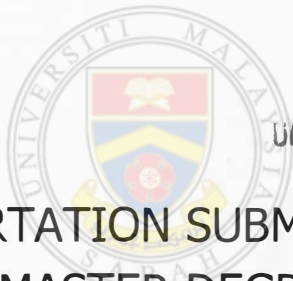


THE INFLUENCE OF BRAND IMAGE TOWARDS OVERALL
SATISFACTION AND LOYALTY INTENTION IN THE CONTEXT
OF LOCAL CARAMELIZED COFFEE MANUFACTURING
INDUSTRY

WENDY NGO SENG TEEN



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DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT FOR
THE MASTER DEGREE OF BUSINESS ADMINISTRATION

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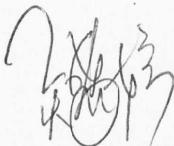
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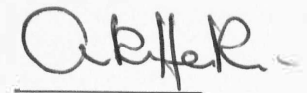
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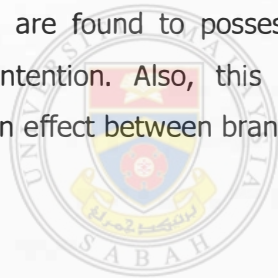
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ABSTRACT

The general goal of this study is to examine the influence of brand image towards overall satisfaction and loyalty intention in the context of local caramelized coffee industry in Kota Kinabalu, Sabah. Questionnaires were distributed among 150 respondents by using online survey, snow-ball method, and randomly approach. However, only 102 questionnaires were found useful. SPSS 16.0 was implemented to analysis data collected as well as to test the four hypothesizes in this study. In this study, loyalty intention served as dependent variable where brand image benefits served as independent variable. Overall satisfaction served as both independent variable and mediator in this study. The result proved that overall satisfaction has impacting loyalty intention in the local caramelized coffee industry. Only two brand image benefits, which are Functional Benefits and Experiential Benefits, are found to possess significant influences on overall satisfaction and loyalty intention. Also, this study proved that overall satisfaction possessed mediation effect between brand image benefits and loyalty intention.



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ABSTRAK

Matlamat utama dalam tesis ini adalah untuk mengkajikan hubungkait faedah-faedah jenama ke atas kepuasan dan niat kesetiaan pelanggan terhadap kopi keluaran tempatan yang juga dikenali sebagai 'Kopi O'. Sebanyak 150 soalan kaji-selidik telah diedarkan dengan menggunakan kajian online, cara 'snow-ball', dan juga menggunakan edaran secara spontan. Hanya 102 soalan kaji-selidik telah didapati berguna dalam tesis ini. SPSS 16.0 telah digunakan untuk data analisis dan juga untuk mengkajikan hipotesis yang dijanakan dalam tesis ini. Niat kesetiaan telah dikajikan sebagai *dependent variable*, faedah-faedah jenama sebagai *independent variable*, manakala kepuasan pelanggan telah dikaji sebagai *mediator* dalam tesis ini. Keputusan data analisis telah membuktikan bahawa kepuasan memberi kesan kepada niat kesetiaan dalam industri kopi keluaran tempatan. Hanya dua faedah jenama, iaitu Faedah Fungsi dan Faedah Emosi yang didapati memberi kesan kepada kepuasan dan juga niat kesetiaan pelanggan. Selain daripada itu, tesis ini juga membuktikan bahawa kepuasan mempunyai kesan *mediation* terhadap faedah-faedah jenama dan niat kesetiaan dalam konteks kopi tempatan.

