OF THE VALIDITY AND RELIABILITY ANALYSIS

<table>
<thead>
<tr>
<th>Construct validity</th>
<th>Criterion validity</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>KMO&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Rotation sums of squared loadings</td>
<td>Factor loading</td>
</tr>
<tr>
<td>Customer value</td>
<td>0.839</td>
<td>0.682–0.896</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.876</td>
<td>0.661–0.832</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>0.768</td>
<td>0.657–0.913</td>
</tr>
<tr>
<td>Switching costs</td>
<td>0.874</td>
<td>0.620–0.858</td>
</tr>
</tbody>
</table>

Note: <sup>a</sup> Kaiser-Meyer-Olkin (KMO) is a measure of sampling adequacy.

RESULTS

The interactive effects between variables were explored in a regression analysis to verify the hypotheses with regard to the cause-and-effect relationship of customer value, customer satisfaction, customer loyalty, and switching costs in the case of hypermarket consumers.

Results in Table 2 show that customer value has a significant positive effect on customer loyalty, thus supporting H1. Notably, service value has a greater impact on customer loyalty. According to Kotler (2002), a customer will constantly estimate the maximal value of a product or service. Elevating service quality and performance serves not only to satisfy customer demand, but also entices customers to expect continued consumption and to have a stronger repeat purchase intention.

<table>
<thead>
<tr>
<th>Customer loyalty</th>
<th>Customer value</th>
<th>Product value</th>
<th>Service value</th>
<th>0.266***</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Service value</td>
<td></td>
<td>0.382***</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.309</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>( \text{Adj. } R^2 )</td>
<td>0.302</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>( F )</td>
<td>46.665***</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: *** denotes significance at the 0.01% level. Regression coefficients in the table are standardized.

Table 3 shows that customer value has a significant positive effect on customer satisfaction, thus supporting H2. Service value has a notably greater impact on customer satisfaction. This suggests that timely and correct service value/quality provided by service personnel will increase customer satisfaction. Enhancing the customer-supplier relationship through this kind of service behavior will increase
customer satisfaction and transform first-time or short-term customers into long-term ones.

**Table 3**  
**Multiple Regression Results of Customer Satisfaction on Customer Value**

<table>
<thead>
<tr>
<th>Customer value</th>
<th>Product value</th>
<th>0.270***</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Service value</td>
<td>0.392***</td>
</tr>
<tr>
<td>$R^2$</td>
<td></td>
<td>0.322</td>
</tr>
<tr>
<td>Adj. $R^2$</td>
<td></td>
<td>0.315</td>
</tr>
<tr>
<td>$F$</td>
<td></td>
<td>49.599***</td>
</tr>
</tbody>
</table>

*Notes:*** denotes significance at the 0.01% level. Regression coefficients in the table are standardized.*

Table 4 shows that customer satisfaction has a significant positive effect on customer loyalty, thus supporting H3. Remarkably, overall supplier performance has a greater impact on customer loyalty. According to Jones and Sasser (1995), the impacts of customer satisfaction on customer loyalty vary with different competitive environments and industrial structures. Customer satisfaction has a greater impact on customer loyalty in the case of a supplier whose products have a monopoly. However, the hypermarket sector is an industry with similar products for sale at every store. Therefore, to maintain a competitive edge, hypermarket operators should work to enhance overall customer satisfaction and repeat purchase rates.

**Table 4**  
**Multiple Regression Results of Customer Loyalty on Customer Satisfaction**

<table>
<thead>
<tr>
<th>Customer satisfaction</th>
<th>Product/service appearance</th>
<th>0.169***</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Well-rounded performance</td>
<td>0.470***</td>
</tr>
<tr>
<td>$R^2$</td>
<td></td>
<td>0.345</td>
</tr>
<tr>
<td>Adj. $R^2$</td>
<td></td>
<td>0.339</td>
</tr>
<tr>
<td>$F$</td>
<td></td>
<td>55.029***</td>
</tr>
</tbody>
</table>

*Notes:*** denotes significance at the 0.01% level. Regression coefficients in the table are standardized.*

To carry out disturbance effect analysis, in this study collinearity between these independent variables, which may result in significant correlations between them, was taken into consideration. Before conducting a multiple hierarchy regression analysis, the arithmetic mean was subtracted from the factors of customer
satisfaction and switching costs to calculate interactive items. Neter, Kutner, Nachtsheim, and Wasserman (1996) propose that in examining collinearity by variance inflation factors (VIF), if the VIF value is greater than 10, collinearity exists with the pattern. Table 5 shows that all VIF values of Model 3 are less than 10, indicating that this hierarchy regression has no collinearity.

Table 5 demonstrates that Well-rounded performance × Nonmonetary positively moderates the customer loyalty construct (providing partial support for H4). This evidence indicated that when customers believe performance to be well-rounded, and they also sense that there is a high nonmonetary switching cost in the same hypermarket, customer loyalty increases significantly. Otherwise, no other interaction items had a significant moderating effect.

