

**CUSTOMER LOYALTY AND PETROL STATION'S CONVENIENCE  
STORE PATRONAGE IN PENANG: THE INFLUENCE OF STORE IMAGE,  
CORPORATE IMAGE AND CUSTOMER SATISFACTION.**

**By**

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**S-EM0003/06**

**Research report submitted in partial fulfillment of the requirement for the  
degree of Masters of Business Administration**

**UNIVERSITI SAINS MALAYSIA**

**2009**

## **DEDICATION**

This Thesis is dedicated to my beloved wife, Wahidah  
And children, Anis, Azrin, Danial and Arisya  
who have been my inspirational  
and always be on my sides throughout  
the completion of this thesis.

## ACKNOWLEDGEMENT

First of all, I admit that the journey through the MBA program at Universiti Sains Malaysia has indeed carries a lot of memories in terms of hardship and also sweet moments. A lot has been learned throughout the course the knowledge and skill of which is specially designed to be implemented at the workplace.

I would like to take this opportunity to state my grateful thanks and a deep sense of gratitude to my supervisor, Dr. Nizam @ Norizan Bin Mat Saad for his continuous guidance throughout the preparation of this thesis. His time spent with me, advice and commitment has enabled me to overcome many obstacles in completing this thesis. Hearty thanks and gratitude are extended to my co-supervisor, Prof. Dr. Osman Mohamad for his valuable input and advise assistance and guidance towards the completion of this thesis.

Special thanks to the dealers and forecourt staff of selected Petrol Stations in Penang Island, in particular Petronas Bukit Gambir, Petronas Jalan Masjid Negeri, Shell Jalan Burmah, Shell Jalan Masjid Negeri, Caltex Bayan Baru, Caltex Jalan Udini, Esso Bayan Baru, Esso Bukit Jambul, Mobil Jalan Gelugor, BHPetrol Jalan Masjid Negeri and Mobil Jalan Jelutong in allowing a convenience interview done with the customers patronizing their respective convenience stores. I would also like to record my sincere appreciation to all the respondents who took part in the survey for their time spent in reading and response to the questionnaires that has made this study possible.

I would also like to state my sincere appreciation to all staff, be it academic or support staff of School of Management and Graduate School of Business who have

extended their undivided support directly or indirectly throughout my study period with the university.

Last but not least, I would like to thank my fellow course mates who have inspired me and shared their friendship in going through the MBA course together with me.

## ABSTRAK

Dalam penyelidikan mengenai kesetiaan pelanggan dalam industri perkhidmatan, kepuasan pelanggan sering diperkatakan sebagai penentu yang amat penting dalam membantu pengguna untuk membuat sebarang keputusan. Sungguhpun demikian, penyelidikan lengkap untuk mengaitkan kesetiaan pelanggan dan kepuasan pelanggan yang menggunakan perkhidmatan kedai serbaneka khususnya yang terletak di stesen-stesen minyak masih belum jelas. Oleh yang demikian, penyelidikan ini berusaha untuk mengaitkan kedua-dua elemen di atas dengan menggunakan model penyelidikan terdahulu yang di buat oleh Bloemer dan Ruyter pada tahun 1998. Model penyelidikan ini mengaitkan kesetiaan pelanggan terhadap kedai serbaneka dalam industri peruncitan.

Hasil dari penyelidikan akan menentukan samada wujud hubungan langsung antara jenama kedai serbaneka, imej korporatnya dan tahap kepuasan pelanggan dalam menentukan kesetiaan pelanggan melanggan perkhidmatan dari kedai serbaneka yang dikaji.

Sebanyak lima hipotesis telah dirumus bagi menilai tahap perkaitan mengenai perkara tersebut. Pengumpulan data-data dari pelanggan yang melanggan kedai serbaneka di stesen minyak di Pulau Pinang akan dilakukan dan diproses menggunakan kaedah statistik bagi membuktikan hipotesis berkenaan.

Keputusannya akan dirumus dan digunakan untuk penyelidikan lanjut, sekiranya perlu.

## **ABSTRACT**

In research on customer loyalty in the service industry, customer satisfaction has often been mentioned as an important determinant. However, the detailed study concerning the relationship between customer loyalty and customer satisfaction in the convenience store particularly those attached to a Petrol Station remained unclear. Thus this study attempted to adapt the model from Bloemer and Ruyter (1998). This model describes the store loyalty relationship in the retail industry.

Findings from the test will determine whether there is any relationship between store brand, corporate image and customer satisfaction towards the loyalty of the patronage of the analyzed stores.

Five hypotheses have been formulated to examine the relationship proposed. A collection of data from the customers of selected convenience stores attached to a Petrol Station within Penang Island will be gathered and analyzed to test the relationships with the proposed hypotheses.

The outcome will then be concluded and to be used for further analyses, if necessary.

