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Analysis of Factors that Influence the Customer Loyalty in Modern Pharmacy Retail in Indonesia

Analisis Faktor-Faktor yang Mempengaruhi Loyalitas Pelanggan pada Ritel Apotek Modern di Indonesia

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Abstract

The study analyzes several factors that are seen to influence the customers loyalty in modern pharmacy retail. This study was conducted at Watsons Indonesia. This study examines the influence of in-store experience (IE), membership programs (M), and use of private labels (PL) on customer loyalty. Shopping habits are proposed as a variable that moderates the three independent variables on customer loyalty. Data was collected from a sample of 232 Watsons Indonesia customers and the relationship between variables was tested using structural equation models. The findings show that IE and M are not proven to have a significant influence, but PL is proven to have a significant influence on customer loyalty at Watsons Indonesia. Furthermore, shopping habits do not significantly moderate EI, PL, and M in building customer loyalty of the company.

Keywords: Customer Loyalty, In-Store Experience, Private Label Use, Shopping Behavior, Membership Programs.

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Abstrak

Penelitian ini menganalisis beberapa faktor yang dipandang mempengaruhi loyalitas pelanggan ritel apotek modern. Studi ini dilakukan pada Watsons Indonesia. Studi ini menguji pengaruh dari pengalaman di dalam toko (IE), program keanggotaan (M), dan penggunaan label pribadi (PL) terhadap loyalitas pelanggan. Kebiasaan belanja diusulkan sebagai variabel yang memoderasi ketiga variabel bebas itu terhadap loyalitas pelanggan. Data dikumpulkan dari sampel 232 pelanggan Watsons Indonesia dan hubungan antar variabel diuji dengan model persamaan struktural. Temuan menunjukkan bahwa IE dan M tidak terbukti berpengaruh signifikan, tetapi PL terbukti memiliki pengaruh signifikan terhadap loyalitas pelanggan pada Watsons Indonesia. Lebih jauh, kebiasaan belanja secara tidak signifikan memoderasi IE, PL, dan M dalam membangun loyalitas pelanggan dari perusahaan.

Kata Kunci: *Loyalitas Pelanggan, Pengalaman di Dalam Toko, Penggunaan Label Pribadi, Perilaku Belanja, Program Keanggotaan.*

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INTRODUCTION

The pandemic of Covid-19 made firms' competitiveness arise more along in the sophisticated technology era. Business owners must consider a new marketing strategy that suits their business model. It is necessary to identify, select, implement and adapt a market-driven business strategy that fancy a sustainable advantage in a dynamic market (Aaker, 2013). The shift in consumer spending habits (through online shopping features) is the reason for the decline in offline retail performance in Indonesia apart from weakening purchasing power.

According to Holbrook & Hirschman (1982), a store can provide an experience to its customers by offering a shopping environment that feels pleasant and can involve the customer's five senses. Several pharmacy retails in Indonesia especially Watsons Indonesia has an O+O Strategy which involves offline and online shopping at the retail. A business is intended to gain profit from the sale. Based on a literature study by Yoon & Park (2018), research on customer experience has some impact on their loyalty behavior. Efforts to provide a shopping experience to customers are often intended to create a store atmosphere through the interior and exterior design of the store (Ballantine *et al*., 2015; Shaleh & Leman, 2016). Watsons pleases the consumer's eye with its signature green color, and the store design resembles a cosmetic boutique more than a typical pharmacy outlet.

According to Peppers & Rogers (2015) and Gorlier & Michel (2020), managers who adopt the idea of investing in building relationships with customers can improve the company's financial performance because it creates loyal customers who have positive word of mouth as output, make repeat purchases, and are less price sensitive. The "price sensitive" theory refers to the behavior of customers who are very attentive and sensitive to changes in the price of a product or service. Price-sensitive customers tend to make decisions based on the price offered and are ready to switch to a competitor if the price offered is cheaper or if there is a more favorable price promotion. The link between the "price-sensitive" theory and the approach proposed by Peppers & Rogers (2015) lies in their focus on creating loyal customers. As companies succeed in building strong relationships with customers and creating loyalty, customers become less-price sensitive. This is because loyal customers tend to focus more on the value provided by the brand rather than solely on price. With this statement, many managers implement marketing in customer relations as their priority center (Reibstein *et al*., 2009). Increasing intimacy, rewarding and long-term relationships with customers is a way companies maintain their market position (Gorlier & Michel, 2020). Commitment can refer to loyalty, where customers may provide benefits to the company through positive word of mouth and repurchase products by the company (Albert & Merunka, 2013).