### Table 5
Hierarchical Regression Results of Customer Loyalty on Customer Satisfaction and Switching Costs

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product/service appearance</td>
<td>0.169**</td>
<td>0.138**</td>
<td>0.128**</td>
<td>1.755</td>
</tr>
<tr>
<td>Well-rounded performance</td>
<td>0.47***</td>
<td>0.362***</td>
<td>0.353***</td>
<td>1.692</td>
</tr>
<tr>
<td>Switching costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monetary</td>
<td>0.267***</td>
<td>0.295***</td>
<td></td>
<td>1.644</td>
</tr>
<tr>
<td>Nonmonetary</td>
<td>0.239***</td>
<td>0.247***</td>
<td></td>
<td>1.754</td>
</tr>
<tr>
<td>Interaction Items</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product/service appearance × Monetary switching cost</td>
<td>-0.052</td>
<td></td>
<td></td>
<td>3.113</td>
</tr>
<tr>
<td>Product/service appearance × Nonmonetary switching cost</td>
<td>0.068</td>
<td></td>
<td></td>
<td>2.672</td>
</tr>
<tr>
<td>Well-rounded performance × Monetary switching cost</td>
<td>0.003</td>
<td></td>
<td></td>
<td>3.187</td>
</tr>
<tr>
<td>Well-rounded performance × Nonmonetary switching cost</td>
<td>0.164**</td>
<td></td>
<td></td>
<td>3.385</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.345</td>
<td>0.529</td>
<td>0.577</td>
<td></td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.339</td>
<td>0.520</td>
<td>0.565</td>
<td></td>
</tr>
<tr>
<td>( ΔR^2 )</td>
<td>0.184***</td>
<td>0.105*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>( F )</td>
<td>55.029***</td>
<td>58.089***</td>
<td>38.681***</td>
<td></td>
</tr>
</tbody>
</table>

Note: *, **, and ***, denote respectively significance at the 0.1%, 0.5%, and 0.01% levels, respectively. Regression coefficients in the table are standardized.

### DISCUSSION

The results of this empirical study show that operators in the hypermarket sector should work to realize customer value, raise customer satisfaction, and consolidate customer loyalty to improve their business performance effectively.

The results demonstrate that a customer with a higher perception of product or service value has a greater approval of the hypermarket and greater customer loyalty. In terms of customer value, a customer pays more attention to services than to products. When products make little difference, a supplier that increases
its customer satisfaction through service quality will improve overall approval ratings. Thus, in spite of price differences, a customer will be willing to return to a supplier who has high approval ratings. This finding conforms to the results of the study by Butz and Goodstein (1998). Accordingly, a hypermarket operator should make use of customer value to raise its competitiveness.

In this study it was also found that increasing customer satisfaction has a significant positive impact on customer loyalty. However, Reichheld (1996) proposes the idea of customer satisfaction as a trap, noting that the relationship between customer satisfaction and customer loyalty is not simply a concrete description of positive correlation. Instead, customer loyalty reflects a long-term consumption behavior (repeat purchase), instead of a momentary emotional expression. Therefore, a hypermarket operator should not focus just on customer satisfaction and market share, but should, rather, focus on the benefits of long-term customer loyalty.

Finally, in this study it has been shown that switching costs have a moderating effect between customer satisfaction and customer loyalty. This suggests that greater customer satisfaction and higher switching costs will result in more customer loyalty for the original supplier. This result conforms to the argument by Lam et al. (2004) that higher switching costs intensify the relationship between customer satisfaction and customer loyalty. Accordingly, a hypermarket operator should work to increase customer satisfaction on the one hand and to increase customer-switching costs on the other. For instance, a hypermarket may raise customer concern over nonmonetary switching costs by formulating shopping models that are friendly, convenient, and customized, as well as by establishing with customers emotional connections by which they can identify with the shopping environment and service personnel. Given a high density of hypermarkets in Taiwan, with numerous shopping options, monetary switching costs do not have a significant impact on customers. Thus, we suggest that a hypermarket operator aiming to create a business niche should improve the overall shopping environment so that customers incorporate this into their switching costs.

Owing to the recent economic downturn, low-price-oriented hypermarkets have engaged in a significant price war. As a commodity strategy, an increasing number of retailer brands have hit the shelves in hypermarkets. These retailer-owned brands can effectively control product quality and profits to achieve more sales with a low profit margin. Consequently, in a follow-up study the relationship could be explored between customer satisfaction and customer loyalty in the dimension of retailer-owned brands. Even though pricing is an advantage for hypermarkets, they should carefully lower and control the costs of renovating, management skills, inbound commodity information, and operation strategies to maintain low-price competitiveness. Finally, in this study customer
perception at the back end of consumption was explored. Follow-up studies could involve conducting research at the front end of hypermarket business in terms of commodity inbound operation, logistics management, information management, and management skills, to achieve a more comprehensive study of the industry.

REFERENCES


