

# An Empirical Analysis of Oliver's Model

Murale V<sup>1</sup>, S.Suranya Smrithy<sup>2</sup>

## Theoretical Background

The retail industry is dynamic, huge and where change is a constant phenomenon. We had seen the emergence of huge supermarkets and chain stores such as Wal-Mart, k-Mart, JC Penny in American and shops like TESCO in European countries dominating the retail arena. The reason behind such a drastic change is that, the new lifestyle which promoted convenient and high quality service and the new generation of marketers who provided them with services such as flexible payment, home delivery etc.

One of the major success factors behind the retail revolution is that retailers focus on a strategy of continuous improvement by offering a wide range of new products and services. As a result they are able to cater to the needs of all the segments in market.

The researchers all over the world had conducted numerous studies on factors, which influence store image, store choice and loyalty. However in the Indian context there exists immense scope, as the market conditions are different when compared to the capitalist states.

According to the studies conducted by Confederation of Indian Industries (CII – 2000 -

2002) in the retailing sector, the total revenues from retail sales amounted to about Rs.7400 Billion in 2002. The growth rate has increased from 5% in 1999 to 7 % in 2002. Further studies in this area highlighted that the sales are also expected to expand at a higher pace of nearly 10% across the nation. Retail sales in real terms are predicted to rise more rapidly than consumer expenditure during the period 2003- 2008, According to Euro monitor International, a leading agency which studies consumer buying behaviour in various market all over the world, forecasts a growth in retail sales during the period of 2003-2008 as 8.3 compared with 7.1 % for consumer expenditure.

The modernization that the Indian retail sector undergoing will lead to an extra ordinary boost in the commodities traded through supermarkets, departmental stores and hyper marts. The sales in these Indian shopping multiplexes are expected to grow in a phenomenal rate ranging from 24% to 49 % every year.

In a developing country like ours around 7% of our total population is engaged in retailing whereas it is only 20% in a developed country

---

Lecturer, School of Communication and Management Studies, Cochin.<sup>1</sup>  
MBA Student, School of Communication & Management Studies, Cochin.<sup>2</sup>

like USA, which is Mecca of retail trade as described by many scholars. A large chunk of Indian consumer expenditure is on basic necessities, especially food and food related items.

The liberalization has led to the opening up of market for many multinational players like Kellogg, Unilever and Nestle, which enabled them to offer a wide range of products and services.

The Indian retail sector is estimated to have a market size of about \$ 180 billion; but the organised sector represents only 2% share of this market. Most of the organised retailing in the country has just started recently, and has been concentrated mainly in the metro cities. India is the last large Asian economy to liberalize its retail sector.

The organised retail operation In India has a huge scope because of its vast market and growing consciousness among customers about product quality and services.

However there is another angle to the reform measures that is being carried out under stiff opposition from various parties of the nation including the Communist Party, a key ally of the Congress Party-led government. Many politicians strongly feel that they have to protect the local shopkeepers (Kiranawalas) who depend on their small shops for their livelihood.

The Government of India has been conducting an impact analysis how the new wave

reformation which gives entry to foreign players like Tesco and Spencer would affect its retail sector,

The Government is aware about the fact that foreign investment is a necessity for the up gradation of India's under developed retail industry.

The challenge was being undertaken by some of its own industrial houses. In the beginning of the New Year Reliance Industries Limited Chairman Mr.Mukesh Ambani has unravelled his plan to invest \$ 5 billion for creating a chain of hypermarkets and back-end retail services. He elaborated that it plans for creation of a whole new supply chain, with new stores, cold storage facilities, food processing units and contract farming. It is estimated that the investment will provide room for 4000000 jobs.

The establishment of "e-choupal" scheme by ITC group aims at improving the productivity of farmers that supply its food processing operations. It has built internet kiosks in rural villages to help give farmers access to the latest information on things like the weather, current market prices and what foods are in demand.

So while Indian businesses forge ahead with their own plans to take a big share of Indian consumers' spending, and the Indian government slowly refines its retail road map, where does that leave supermarket giants such as America's Wal-Mart, Germany's Metro and Britain's Tesco?

For years, their plans for domination of the Indian retail scene have been under the shelves gathering dust.

German store group Metro has made tentative steps, via its chain of wholesale cash & carry centers in cities like Bangalore.

About 90% of the goods it offers come from local producers and suppliers, which could give it a head start if the rules on selling to individual shoppers are relaxed in the future.

Tesco and Wal-Mart also have a limited presence in India.

But they are not selling anything to anyone: Wal-Mart's 80 staff in India are there to look after the retail behemoth's purchasing in the region.

Even so, it has been lobbying the Indian government to allow it to open an office in Bangalore where it could research the Indian retail market and the possibilities for developing its operations there in the future.

Bangalore is also home to Tesco's Indian outpost, an office that looks after some of its back-office finance operations.

It says it has no firm plans for the region - it will not open up a wholesale operation like Metro - but admits it is watching for any further relaxation of retail regulations. Most Indian business experts think it will not have to wait long.