## Table of Content

<b>ACKNOWLEDGEMENT</b>	<b>iii</b>
<b>ABSTRAK</b>	<b>v</b>
<b>ABSTRACT</b>	<b>vi</b>
<b>LIST OF TABLE</b>	<b>ix</b>
<b>LIST OF FIGURES</b>	<b>x</b>
<b>Chapter 1</b>	<b>1</b>
<b>INTRODUCTION</b>	<b>1</b>
<b>1.1 Introduction</b>	<b>1</b>
<b>1.2 Background of the study</b>	<b>4</b>
<b>1.2.1 Evolution of convenience store in a Petrol Station</b>	<b>9</b>
<b>1.3 Research Problem/Problem Statement</b>	<b>11</b>
<b>1.4 Research Objectives</b>	<b>13</b>
<b>1.5 Research Questions</b>	<b>14</b>
<b>1.6 Significance of the Study</b>	<b>15</b>
<b>1.7 Scope of the study</b>	<b>17</b>
<b>1.9 Organization of Remaining Chapters</b>	<b>20</b>
<b>Chapter 2</b>	<b>21</b>
<b>LITERATURE REVIEW</b>	<b>21</b>
<b>2.1 Introduction</b>	<b>21</b>
<b>2.2 Customer Loyalty</b>	<b>21</b>
<b>2.3 Store Image</b>	<b>25</b>
<b>2.4 Corporate Image</b>	<b>27</b>
<b>2.5 Customer Satisfaction</b>	<b>29</b>
<b>2.6 Theoretical Framework</b>	<b>31</b>
<b>2.7 Hypotheses Generation</b>	<b>38</b>
<b>2.8 Gaps in the Literature</b>	<b>39</b>
<b>2.9 Summary</b>	<b>41</b>
<b>Chapter 3</b>	<b>42</b>
<b>METHODOLOGY</b>	<b>42</b>
<b>3.1 Introduction</b>	<b>42</b>
<b>3.2 Survey Method</b>	<b>43</b>

3.3	Questionnaires Design	44
3.4	Variables and Measures	44
3.5	Population and Sample	46
3.6	Unit of Analysis	47
3.7	Pre-Test	47
3.8	Method for Data Gathering	48
3.9	Data Analysis	49
3.10	Validity and Reliability	51
3.11	Regressions Analysis	52
3.12	Summary	54
Chapter 4		55
RESULTS		55
4.1.	Profiles of the respondents	55
4.2.	Goodness of Measure	58
4.3.	Descriptive Analysis	61
4.4.	Hypothesis Testing	62
4.5.	Summary of Results	68
Chapter 5		69
DISCUSSION AND CONCLUSION		69
5.0	Introduction	69
5.1	Recapitulation of the Study Findings	69
5.2	Discussions	70
5.3	Implications	74
5.4	Limitations	75
5.5	Future Research	76
5.6	Conclusion	77
REFERENCE		78

## LIST OF TABLE

<b>TABLE 1: LIST OF CONVENIENCE STORE</b>	<b>ERROR! BOOKMARK NOT DEFINED.</b>
<b>TABLE 2: DEMOGRAPHIC PROFILES OF RESPONDENTS</b>	<b>56</b>
<b>TABLE 3: PREFERRED CONVENIENCE STORE</b>	<b>57</b>
<b>TABLE 4: VISIT FREQUENCY IN A MONTH</b>	<b>58</b>
<b>TABLE 5: SUMMARY OF FACTOR ANALYSIS</b>	<b>58</b>
<b>TABLE 6: COMPONENT ANALYSIS FOR STORE IMAGE</b>	<b>59</b>
<b>TABLE 7: SUMMARY OF RELIABILITY ANALYSIS</b>	<b>61</b>
<b>TABLE 8: DESCRIPTIVE STATISTICS FOR THE VARIABLE</b>	<b>62</b>
<b>TABLE 9: RESULT OF MULTIPLE REGRESSION 1</b>	<b>63</b>
<b>TABLE 10: RESULT OF MULTIPLE REGRESSION 2</b>	<b>64</b>
<b>TABLE 11: RESULT OF MULTIPLE REGRESSION 3</b>	<b>64</b>
<b>TABLE 12: RESULT OF MULTIPLE REGRESSION 4</b>	<b>66</b>
<b>TABLE 13: RESULT OF MULTIPLE REGRESSIONS 5</b>	<b>67</b>
<b>TABLE 14: SUMMARY RESULTS OF HYPOTHESES TESTING</b>	<b>68</b>

## **LIST OF FIGURES**

<b>FIGURE 1: THE RESEARCH MODEL</b>	<b>32</b>
<b>FIGURE 2 SUMMARY OF HYPOTHESES</b>	<b>.39</b>

## **LIST OF APPENDICES**

<b>APPENDIX 1: RESEARCH QUESTIONNAIRE</b>	<b>85</b>
<b>APPENDIX 2: RESPONDENT PROFILES</b>	<b>91</b>
<b>APPENDIX 3: FACTOR ANALYSIS</b>	<b>94</b>
<b>APPENDIX 4: RELIABILITY ANALYSIS</b>	
<b>106</b>	
<b>APPENDIX 5: DESCRIPTIVE STATISTICS</b>	<b>113</b>
<b>APPENDIX 6: REGRESSION ANALYSIS</b>	<b>115</b>

## **Chapter 1**

### **INTRODUCTION**

#### **1.1 Introduction**

The development of convenience store in Petrol Station has seen a dramatic changes where all players has now move towards a standardized image to reflect their seriousness in expanding their retails business apart from distribution of petroleum products. Some players have even placing their convenience store on the front seat to drive their business expansion. The development of a convenience stores in the Petrol Station in Malaysia has seen a dramatic changes with the introduction of bold ideas such as incorporating the stores with the famous fast food chains, providing of complementary business, providing space for online banking machines such as Automated Teller Machines (ATM), Cash Deposit Machines (CDM), Cheque Deposit Machines (CQDM), Passbook Update Machines (PBM), providing of postal and delivery services counters and many more.