Customer loyalty membership programs are a business strategy commonly used by retailers or brands to gain customer loyalty and encourage repeat purchases. In this phenomenon, customers are often given incentives such as special discounts, early access to sales, loyalty points, or other rewards in exchange for their participation in the program. This phenomenon creates a long-term relationship between customers and brands, which is expected to generate long-term benefits for the company. This is supported by research Sukmaputra *et al*. (2017) which proves that membership programs affect loyalty.

Meanwhile, private label products refer to products produced by certain retailers or brands and sold under their own brand or label. This is different from well-known brands that are widely recognized. This is supported by Heryati's research (2015) which proves that private labels have an effect on loyalty. This phenomenon has become popular because many retailers see it as a way to

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increase their profit margins and provide their customers with high-quality product alternatives at lower prices than well-known brands.

Purchasing behavior is the study of how individuals make purchasing decisions, how they choose products or services, and what influences their decisions. This phenomenon is very complex and is influenced by various factors, including consumer psychology, personal preferences, social influences, and buying situations. Shopping behavior is also influenced by economic factors such as price and promotion.is one of Watsons Indonesia's achievement targets. Customers are an essential source of income for companies (Alsulami, 2021). Loyal customers can provide benefits for the company, for example by not easily switching to other companies with the same product (Nikmah, 2017; Muhammad *et al*., 2021). Creating close relationships with customers is the key to long-term marketing success (Kotler & Keller, 2009). Customer loyalty becomes a magnitude for these customers to make repurchases and wish to continue dealing with related companies. The aim of this study is to test if in-store experience, private label usage, and membership program significantly influence customer loyalty in modern pharmacy retail in Indonesia and to test if spending habits can moderate these variables.

LITERATURE REVIEW

Customer Loyalty

When sellers want to gain customer loyalty, they must be able to gain their customers' trust (Sari *et al*., 2022). Loyalty can be described as a condition in which a person purchases products regularly based on decision making (Fuadi *et al*., 2019). Organizations or companies must strive to be able to provide a very high level of satisfaction and increase the number of loyal customers because customers cause high sales of the latest products and at the same time bind them from competing companies (Alsulami, 2021). Customer loyalty can be achieved from how much the store is willing to provide the best service to customers. The other supporting factors for customer loyalty to an outlet are price discounts, membership and product availability in the storefront.

Customer behavior towards loyalty to an organization can be divided into three types, i.e. switching behavior, promiscuous behavior, and polygamous behavior (Uncle *et al*., 2003). Switching behavior is a behavior in which the purchase is seen as an 'either/or' decision. Either a regular customer of one company or turn around and go to another company (switch). Promiscuous behavior is when the customer is seen as making a 'buy flow' but still in the context of an either/or decision, which explains whether the customer stays with one company (loyalty) or shifts between alternatives (promiscuous). Polygamous behavior is a behavior in which customers make a steady stream of purchases, but their loyalty is split across a number of products. They may be more or less loyal to one company's brand than another (Khan, 2013).

In-store Experience

Experience is an interaction between a consumer and a product or company that leads to a reaction. Consumers can gain this experience by purchasing products at a retail store (Munatsir, 2022). If the experience received by consumers gives a sense of satisfaction, it can make consumers repeat future purchases. However, if the experience received by the consumer is positive, then the customer will be willing to make a repeat purchase at that retailer in the future.

The in-store experience is directly influenced by the reasons that drive consumers to visit the particular retail location. A study by Munatsir (2022), if customers have a positive experience and

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give them the satisfaction they expected, customers tend to repurchase products from the same store in future. Common belief indicates that enhancing the in-store experience for customers is a significant factor in fostering loyalty (Antéblian *et al*., 2013). Thus, it is expected that in-store experience has a significant impact on customer loyalty to retail.

H1: The in-store experience variable influence customer loyalty.