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OVERVIEW OF THE RESEARCH

1.0 Introduction

As globalization took place in almost every country in the world, trade activities among these countries are raising rapidly since decades ago (Heizer and Render, 2010: 347). Nowadays, local companies no longer face competition among each other in a single nation. The existences of foreign companies to local nations have also caused threats to the local companies. Fierce competition that led to losing of customers, profits, and even shutting down of companies are happened all the time. There are numbers of researchers who agreed that retaining customers are much less costly than attracting new customers (Fornell and Wernerfelt, 1987: 337; Reichheld, Markey, and Hopton, 1996.: 135; Bowen and Shoemaker, 1998; 13). This is due to attracting new customers require the company to enter a low growth and highly competing market (Fornell and Wernerfelt, 1987; Reichheld *et al*, 1996: 141). In the research done by Reichheld, Markey, and Hopton (1996), they found that a five percentage increase in customer retention will cause profit to rise twenty-five to hundred percent (Reichheld *et al*, 1996: 135). Besides, customer loyalty tends to increase the competitive advantages of a company which lower the weakness of the company to competitor actions (Aaker, 1991). Therefore, in order to continue survive and earn profits in this modern era, companies have worked even harder to retain their existing customers while looking for other potential customers.

The questions of how to retain customers are still being the main issues to marketing managers. However, the ability of products and services to satisfied customers are highly prioritized by companies. This is due to customer satisfaction is widely accepted as the main element for companies to survive in the industry. It is an issue to most of the marketing managers nowadays as customer satisfaction appeared as a marketing benchmark of a company's performance (Bennett and

Rundle-Thiele, 2004: 514). Besides, customer satisfaction has been prioritized due to reasons that it is generally accepted to be the driver of repeat sales which generate profits to the company, spreading positive word-of-mouth to the community to increase brand awareness as well as the image of the company, and consumer loyalty since years ago (Bearden and Teel, 1983: 21). Leading Service Company such as Xerox found out the loyalty intention of its customers is greatly different depending on the satisfaction level of the customers. The more satisfied customers will tend to have higher repurchase intention, which indicate the loyalty of the customers (Heskett, Jones, Loveman, Sasser, and Schlesinger, 1994: 165).

As according to Anderson, Fornell, and Lehmann (1994), their research stated that customer satisfaction is cumulative where customer satisfaction is a long term accumulation of experience and feelings of consume. In the study, they mentioned that "high past satisfaction of current customers provides a strong indication that current and consequently future customer satisfaction will be high" (Anderson, Fornell, and Lehmann, 1994: 61). Companies with low customer satisfaction will have to take longer time to improve their reputation and develop the customers' faith on their products and services. In the research, the researchers examined the linkage between customer satisfaction and economic returns, which is Return on Investment (ROI). The result showed that ROI is strong affected by customer satisfaction. Companies that achieve high customer satisfaction will yield superior economic returns, which represent the profits of the companies. Evidently, in the research, the result showed that an annual one-point increase in customer satisfaction has a net value of \$7.48 million over five years in among participated companies in Sweden (Anderson *et al*, 1994: 63). However, the research found that there are negative relationship between customers' satisfaction and market shares. Customer satisfaction decreases as market share rises. The research suggest that it may due to companies that have smaller market shares may serve their customers better due to their market is niche and small where a company with large market share usually serve more varied set of customers (Anderson *et al*, 1994: 62).

1.1 Problem Statement

There are researches argued that customers with high satisfaction level do not necessarily loyal to a brand although the products or services of the brand achieve their expectancy (Bowen and Shoemaker, 1998: 14; Bennett and Rundle-Thiele, 2004). There are several other factors that affect purchasing which lead to profits of the company where satisfaction should not be the only target for marketers to achieve. This is due to the research found that satisfaction and loyalty are not the same constructs. For example, bank users may not satisfy with the bank but they still remain loyal (Bennett and Rundle-Thiele, 2004: 514). Bowen and Shoemaker (1998) also stated that, receiving what customers expected is likely to increase the satisfaction level. Although customer satisfaction is a must in generating loyalty intention, satisfied customers do not necessarily loyal to the brand (Bowen and Shoemaker, 1998: 14). In the research, the ratings for satisfaction may be high but the company may not have many loyal customers. The satisfaction of customers failed to convert to loyalty intention, unless they are very satisfied (Bowen and Shoemaker, 1998: 14). Customer satisfaction is not the only ways that lead to customer loyalty (Andreassen, 1997). Another researcher also stated that satisfaction solely is insufficient to create loyalty. High satisfaction level does not necessarily turns into profits for the companies. These satisfied customers will eventually switch to competitor once they found out and aware of greater value offered by others (Griffin, 1995). Therefore it is suggested that marketers should not rely solely on satisfaction ratings to predict actual purchase (Bennett and Rundle-Thiele, 2004: 520). Studies with concrete evidences should be carried out to prove the relationship between satisfaction and loyalty intention.