To some extent, there are players introducing and testing a new idea in this line of operations such as establishment of mega-stores, incorporation of stores with supermarkets and hypermarkets, full fledge banking branch at Petrol Stations and convenience store with a drive-thru facility. It was the development of convenience shopping that provided the petrol retailers with an opportunity to revive their fortunes by converting their stations into forecourt convenience store or a convenience store attached to a petrol or gas station.

The last decade has witnesses a dramatic globalization of industries, mainly due to increasing liberalization of trade policies, growing stability in monetary

transactions, and uninterrupted flow of goods, advances in transportation, communication and information technologies.

There are previous studies that focused on the nature of consumers' shopping behavior at convenience stores attached to Petrol Stations in the Malaysian environment. However, since Malaysia's retail landscape and consumers shopping pattern are evolved in nature are changing following trends that are also happening around the world, there remains a need for studying shoppers' behavior. Given the rapid rate at which new retail formats have been introduced in Malaysian market in recent times, it is imperative for Malaysian businesses to understand changing shopping behavior among customers' especially with regards to their preferred point or place of purchase. With growth in disposable incomes and improving infrastructure, consumers have a wider choice of stores where they can choose to shop. It is therefore necessary for retailers such as convenience store operators to understand shoppers' motivation and to attract customers residing beyond the catchment areas around their stores.

In Malaysia, the convenience store segments especially those attached to a Petrol Station is a fairly new retail concept and the major or large size stores mainly located in major cities or towns or along the highways where there is a demand for such a service. For people on the go, convenience stores have become a necessity in providing for a variety of different needs. From snacks and beverages to homemade sandwiches and ice cream, convenience store locations are great opportunities for the potential entrepreneur. These stores are mainly located in major urban centers to capture busy customers who seek convenience. They concentrate on selling a small range of convenience food of medium to small sized packaging, usually single serve sizes. These modern retail stores are also introducing new and additional services

within their stores such as in-store bakeries, café/food service areas and ready prepared meals to attract more customers to their stores.

There was a local study on the model for performance measurement in the petroleum industry in Malaysia by Rohaizat Baharun in 1997. His paper studies the interrelationship in a sample of service or Petrol Stations in Malaysia by using cross-sectional analysis and attempts to identify a number of factors which can influence the degree of success of service stations or petrol stations. His study measures the volume of sales of fuel product in liters and sales of non-fuel products through the convenience stores. His studies concentrated on 3 major petroleum companies, i.e. Shell, Esso and Petronas, with a combined total number of stations in Malaysia at that point of time of reached nearly 1,700 stations. He observed that this retailing industry is fast growing as compared to other industries. With large oil and gas reserve, the potential development of this industry remains bright. Somehow, this industry has become the supporting to the growth of other industries in terms of power supply, fuel for the transportation industries, and so on.

Even though the dealers of service stations are categorized as small business, his studies found that the amounts of monies they have spent are large as compared to other small industries. The amount of initial capital outlay and start-up cost of this businesses is higher if compared to other small businesses. On top of that, fuel price are controlled by government and at that point of time, it is difficult to get local workers to work in a Petrol Stations. The dealers or petrol station operators have to find a solution to various operational, financial, legislations and strict regulations set by the oil companies.

In his study, the performance of the petrol stations dealer are being measured by two factors, i.e. the monthly growth in sales of non-petroleum products and the other is the number of petroleum products sold in a month. The study was limited to stations located in the southern part of peninsular Malaysia. The variables were hypothesized and tested using bivariate and multivariate correlation and regression analysis. The results from his studies have provided insight into some prediction factors that have an important impact in explaining the variation in the two performance measurements. In his studies, there were several factors that found to important and dominant which give an impact to the overall performance of the petrol station dealer. The important factors are number of bays operated, staffing and capital structure are highly significant determinants of the petrol station dealers' survival.

## **1.2 Background of the study**

Customer Loyalty is important to the success of a business organization. Oliver (1997), for example has directly correlate the importance of customer loyalty to a long-term profit of an organization. Retail businesses such as convenience store has always put in their best effort to develop customer loyalty by organizing short term and long term activities with aims to attract new set of customers as well as retaining their existing customers through a systematic customer retention program.

Nowadays, the convenience stores attached to a Petrol Station had transformed their business models and has become a landmark in almost all Petrol Stations that operates in Malaysia. The convenience stores has now offers wider product range, ambience shopping experience, provision of complementary services, and other related services for customers convenience.