Private Label

Private label is a consumer goods produced by a retailer and then sold exclusively at that retailer (Chaniotakis *et al*., 2010). The main benefit of private label products is their low price, typically 30 percent cheaper than other similar and competitive brands (Valaskova *et al*., 2018). In the retail realm, apart from the widely recognized notion that store brands commonly aid retailers in boosting consumer loyalty, broadening product selections and expanding revenue streams also provides them with a competitive edge. Studies reveal that store brands also provide a strong position for retailers when engaging in further collaborations with national brand owners during negotiations (Al-Monawer *et al*., 2021). Consumers may become customers of retailers because the brands they prefer available for purchase in retail outlets. If retailers produce good private label products, which meet customer expectations, customers may be committed to a particular brand (Ipek & Lobo, 2016; Heryati, 2015; Elistia & Rizan, 2014). In this case, there is a relationship between private label usage and customer loyalty.

H2: The variables of purchasing private label products affects customer loyalty.

Marketing with Membership Program

Companies can also sponsor membership programs or club marketing programs. This program offers special benefits and forms its community for its members (Kotler *et al*., 2017). Membership programs for clubs can be accessible to anyone making a purchase of a product or service, or restricted to particular interest groups or individuals willing to make a payment. Open clubs are advantageous for constructing databases or drawing customers from rival companies, while exclusive membership clubs play a role in maintaining customers over the long term (Kotler *et al*., 2017). Customer membership at Watsons Indonesia outlets is proven by ownership of a membership card. This card is valid at all Watsons Indonesia retailers. Companies rely on various offers on membership card programs with certain compensation benefits to customers (Widjaja *et al*., 2020).

A retail membership program refers to a customer's favorable attitude toward a loyalty program. When a loyalty program fails to regenerate the customer's association with brands, they will likely exit their program participation (So *et al*., 2015).

H3: Membership program variables influence customer loyalty.

Spending Habits

Spending habits are a habit to spend or spend money. Spending habits lead to a high consumptive attitude which directly impacts financial management (Mahendra & Rafik, 2022). Shopping becomes an activity to obtain goods for daily needs by exchanging a certain amount of money as a substitute for these goods, often done by individuals repeatedly. Criteria can measure shopping habits; continue to use money for shopping activities; and difficult to stop the activities.

Affordable price is an important factor influencing consumer purchase intention that leads to spending habit because it affects the ability of the customers to pay for a certain good. A study by

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Knox & Denison (2000) found that loyal shoppers are found to spend huge amount per month than the switchers. Loyal customers invest significantly more funds in their preferred stores compared to those who switch between different stores and potentially more profitable to retailer. Hence, spending habits as moderating variables need to be tested.

H4: The in-store experience variable influences customer loyalty with the moderating variable of spending habits.

H5: The variable of buying private label products influences customer loyalty with the moderating variable of spending habits.

H6: The membership program variable influences customer loyalty with the moderating variable of spending habits.

METHOD

The study applied a quantitative research method, which can be described as a method of testing certain theories by examining the relationships between variables. Quantitative research uses standardized measurements or a data measurement scale (Paramita *et al*., 2021). This research uses purposive sampling technique, which is a random sampling methodology where the sample group is targeted to have certain attributes (Campbell *et al*., 2020). The technique was chosen because the researcher realized that the information needed could be obtained at certain targets that were included in the criteria determined by the researcher in accordance with the research objectives.

Data collection is the activity of collecting the data needed to answer the problems of concern to the research. The data needed by researchers can be obtained through surveys. The research time was conducted for two weeks in August - September 2023 through Google Form. Data collection using surveys can be done by creating a questionnaire. The reason for using a questionnaire is to get primary data. Primary data is defined as data generated from surveys in the field when respondents answer 27 research questions. These questions were adapted from previous research. The in-store experience scale was adapted from Vilnai-Yavetz *et al*. (2021); the private label usage scale was adapted from Ipek & Lobo (2016); the membership program scale is adapted from Teng & Wang (2015); the customer loyalty scale is adapted from Bobâlcă *et al*. (2012); and, the shopping habits scale was adapted from Castellini & Samoggia (2018).

Data were collected from 232 people who have purchased or regularly purchase health and beauty products at Watsons Indonesia retailers, both online and offline, are interested and registered as Watsons Indonesia members, and are users or have purchased Watsons private label products. Data were analyzed with SPSS 25 software and tested using structural equation model analysis in SmartPLS 3 software.