Nowadays, quality of the product or services offered that satisfied or exceed the expectation of customers isn't sufficient to create loyalty intention among the customers. As stated by Benneth and Rundle-Thiele (2005), competing brands have come substitutable due to increased product quality, more consistent brands, and decline differentiation (Benneth and Rundle-Thiele, 2005: 253). Quality product that rose to a similar standard where quality itself no longer differentiate the brand in the industry and caused companies to face more fierce competition as well as less loyal intention of customers (Benneth and Rundle-Thiele, 2005: 255). Quality itself is now just one of the concerns for companies due to the lower switching cost and

quality of offers are standardized and no longer can differentiate the brand with competitors'. Brands not only mean quality alone in this modern era and have different and wider meanings to consumers nowadays (Sondoh, Maznah Wan Omar, Nabsiah Abdul Wahid, Iskah Ismail, and Amran Harun, 2007: 85).

There are contentions and arguments on the trends of brand loyalty nowadays. However, the research of has found that there is indeed a slightly reduction in customers loyalty intention. The research showed there is little support that brand loyalty continues to decrease (Dekimpe, Steenkamp, Mellens, and Abeele, 1997: 412). Apart from quality itself, this phenomenon is due to the raising competition among companies in the same industry as well as the lower barriers for new products or services with multiple brands to enter the industry. The research of Dekimpe, Steenkamp, Mellens, and Abeele (1997) even reviewed that brand loyalty can be replaced by price loyalty, raising fragmentation of the market, and the growing popularity of affordable local and private-label brands have caused the diminishing in brand loyalty nowadays (Dekimpe *et al*, 1997: 405). However, differentiation strategies of companies will lead to ambivalent of customers towards brands and encourage them to switch (Bennett & Rundle-Thiele, 2005: 253). Also, differentiation is suggested to be the key driver of customer loyalty. Therefore, it is crucial for companies and marketers differentiate their brands among each other in gaining competitive advantages (Bennett & Rundle-Thiele, 2005: 253).

There are numerous ways of companies nowadays to make differentiation as their strategies. In Malaysia, the Malaysia External Trade Development organization which also known as MATRADE who responsible to develop and promote Malaysia's products and services to export to the world as well as assisting foreign companies in searching suppliers of Malaysian products and services has highlighted the importance of brand strategy. The hardest challenge for companies nowadays in competing in the market is to differentiate their products or services with others as products and services are so easily to replicate and reproduce in this modern era. Product quality and price are expected by customers, but no longer being the brand differentiation. It is the 'brand' that customers identify and differentiate products or services with others. A strong brand image is the only

thing that competitors unable to copy. Therefore companies nowadays should invest much commitment in creating a brand strategy for their products and services. Promotion is a critical element of branding. Companies should work harder to develop, manage, and promote the brands in order to ensure right positioning of the brand in the market (MATRADE, retrieved on 11 April, 2012).

Corresponding to the statement mentioned by MARTRADE, there are other researchers also proposed that brand image does influence brand loyalty (Wu, 2011; Broadbent, Bridson, Ferkins, and Rentschler, 2010). In the research of hospital brand image done by Wu (2011), the study support that brand image has both direct and indirect effects on patient loyalty. The study found out that a positive and good hospital brand image improves patient loyalty directly, and it also indirectly increases the loyalty intentions of patients through enhancing the patients' satisfactions (Wu, 2011: 4878). This finding is also supported by research done by Liao and Hsieh in 2011, which concluded that brand image and customer satisfaction has a direct relationship with loyalty (Liao and Hsieh, 2011: 513).