There is a trend in Malaysia that sees a growing number of convenience stores were organizing their business into franchise system. Apart from ensuring standardization, this new system has also provide a window for a dealer to become a business partner to a large petroleum distribution company and leveraged on the established image that has been associated with the latter for decades.

The simultaneous appearance of the above developments has resulted in a number of convenience stores attempting to build their organizations into strong brands by rebranding their stores or outlets. Among them was Shell Trading Malaysia *Sdn Bhd*, a business unit of the oil giant Royal Dutch Shell, responsible for managing the sale and distribution of Shell's motoring fuels in Malaysia. Shell has re-branded its petrol station convenience store as "Select" Local oil giant, "Petroleum Nasional" or PETRONAS through its retail arm; "Petronas Dagangan Berhad" has done the same and re-branded its convenience store as "MESRA". The other oil companies have follow suit.

The research centered on the patronage of convenience stores attached to a Petrol Station. At present, there are 5 big companies operated in Peninsular Malaysia. The list of Convenience Stores operator since appended in Table 1 below:

**Table 1: List of Convenience Store**

No	Store Name (Brand)	Ownership	Retail Formats	Complementary Services	No. of Stores
1.	'Kedai Mesra' / 'Mini Mesra'	Petronas Dagangan Berhad	Franchise system. Offers full range of convenience products such as drinks, snacks, cigarette, households, health and beauty, etc.	Automated Banking Machines, Pre-paid reloads, postal services, delivery services, rest and relax, 'surau', etc.	910

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2.	Shell Select/ 'Kedai Shell'	Shell Trading Malaysia Sdn Bhd	Franchise system. Offers full range of convenience products such as drinks, snacks, cigarette, households, health and beauty, etc.	Automated Banking Machines, Pre-paid reloads, postal services, delivery services, rest and relax, 'suraus', etc.	974
3.	Tiger Mart/ ESSO Mart -On-the-runø	Exxonmobil Malaysia Berhad	Franchise system. Offers full range of convenience products such as drinks, snacks, cigarette, households, health and beauty, etc.	Automated Banking Machines, Pre-paid reloads, postal services, delivery services, rest and relax, 'suraus', etc.	531
4.	Caltex Starmart	Chevron Malaysia Limited	Franchise system. Offers full range of convenience products such as drinks, snacks, cigarette, households, health and beauty, etc.	Automated Banking Machines, Pre-paid reloads, postal services, delivery services, rest and relax, 'suraus', etc.	396
5.	BHPetromart	BHP Petroleum Malaysia Bhd	Franchise system. Offers full range of convenience products such as drinks, snacks, cigarette, households, health and beauty, etc.	Automated Banking Machines, Pre-paid reloads, postal services, delivery services, rest and relax, 'suraus', etc.	245

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Source: A list of stations listed in each oil companies websites.

Note: The above refers to the number of petrol stations as of 31 December 2008 respectively.

This research also attempted to determine the evolving of retail industry particularly for convenience store attached to a Petrol Station in Malaysia. This paper attempts to correlate the distinct features as perceived by the respondents who decide to patronize the stores. In the process it provides an insight as to whether the average Malaysian consumer values the newly introduced shopping stores as a new marketing format readily available for their choice.

Convenience store by being a one-stop center source for a broad range of products and services could gain a leg up on more narrowly focused competitors. Many convenience stores operator has set up a consortium to provide multipurpose kiosks in its stores. Banking institutions provides and supplies an ATM functions, fast food operator set up their fast food kiosks, Mobile Communications Operator worked with them on online talk time topping up and reloads and other complementary services.

The Malaysian retail market scene is gearing up for more intense competition with more players and expansion plan by the existing players to gain more market shares. Players managed the issues by focusing on their niche market and targeting specific market segments. However, as Malaysia's consumer lifestyle changes due to healthy economy, rising standard of living and level of education, their shopping style also changed. Retailers including the operator of convenience store need to change their concept to meet the change in consumer preference in shopping.

Convenience stores and petrol station stores are self service stores which concentrate on selling convenience food and beverage products as well as a small range of other products such as personal care, magazines and newspapers. These types of retail outlets are still a relatively new retail store concept in Malaysia. They are mainly located in urban centers to capture busy convenience seeking customers. They are only patronized by motorists who drive in to buy petrol and do a small amount of shopping on the run. Other convenience stores' customers are mostly walk-in purchasers seeking to purchase small quantities of very specific food and beverage products. They generally visit convenience stores on an ad hoc basis, except for children who use such stores as they do tuck shops for snacks and drinks, etc. These stores generally operate for 24 hours a day, seven days a week. Such retail outlets currently have a small, although growing, customer base.