RESULTS

Respondents Demographic Profiles

In this study, descriptive statistics are needed to explain the characteristics of respondents based on demographic factors such as gender, domicile, generation, occupation, identification of the distance between the respondent's residence and the nearest Watsons Indonesia outlet and membership status. Author obtained data from 232 respondents by online questionnaire. As seen on Table 1, the majority gender is female (75 percent), which showed that women shop more than the gents on beauty and healthcare product. Most respondents live in the island of Java (66 percent),

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where many Watsons Retails are operated for business compared to the other island. In matter of occupation, 45 percent of the respondents are students. Gen-Z respondents dominate this survey as the percentages reached the highest (80 percent), states that Gen-Z or the people born from 1995 to 2010 are aware and consumer of beauty and health products in modern pharmacy retail. The 30 percent of the respondents have a close distance (approximately 3 to 5 km) to the nearest Watsons Indonesia retail store. As much as 41 percent of the respondents are registered in Watsons Membership Program, and 80 percent of the members are female. This shows that women want member benefits while purchasing products in Watsons Indonesia.

Measurement Test

This study will test the effect of in-store experience, private label usage and membership program on customer loyalty with spending habits moderation. Validity and reliability tests are done by looking at each indicator's standardized factor loading (SFL) score. An indicator can be considered correct if the SLF scored more than equal 0.5. However, the measurement must be reliable to be tested further. The reliability test will be analyzed by looking at composite reliability (CR) and average variance extracted (AVE) values. If the value of CR is bigger than equal 0.7, it can be declared as consistent. Moreover, if the value of AVE is bigger than equal 0.5, instrument can be declared as reliable.

Based on the Validity and Reliability tests, it can be seen that overall, the composite reliability value listed in Table 2 has shown a value above 0.7. Thus, it can be concluded that the data is reliable. However, in the average variance extracted (AVE) column, all variables have an AVE value that exceeds 0.5 which indicates that the data are valid and reliable.

Hypotheses Test

To find out the structural relationship between variables in this study, it can be done by testing the hypothesis of the path coefficient between variables by making comparisons between the *p-values* with alpha (0.005), and *t*-statistics with a value of $t > 1.96$ (95% significance). The value of *p-values* and *t*-statistics can be obtained through the output of the bootstrapping method on the SmartPLS 3 application.

Based on Table 3, only one out of six hypotheses are considered having a significant relationship. In the direct influence path between the three independent variables on the dependent variable, the results of testing the hypotheses are obtained as follows: (1) IE (*p-value* > 0.005) was not found to influence CL at Watsons Indonesia retail significantly, therefore the first hypothesis is rejected; (2) PL (*p-value* < 0.005) was found to significantly affects CL at Watsons Indonesia retail, therefore the second hypothesis is accepted; and, (3) M (*p-value* > 0.005) was not found to significantly influence CL at Watsons Indonesia retail, therefore the third hypothesis is rejected. Next, on the path of indirect influence between the three independent variables on the dependent variable and moderation of shopping habits, the results of testing the following hypotheses were obtained: (1) IE with moderation of SH (*p-value* > 0.005) was not found to significantly influence CL at Watsons Indonesia retail, therefore the fourth hypothesis is rejected; (2) PL with moderation of SH (*p-value* > 0.005) was not found to significantly influence CL at Watsons Indonesia retail, therefore the fourth hypothesis is rejected; and, (3) M with moderation of SH (*p-value* > 0.005) was not found to significantly influence CL at Watsons Indonesia retail, therefore the fifth hypothesis is rejected.

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Discussion

The results of the H1 test in this study indicate that in-store experience has no significant effect on customer loyalty at Watsons Indonesia retail. This finding is also inconsistent with another study by Bustamante & Rubio (2017) which found that the relationship between in-store customer experience and loyalty to the store is strong, positive, and significant. A good in-store customer experience plays a big role in motivating customer relationships with stores. However, our findings show that Watsons' in-store experience has not reached a certain level of customer satisfaction resulting in less loyal behavior. This result may be supported by a study by Bustamante & Rubio (2017) that stated the in-store experience is a strong predictor of customer satisfaction and loyalty to the store. Other researchs also proves that customer experience affects customer satisfaction (Foster, 2017; Hendra, 2017).