However, the review of Broadbent, Bridson, Ferkins, and Rentschler (2010) had pointed out an issue which requires future studies to continue work on the topic. The relationship between brand image and loyalty is discussed in the literature part of many studies. However, there is limited support of the relationship. Many studies paid attention on the relationship between brand associations or brand equity and loyalty where little focus has been directed to brand image (Broadbent *et al*, 2010). It is still remained unclear regards of the exact relationship between satisfaction, image and loyalty in a retail setting as well, as according to Bloemer and Ruyter (Bloemer and Ruyter, 1998: 499). Thus, further researches should be carried out to have better understanding on brand image as well as its effect on customer satisfaction and loyalty (Sondoh *et al*, 2007: 87). This had supported by the study done by Amran Harun, Abdul Wahid Mohd Kassim, Aisat Oswald Igau, Mohamad Ghazali Hassan, and Abdullah Swidi (2010), which stated that the local brands that fail in expressing image, value, and confidence lead to the low numbers of local brands that success in international arena. As local brands only can survive by gaining trusts and loyalty of customers, the studies to find the

indicators of customers' loyalty intentions towards local brands are needed (Amran Harun *et al*, 2010: 11).

Furthermore, the studies of the business theory are still remaining as a debate in applying in the other context apart from western. In the customer service context, applying western-developed theory as well as theoretical inter-connections regards of true customer loyalty may not be suitable internationally (Lai, Griffin, and Babin, 2009: 981). In the research done by Whetten (2008), it still remains as challenge as most of the Chinese organizational scholarship for relying too much on Western theory. Researches that based on context sensitivity theory have to be expanded (Whetten, 2008: 29). A study revealed the limitation of the study which only carried out in a fixed context. Examination of the relationship of brand loyalty should be out of the scope of the study (Empen, Loy, and Weiss, 2011: 11). Xu and Meyer (2005) also stated variations and differences in institutions and contexts will be the main concern for future research (Xu and Meyer, 2005). In this study, it is found that there is limited studies have been carried out in examining the relationship between brand image and customers' loyalty intentions in the local context. Most of these studies are focused more on international or foreign brands which are less contributing in analyzing customers for local companies. For example, the research done by Sondoh, Maznah Wan Omar, Nabsiah Abdul Ishak Ismail, and Amran Harun (2007) which focused on the results of brand image on customers' loyalty in the context color cosmetic has examined the effect of brands such as Kose, Christian Dior, L'oreal, and others. However, these brands are foreign brands (Sondoh *et al*, 2007). Therefore, it is important for future studies to carry out in local context in order to benefit the local brands by providing more information for them to make business decisions. Besides, there is no study can be found which related to local coffee industry in making marketing or business decision for Small and Medium Enterprises (SME) in Kota Kinabalu as most of the local caramelized coffee are manufactured by SME. Thus, future studies are urged to shed more lights on local brands as well as the local products.

1.2 Scope of the study

The study has been carried out in the city of Sabah, namely Kota Kinabalu. Kota Kinabalu is the capital city of Sabah as well as the capital of the West Coast Division of Sabah, which formerly known as Jesselton. Strategically situated in the Northwest Coast of Borneo Island, Kota Kinabalu is one of the successful industrial and commercial centers in East Malaysia apart from being the popular place for tourism activities (Sabah Tourism Board, 2012). Kota Kinabalu, which also known as KK or Api-Api by the locals, is containing the highest population in Sabah and Wilayah Persekutuan Labuan. In the year 2010, Kota Kinabalu estimated to occupy by 462,960 of population and was the highest in Sabah and Wilayah Persekutuan Labuan, followed by Tawau (412,380), Sandakan (409,060), Lahad Datu (206,860), and Keningau (177,740) (Department of Statistics, Malaysia, Sabah, 2012: 11). Large population increases the probability to identify the right respondents and return of useful questionnaires. Therefore, Kota Kinabalu has chosen to be suitable location to carry out the study.