Historically, the oil industry paid a little attention to their downstream activities. In the early history of oil industry in the 1950s, oil reserve was plentiful and demand for it keep on rising. As Sampson (1975) explained, the oil companies took little trouble to make money out of filling stations which they regard primarily as outlets for their flood of oil. However, the situation had been dramatically changed by the oil crisis of the 1970s which has drastically reduced the world's output of oil and not only caused its price to increase four-fold, but eventually pushed the world economy into recession (Brown, 1992). In early 1980s, there were a number of petrol stations being transformed into forecourt convenience stores or a convenience store attached to a petrol station. As the name implies, these are convenience store located on a petrol station. Oil companies give their forecourt convenience stores new names and rationalized their business operations.

The outlook for retailing in Malaysia is positive and healthy, with one of the main factors behind anticipated growth being the country's expected continuous economy improvement. The government is expected to be more supportive of the industry, thus attracting more players willing to invest in new outlets, larger selling space and allocating greater budgets to marketing activities due to rising consumer confidence. Moreover, the retailing industry in Malaysia is not yet fully developed. Hence, new brands and new formats are expected to surface continuously in coming years. As a result, the Malaysian retailing industry is expected to have a promising future, with most areas likely to notch a positive performance.

### **1.2.1 Evolution of convenience store in a Petrol Station**

Convenience store by being a one-stop center source for a broad range of products and services has gone through rapid changing. It is actually a concept that has been brought in into Malaysia by the international oil distribution companies that has succeed in this form of business in the west and European countries. In Malaysia, convenience stores and petrol station stores are self service stores which concentrate on selling convenience food and beverage products as well as a small range of other products such as personal care, magazines and newspapers.

The convenience stores have been developed together with the development of a petrol station. In its early operations, the convenience stores offers only selected range of products and the focus at that time is to promote the sale of self brand lubricants apart of selling the fuel for vehicles. Many petrol stations in the early 1970s are developed together with a Lubricant Bay or better known as 'Lube Bay' and vehicle repair workshop.

As the business grows and the contributions from convenience store operations become significant, oil retailers started expanding this sector of business and embark on aggressive transformation and image building exercise to promote goods retailing along with their core business, i.e. distributing of fuel for vehicles.

Another interesting factor happens in 1994 when Projek Oil Malaysia Berhad, a division of Sime Darby group bring in an idea to incorporate fast food business in a convenience store attached to their mega petrol stations in the Klang Valley and Johor Baharu. This idea worked well and later followed by other oil retailers. Today, all the remaining five oil retailers in Malaysia operated convenience store with a fast food restaurant attached to it in selected stations in all over the country. However, due to problems in petroleum supplies to their stations, Projek Oil Malaysia Berhad ceased their Malaysian operations in 1998 and sold their entire stations to Shell Malaysia Trading Sdn Bhd. Today, the customer enjoy a new shopping experience in a convenience store attached petrol station that offer larger floor space, offer wider spectrum of products and other complementary services, opens 24 hours, and many more extra services. There are also mega stations attached to a hypermarket, well established pharmaceuticals stores, full fledge bank branch and latest the introduction of a -Drive-Through convenience store by Petronas Dagangan Berhad.

However despite the retailers aggressiveness in establishing new concept of convenience store into the market, the fact remain that the entire operations are regulated by the Malaysia government. In Malaysia, the operations of a Petrol Stations are being regulated by the government through the Ministry of Domestic Trade, Cooperative and Consumerism under the purview of a Petroleum Development Act 1974, among other require the operators to apply and obtain an approval from the ministry before a new stations can be developed. This has indirectly regulated the

business of a convenience store in petrol stations. Apart from license in fuel distribution, the operators are also required to obtain a retail license to trade controlled items under the Control Supplies Act 1972 which is also administered by the same ministry.

### **1.3 Research Problem/Problem Statement**

Although the retail business in Malaysia is still made up and dominated by a small traditionally operated convenience store, bazaars, departmental stores, supermarket and hypermarkets, the of convenience store within the Petrol Station has increasingly become customers preference due to the convenience factors that attract the customer.

The increasing competition for business expansion particularly in the retails industry has always been very intense and competitive and retailers have always looking for a new and creative ways to improve their market shares. Driven by rapidly changing retail environment, more demanding customers, intense competition by competitors, and slow-growth markets, some retailers have even focus on establishing store image and attractive loyalty program to satisfy their customer. Understanding how to develop customer satisfaction and what kind of factors make them satisfy has becoming a main issue in retail management today (Pritchard, Havitz & Howard, 1999).

The increasing competition in the retail industry in Malaysia has forced and gives pressure to retailers such as operator of a convenience store to search for new

ways to differentiate themselves and gain better competitive position in the minds of customers in order to improve customer loyalty.

There is some evidence that store loyalty may be determined by store image (Osman, 1993). However, it has remained unclear what is the actual relationship between store image, corporate image, customer satisfaction and loyalty in a retail sector such as convenience stores. Therefore, the focus of this research is to investigate the relationship between store image, customer satisfaction and customer loyalty towards the convenience store taking into consideration the effect of corporate image as a moderator. A corporate image of the organization has been brought in as moderator to see the relationship between store image, customer satisfaction and customer loyalty towards the convenience store since most of the stores under study are part of the large and already established business entity.