Table 1. Respondents Demographic Profiles

Attributes	Category	Sum	Percentage (%)
Gender	Female	175	75
	Male	57	25
Domicile	Sumatera	56	24
	Java	154	66
	Kalimantan	0	0
	Sulawesi	1	0
	NT & Bali	21	9
	Papua	0	0
Generation	Baby Boomer	0	0
	Gen-X	21	9
	Gen-Y	25	11
	Gen-Z	185	80
	Gen-Alpha	1	0
Occupation	Entrepreneur	27	12
	Civil Servants	19	8
	Employee	44	19
	State Company Employee	15	6
	Student	105	45
	Unemployed	9	4
	Others	13	6
Distance from home to Watsons Retail	Very close	56	24
	Close	70	30
	Far	52	22
	Very far	54	23
Membership Status	Registered	96	41
	Not registered	136	59
Registered Member	Female	77	80
	Male	19	20

Source: Primary data (processed), 2023.

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Table 2. Results of Measurement Test

Variable	Indicators	SFL	CR	AVE
In-store Experience	IE1	0.529	0.848	0.537
	IE3	0.763		
	IE4	0.866		
	IE5	0.582		
	IE6	0.858		
Private Label Usage	PL1	0.971	0.977	0.934
	PL2	0.971		
	PL3	0.957		
Membership Program	M1	0.852	0.965	0.776
	M2	0.91		
	M3	0.891		
	M4	0.858		
	M5	0.904		
	M6	0.893		
	M7	0.857		
	M8	0.878		
Spending Habits	SH1	0.910	0.905	0.657
	SH2	0.879		
	SH3	0.775		
	SH4	0.757		
	SH5	0.714		
Customer Loyalty	CL1	0.942	0.912	0.727
	CL2	0.942		
	CL3	0.872		
	CL4	0.611		

Source: Primary data (processed), 2023.

Based on hypothesis test result of H2, it is found in this research that use of private labels is significantly impacted the customer loyalty in Watsons Indonesia retail. This finding is consistent to a study by Dawes (2022) who found that the evidence is that store brands on average exhibit excess loyalty compared to manufacturer brands. Furthermore, this finding is consistent to a similar study by do Vale *et al*. (2016) stated that consumers who prefer to buy private label products are more loyal to retail stores and using private brands could increase store loyalty and sales respectively. Those authors found that Watsons' customers tend to consume Watsons brand products and leads to loyal behavior.

Next, our findings should be consistent with Muhammad *et al*. (2021) who found that membership programs significantly influence customer loyalty. Interestingly, another study by Khan (2013) established the moderating effect of card membership on the hotel customer experience-loyalty relationship. As found in this study, the empirical test results of hypothesis H3 show that the Watsons membership program has not fully fulfilled customer loyalty. This may be due to the benefits that customers perceive from the retailer. Similar modern pharmaceutical retailers in Indonesia offer rewards and benefits after purchasing a certain amount. This situation

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creates intense competition between similar retailers and is unable to build customer loyalty behavior. The results of this study are supported by research of Sukmaputra *et al*. (2017) which proves that membership programs affect customer loyalty. Another study also proved the same thing that loyalty programs affect consumer loyalty in the halal industry (Adha *et al*., 2018).

The hypothesis test on H4 is inconsistent with previous research which says that loyal customers tend to spend less than customers who move around but spend more or double at their preferred stores (Knox & Denison, 2000). Nonetheless, our findings suggest that Watsons store customers need help to control their urge to buy things and spend a lot of money without planning. This is not aligned supported by research of Hendra (2017) which proves in-store experience affects customer loyalty.

The findings in testing H5 are supported by previous research which found that consumer loyalty to PL is not always a crucial factor of store loyalty, it depends on consumer choice of retail stores (Valaskova *et al*., 2018). A study by Söderlund (2019) found that being part of this kind of loyalty program requires customers' consent to register their purchasing behavior and use that activity as a basis for future price reductions. The results of this study is not in line with some researchs which prove that private label products have an effect on customer loyalty (Elistia & Rizan, 2014; Rahayu *et al*., 2016).

The results of this study reject H6, which means that membership programs have no effect on customer loyalty with shopping habits as a moderating variable. Different results were found with the findings of previous research which proved that programs have a positive effect on customer loyalty (Adha *et al*., 2018). Although membership programs may be attractive to customers, customers' shopping habits are a stronger factor in determining their level of loyalty. This may be due to various factors, such as customer preferences for certain products or services, consistent shopping experiences, or other factors that make customers feel comfortable and satisfied in shopping repeatedly at Watson Indonesia. Therefore, in optimizing strategies to increase customer loyalty, companies need to understand that membership programs alone may not be enough, and need to consider other aspects that can influence customers' shopping decisions.