In order to examine the relationship between brand image over overall customer satisfaction and customer loyalty in Kota Kinabalu, the study focused in the context of local coffee products, which are unique caramelized coffee products that manufactured in Kota Kinabalu, Sabah. These unique caramelized coffee products can be found only in Malaysia (Cap Kuda Coffee Company, 2012). There are three common type of local coffee can be found in Sabah, which known as Borneo Liberica, Arabica, and Robusta. These breed of coffee beans may originated in other countries but now are planted and available in Sabah since decades ago. These coffee beans are planted by locals and sold to coffee manufacturers which produce caramelized coffee by using the main ingredients of local coffee beans, white sugar, butter, and sometimes exported wheat will be added during the process of coffee manufacturing (Cap Kuda Coffee Company, 2012). These caramelized coffee, which also known as 'Kopi-O', are produced and packed according to weight and sold in many places. The local caramelized coffee is common to the locals in Kota Kinabalu which they can easily reach and find the product in local grocery shops, supermarkets such as Giant, Survey, Milimewa, and

G-Mart, the local markets which also known as 'pasar' by locals, and even at local restaurants such as coffee shops, which also known as 'Kedai-Kopi' by locals.

1.3 Research Objectives

The study conducted to examine the relationship between the brand image of the local caramelized coffee brands in Kota Kinabalu towards the satisfaction and loyalty intention of customers in purchasing these packed caramelized coffee products. As mentioned in problem statement where there's limited research conducted in Kota Kinabalu, especially in the context of local coffee products, the study aimed to contribute more information to the local SME's in order to enhance local brands as well as to fill up the gap in the academic field. This study also try to find out more on whether customer satisfaction is impacting loyalty intention as well as the mediating effect between brand image and loyalty intention in purchasing the local coffee products. The research objectives are summarized as below:

1. To examine the relationship between brand image of local caramelized coffee brands towards overall customer satisfaction and consumer loyalty intention;
2. To contribute more information to the local SME in order to enhance local brands as well as to fill up the gap in academic field;
3. To find out whether customer satisfaction is impacting loyalty intention or has mediating effect on loyalty intention in purchasing local caramelized coffee brands;
4. To find out whether customer satisfaction has mediating effect between brand image and loyalty intention in purchasing local caramelized coffee brands.

1.4 Research Questions

1. Does customer overall satisfaction is impacting the consumer loyalty intention in the context local caramelized coffee industry?
2. Does brand image benefits affect customer overall satisfaction in the context of local caramelized coffee industry?

3. Does brand image benefits affect customer loyalty intention in the context of local caramelized coffee industry?
4. Does customer overall satisfaction has mediating effects on brand image benefits and customer loyalty intention?

1.5 Rationale and Significance of the Study

As mentioned previously, certain researchers argued that satisfactions do not necessarily lead to customer loyalty. Thus, the study will provide more information to the field about customer satisfaction that will eventually lead to customer loyalty. Second, this study will find out the relationship of brand image and customer overall satisfaction as well as loyalty intention. Furthermore, this study will shed more lights on the effects of brand image towards the creation of customers' loyalties which mediating by customer satisfaction and supported with evidences. Apart from that, the study can contribute to the academic field by filling up the gap which caused by the limited previous researches that were not carried in the local region. More information can be provided in enhancing the local brands. Other than that, the study will contribute to the local SMEs by providing information regards of the drives of customer loyalty such as brand image. This information will facilitate marketers of local SMEs in making their business decisions.

1.6 Operational Definition of Variable

1.6.1 Independent Variables

a. Brand image: The concept of brand which influences what customers' perception of a brand. It is a most influential concept in affecting the way consumers perceive things, crucial in planning modern marketing strategies, communication efforts, and advertising activities (Ditcher, 1993: 75). Brand image consisted of four benefits, which are functional, experiential, symbolic, and social (Sondoh *et al*, 2007).

1.6.2 Dependent Variable

a. Loyalty intention: The behavior of consumers by simple repeat purchasing and consuming a same brand. The concept of brand loyalty defined in six terms, which