This study is based on real business problems that occurred in a convenience store attached to a Petrol Station in Penang which has seen a rapid development lately. Further, lately oil retailers has started an aggressive strategies to portray new image and concept to portray the individual store image as well as the image of the retailer in general, since this line of business depended very much on image to gain competitive advantage in this challenging line of business.

The oil companies in which the convenience store under study are dominant in the fuel distribution market and has been very well established. They are in fact some of the most successful corporate brands in the world of retail business and continue to make large investments to further strengthen their retail brands in the market.

There is not much research done on customer loyalty in patronage the service of a convenience store particularly those attached to a Petrol Station in Penang. Even

though the contribution of this sector is relatively small as compared to a retail distribution sector as a whole, there were many interesting factor to be studied in this particular sector. The growth potential of this sector are unlimited where the oil companies have developed bigger and spacious stores for their newly developed stations.

Furthermore, the retailers of fuel are at the centre of attention as any changes in the prices of fuels would have a chain effect in the economy where it has direct impact in almost all other products and services. The dependent to oil is vital to many industries and it is important source of power and thus is a critical concern for many nations. This has made on oil retailing organizations under study as a centre of attraction and at the same time make them dominant in the marketplace. Consumer gives full attention to anything that these organizations do as this will have an impact to their daily life either directly or indirectly. Therefore, this study will look into the research on customer influence of image of the convenience stores, the image of their respective oil distribution companies and the level of customer satisfaction towards the convenience store and its impact on customer loyalty.

#### **1.4 Research Objectives**

The retail market has been influx with too many retailers using all kind of creative strategies to attract customer interest towards them. The same happened to the convenience stores in the Petrol Station. To remain competitive, customer loyalty towards repeated shopping in the store is very important and as such the players need to carefully analyze the factors that guarantee the loyalty among their customers. As

such, this research made an attempt to examine whether there is any relationship between the following:

1. To determine the relationship between convenience store image and customer loyalty.
2. To determine the relationship between convenience store image and customer satisfaction.
3. To determine relationship between customer satisfaction and customer loyalty.
4. To determine whether customer satisfaction mediates the relationship between store image and customer loyalty.
5. To understand whether the convenience store corporate image moderated the relationship between store image and customer satisfaction.

### **1.5 Research Questions**

The research attempted to answer the above objectives through the following proposed research questions:

1. What is the relationship between convenience store image and customer loyalty?
2. What is the relationship between convenience store image and customer satisfaction?
3. What is the relationship between customer satisfaction and customer loyalty?
4. Does customer satisfaction mediate the relationship between store image and customer loyalty?
5. Does convenience store corporate image moderate the relationship between store image and customer satisfaction?

## **1.6 Significance of the Study**

Although retailers understand that it is very important to develop customer base for the success of their business, the understanding of consumers buying or shopping patterns has been very difficult and complicated. A deeper understanding of consumers shopping patterns need to be explored and carefully developed strategies should be implemented to ensure success in the competitive retail services industry.

Retails and services sectors has played an important role that chart the future direction of Malaysian economy in line with the rapid development that has taken place in economy as a whole. However, little has been known or explore about the development in this special sector in the retailing service and this study attempted to investigate the inter-relationship between the store image, its corporate image and customer satisfaction towards customer loyalty which is hoped to help the industry players to expand their business. Useful information from the study can later be used as a guide in formulating comprehensive marketing strategies or developing a program for marketing activities. This study will also made an attempt to incorporate corporate image which has been recognize as a new key marketing tools in the 21<sup>st</sup> century.

There is a growing need to evaluate the factors that drives the shopping behavior in the Malaysian context, particularly for those who shops at the convenience stores that attached to Petrol Stations. The trademark of a Malaysian shopping and retailing, the small shop with a high level of personalized service is making shoppers reluctant to depart from traditional ways of shopping. To a large section of consumers the new shopping avenue are perceived to add insufficient additional value.

Store choice and patronage have been widely studied across the world. There is still vast scope for research and analysis since the retailing industries are changing on a rapid scale thus leading to shopper expectation and realignment of the choice set of stores. This scenario has gained significant attraction in the context of Malaysian retail industries lately. Many super stores adapted from the successful western models have been introduced and many more larger and diversified retail format has been introduced by organized retailers.<sup>1</sup> This has also provides a new experience and option to shop for the consumer and at the same time provide an opportunity for business expansions. A variety of new formats are being rolled out with mixed success.

As a result of increasingly competitive petrol retailing business environment and the rise of convenience stores in the food retailing sector, oil distribution companies in Malaysia began to diversify into retailing business and convert their petrol stations into convenience stores.

Forecourt convenience store have become increasingly popular because they fulfill the needs of public to buy top-up or emergency items both during traditional shopping time or outside the normal business hours, close to home or while travelling. Their main concern is to purchase the specific item required, either in commodity or in brand form, as quickly as possible.