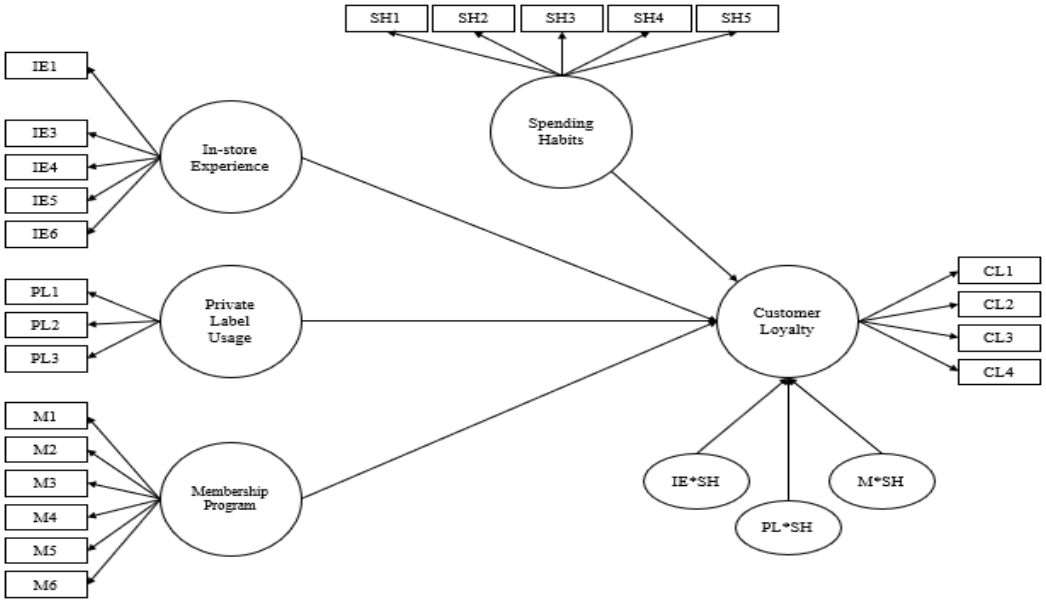


Figure 1. Research Hypotheses Testing

Source: Primary data (processed), 2023.

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Table 3. Results of Hypotheses Test

Hypothesis	Relationship	*t*-Value	*p*-Value	Hypotheses Status
H1	IE – CL	1.344	> 0.005	Not supported
H2	PL – CL	12.072	< 0.005	Supported
H3	M – CL	0.032	> 0.005	Not supported
H4	IE*SH – CL	1.334	> 0.005	Not supported
H5	PL*SH – CL	0.617	> 0.005	Not supported
H6	M*SH – CL	1.39	> 0.005	Not supported

Source: Primary data (processed), 2023.

CONCLUSION

Based on the results, the use of private labels is proven to significantly affect customer loyalty of Watsons Indonesia due to the perceived product quality and price offered by the company; the in-store experience of company needs to be evaluated to create great strides in retaining customers and increasing loyalty behavior; the Watsons membership program showed an insignificant impact on customer loyalty due to the less-than-optimal use of retail membership data; and, the spending habits was not found to moderate in-store experience, private label usage and membership program and had an insignificant impact on customer loyalty in Indonesia. Therefore, it was found that Watson customers cannot be considered to have consumptive behavior in purchasing the products. However, the large number of Generation Z as the generation most aware of the consumption of beauty and health products, can proactively become an attractive market segment and have good purchasing power.

Suggestions for future research are to enrich the sub-variables in each of IE, PL and M, and look for other moderating factors that can affect consumer loyalty. Thus, future research can determine which dimensions need to be prioritized in developing modern pharmaceutical retail in Indonesia while maintaining customer relationships. In addition, to determine or compare in-store experience, private label and other loyalty programs that might create benefits for both; retail and customers. This research was only conducted on Watsons Indonesia pharmaceutical retail, therefore the results cannot be generalized to all modern pharmaceutical retailers in Indonesia. This research also only uses the questionnaire method. In fact, other methods, such as interviews or observations, can provide a completer and more in-depth picture of the factors that influence customer loyalty.

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