Studies have been done on service quality and satisfaction in the service related industries but the relationship between the future intentions, i.e. the customer loyalty and actual purchase is still lacking in confirmation. This study will provide to

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<sup>1</sup> Organized retailing is a phrase used in the industry to differentiate the new retailers, with institutionalized systems and procedures, from the traditional retailers where the operations are person/owner dependent and there is problem of scalability.

some extent the better understanding and influence of store image, corporate image and customer satisfaction towards customer loyalty to patronage the service of a convenience store in a petrol station. The greatest difficulty in this study was the process in gathering the relevant data for further analysis as the nature of business operations and the limited time spent by each customer do their shopping in the convenience store. Further as it is, each convenience store have a unique design and layout and organizing their own ongoing periodical promotional activities to further promote their products and services as well as to attract new customer to their stores.

### **1.7 Scope of the study**

The research is limited to a customer who shops at selected convenience store attached to a Petrol Station in Penang, Malaysia. This study attempted to determine the inter-relationship between store image, its corporate image and customer satisfaction and their influence towards customer loyalty, the subject matter that received much attention lately.

This research is divided into 5 chapters. In chapter 1, Introduction, Background of the study, Problem Statement, Research Objectives, Research Questions, Significance of the study, Scope of the study, Definition of Key Terms and Variables and Organization of the Thesis. Chapter 2 covers the area of Literature Review on all the main variables, theoretical framework and development of hypotheses for this study. Chapter 3 focused on the methodology used for this study which includes the research design, variables, population, procedures, measures and techniques used to analyze the data in this study. Chapter 4 explains the result for the analysis carried out as on chapter 3 which comprises the profiles of the respondents,

reliability testing and multiple regressions, testing of hypotheses and summary of result. Chapter 5 discusses the recapitulation of the study, findings, discussion, implications, limitations, direction for future research and conclusion of the research.

## **1.8 Definition of Key Terms and Variables**

### **a) Convenience stores in Petrol Stations**

Convenience Stores in Petrol Stations have many names such as "Petromart", Quick Mart, Convi-stores, etc. Convenience Store (Petroleum-Based) - The petroleum-based stores are primarily gas or petrol stations with a convenience store. An example is Mobil Mart, "Kedai Mesra Petronas", Shell Select, Starmart, Tiger-Mart, etc.

A Convenience Store has also been defined as a shop "with between 500 and 3,000 square foot of selling space, trading for seven days a week, including public holidays, open continuously between 8.00 am to 11.00 pm, or for 24 hours a day, located within or close to a local community, for whom it offers a friendly or nearby source of daily purchases, top up and emergency items.

Convenience Store (Traditional) - A small, higher-margin store that offers an edited selection of staple groceries, non-foods, and other convenience food items, i.e., ready-to-heat and ready-to-eat foods. The traditional format includes those stores that started out as strictly convenience stores but might also sell gasoline. An example is Seven Eleven, 24-Hours, Convenience Shops, etc.

## **b) Store Image**

The complex of a customer's perceptions of a store on different (salient) attributes (Bloemer & Ruyter, 1998). It is well known that stores images have critical impact in building customer loyalty towards the convenience store.

## **c) Corporate Image**

Refers to how a corporation is perceived. It is a generally accepted image of what a company stands-for. The creation of a corporate image is an exercise in perception management. It is created primarily by marketing experts who use public relations and other forms of promotion to suggest a mental picture to the public, so that the company can spark an interest among consumers, create share of mind, generate brand equity, and thus facilitate sales of the products or services.

## **d) Customer Satisfaction**

Customer satisfaction is a business term which is used to capture the idea of measuring how satisfied customers are with the organization's effort in a marketplace. It is seen as a key business performance indicator to measure the organization's success. It is also defined as the judgment of the overall assessment of the service provider that gives a pleasurable fulfillment (Oliver, 1980). Customer satisfaction towards the convenience store is the outcome of the subjective evaluation that the chosen alternative (the convenience store) meets or exceeds the expectations (Bloemer & Ruyter, 1998).

### **e) Customer Loyalty**

A deeply held commitment to re-purchase or re-buy or re-patronize a preferred products or services consistently in the future, thereby causing repetitive same brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1999).

### **1.9 Organization of Remaining Chapters**

The organization of the remaining chapters is as follows. Chapter 2 reviews the literature on all the main variables, theoretical framework and the development of the hypotheses for this study. Chapter 3 addresses the methodology for this study. This includes the research design, variables, population and sampling, procedures, measures and techniques used to analyze the data for this study. Chapter 4 explains the result for the analysis as outlined in chapter and its interpretation resulting from the compilation of the population profiles, reliability testing and regressions analysis. Chapter 5 discusses the recapitulation of the study, findings, discussions, implications, limitation, direction for future research, and conclusion.

## Chapter 2

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter will first review the concept of customer loyalty, store image, corporate image and customer satisfaction. Secondly, a review of literature, which examines empirically the relationship between customer loyalty, store image, corporate image and customer satisfaction are presented. Based on the literature review, a theoretical framework and its relevant hypotheses are being developed and presented at the end of this chapter.

#### 2.2 Customer Loyalty

Practitioners as well as academics understand the central importance of customer loyalty to business success. Customer loyalty expresses an intended behavior related to the service or the company which includes the likelihood of future renewal of service contracts, possibility of continues to patronage, spreading good word of mouth and switching behavior of the customer. Customer loyalty in service industry like the convenience stores business has received considerable attention in both marketing and management theory and practice (Ziethaml, 1998; Bolton and Drew, 1991; Boulding *et al*, 1993; Oliver, 1999; Bei & Chiao, 2001; Hellier *et al*, 2003). As customer loyalty may act as a barrier to customer switching behavior, it has an impact on the development of a sustainable competitive boundary (Keaveney, 1995). In exploring customer loyalty, the antecedences are always the central theme

for most researchers concern. Loyalty has been defined and measured in many different ways. Dick and Basu (1994) conceptualized loyalty as the relative attitude towards an entity (brand/service/store/vendor) and repeat patronage. In general, there are three distinctive approaches to measure loyalty: behavioral measurements, attitudinal measurements and composite measurements (Bowen & Chen, 2001). The behavioral measurements consider consistent, repetitious purchase behavior as an indicator of loyalty (Bowen & Chen, 2001). Even early research into store loyalty in the retailing area also concentrated mainly on behavioral aspect. However, behavioral measures, such as repeat purchasing or visiting sequence, have been criticized for lack of conceptual basis. Instead it is a consumer's disposition in terms of preference or intentions that plays an important role in determining loyalty (Bloemer & Kasper, 1995).

Attitudinal measurement use attitudinal data to reflect the emotional and psychological attachment inherent in loyalty (Bowen & Chen, 2001). The attitudinal measurements are concerned with the sense of loyalty, engagement and allegiance (Bowen & Chen, 2001).

Composite measurement of loyalty combined both the behavioral and attitudinal dimensions. Dick and Basu (1994), convinced that loyalty is determined by the strength of the relationship between relative attitude and repeat patronage, and that it has both attitudinal and behavioral elements. They verified that the use of both behavior and attitude in defining loyalty significantly increase the predictive power of loyalty. This research has adopted the composite approach in measuring customer loyalty. Loyal customer can bring enormous benefits to an organization. They allow for a continuous stream of profits, reduce marketing and operating cost, increase referral, and are immune to competitors' promotion efforts. Moreover, the expenses of

acquiring new customers are much higher than those of retaining an existing one. Thus customer loyalty cannot be overemphasized in today's highly competitive business world.

Organizations, which are acting on free markets, are encountering intense competition and demanding customers (Gronroos, 2000). To be able to survive and create a long term growth and profit, it is acknowledged by theorists that organizations need to build and nourish mutual and earned loyalty (e.g. Gronroos, 2000; Reichheld, 1997; Reichheld *et al.*, 2000; Soderlund, 2003).

This section would foresee the theoretical of why customer satisfaction would lead to customer loyalty of patronizing the preferred convenience store. In marketing literature, customer satisfaction and customer loyalty are distinctive elements which should be given due consideration by a service provider such as convenience stores owner or operator. Customer satisfaction or dissatisfaction results from experiencing a service and comparing such services with the kind of quality of service that are expected (Oliver, 1980, Ismail, Haron, Ibrahim and Isa 2006). Furthermore, Caruana (2002) said that service loyalty is an essential construct in service marketing which would lead to repeat purchase which is extremely essential for any organization to remain competitive and stay in business. Therefore, it can be said that customer loyalty is dependent on customer satisfaction.

Customer loyalty is a business asset that sustain an organization's existence as well works as a decider for the future development of the organization. A positive correlation exists between loyal customers and profitability. Loyal customers will generate repeated business and they would also less likely to shop around for the similar services as compared to a non-loyal customers. A business organization should be aware that having satisfied customers is not good enough, they must have

extremely satisfied customers to keep the customers loyal to them. Highly satisfied customers produce several benefits for the business organizations. Satisfied customers are less sensitive to price and talk favorably about the company's products and remain loyal for a longer period.

With regards to re-patronage of a convenience store, it refers to a biased (non-random) behavioral response (i.e. re-visit) expressed over time, by some decision making unit with respect to one particular store out of a set of alternative stores, which is a function of psychological (decision making and evaluative) process resulting in store commitment (Bloemer & Ruyter, 1998).

A preferred customer experience means becoming more relevant to key shoppers, thereby turning them into long-term loyal customers. Visionary retailers therefore are aligning processes and technologies around the customer. Customer loyalty is more than having customers make repeat visit to a convenience store and being satisfied with their experiences and the merchandized they purchased. Customer loyalty to a convenience store operators means that customers are committed to purchasing merchandise and services from the retailer and will resist the activities of competitors attempting to attract their patronage. Loyal customers have an emotional connection with retailer such as convenience store operators. Their reasons for continuing to patronize a convenience store go beyond the convenience of the retailer's store or the low prices or specific brands offered by the retailer. They feel such goodwill toward the retailer that they will encourage their friends or family to buy from it. Programs that encourage repeat buying by simply offering special discounts or promotions can be easily copied by competitors. In addition this type of price promotion programs encourage customers to be always looking for the best deal rather than developing a relationship with one particular convenience store. However,