In the present Scenario to gain the competitive advantage all organizations are focusing on avenues, which will lead to creation of loyal customers by superior quality of products and services for increasing g, repurchases, commitment, and their level of satisfaction.

A satisfied customer will be loyal customer for a long period. This is absolute necessity in the retailing industry where the profit margins are wafer thin.

Huddleston et al (2003) clearly speaks about this fact when he point out that to survive in today's market retailers must create and maintain a loyal customer base.

Omar (1999) advocates that the store loyalty is the single most important factor in the success of retail marketing.

Jacoby and Chestnut (1978) say that their initial research emphasizes on behavioural aspect of loyalty. The majority of researchers measured loyalty as a pattern of repeat purchasing (Oliver, 1997). However, Cunningham (1956) in early stage of behavioural aspect of loyalty stated that store loyalty concept derived from brand loyalty with respect to tangible goods.

The advantage for a retailer of having a set of loyal customers is numerous. Huddleston et al (2003) are of the view that customer's loyalty can yield favorable operating cost advantage for retailers. They substantiated their points by establishing that obtaining a new customer costs five to six times as much as retaining current customers.

The level of spending of loyal customers will increase in a longer period. The Food Business News defines customer loyalty in amore concisely "creating the strongest possible relationship between retailer and customer and

customer, so that people feel they will miss something if they go to another store”

Odekerken-Schroder et al (2001) defined store loyalty as “ the conscious buying behaviour of a consumer expressed over time with respect to one store out of a set of stores and which is driven by commitment to this store”.

Huddleston et al (2003) have conducted a study in mid-western US city with six focus groups in order to define store loyalty by respondents and also they have investigated respondents likes and dislikes of a preferred food store. Respondent’s likes and dislikes relate to identify factors associated with repeat and loyal purchase behaviour.

A study conducted by Koo (2003) among discount retail patrons of Korea to understand the inter relationships among store images, Satisfaction and store loyalty helped him to formulate a conceptual model. The model clearly indicates that various discount retail characteristics have positive influences on attitude towards a discount retail store which leads to store satisfaction and this leads to store loyalty. The study also emphasized that Discount Retail Store (DRS) attributes have a positive impact on store satisfaction, thereby creates a store loyalty.

Koo formulated six hypotheses on the basis of his conceptual model. He identified four dimensions of store image such as Store atmosphere, employee

Service, merchandising and after sales service. He argues that these factors have

significant impact on attitude of the customers. On the other hand store location; convenient facilities and value have no impact on attitude.

Koo’s findings support the earlier studies conducted by Bloemer and Ruyter (1998) but in the mean time it is contradictory to the studies conducted by You et al(1998) who in their study highlighted the point that location has a major effect on attitude.

The study also supports in partial the findings of Bloemer and Ruyter (1998), Kumar & Karande (2000), Thang and Tan (2003) which states that images (i.e. store atmosphere and value) have a positive impact on store satisfaction, while location, convenient, after sales service and merchandising have not significant impact on store satisfaction.

Jacoby and Chestnut (1978) defined store loyalty as “the biased (i.e. non random) behavioural response (i.e. revisit) expressed over time, by some decision making unit with respect to one store out of a set of stores, which is a function of psychological (decision making and evaluation) processes resulting in brand commitment”.

The determining factor of store loyalty is expressed by Bloemer et al (1998) is store commitment which is necessary condition for store loyalty to occur. They emphasize that customer is termed to be loyal when he or she is committed and those degrees of commitment arises from the sharing of explicit and extensive decision making as well as evaluative processes.

They further stress the point that limited and non-explicit decision making and evaluation process may lead to a situation where a customer not fully committed to the store and hence they are not loyal. They had classified the store loyalty in two broad categories on the basis of commitment as, true store loyalty and spurious store loyalty.

Customer satisfaction can be defined in many ways, one of which is " a person's feeling of pleasure or disappointment from comparing a product's perceived performance (or outcome) in relation to his or her expectations (Kotler, 2000). Bloemer et al (1998) also support this definition, which states that satisfaction is occurs through a matching off expectation and perceived performance.

The studies conducted by Bloemer et al (1998) have identified two different Types of satisfaction: manifest and latent satisfaction. They describes that Manifest satisfaction is the satisfaction which derives as a result of an evaluation which is well elaborated on where as latent satisfaction is the one resulting from an implicit evaluation which is not on an elaborated level.

Anderson, Claes & Lehman (1958) are of the view that customer satisfaction positively influences customer retention and helps in increasing sales.

We can define customer satisfaction in the following contest if the performance falls short of expectations the customer is dissatisfied. If the performance is exceeds expectations, the

customer is highly satisfied. "High satisfaction may create an emotional affinity with the brand, not just a rational preference and this creates high brand loyalty "(Kotler, 1994).

Scholars contradict this view point by arguing even if the customer is not highly satisfied, still from behavioural aspect of brand loyalty, the customer can be brand loyal. But the fact is that this occurs if there is no other alternative available in the market or may be due to the reason that alternatives are of a higher price which the consumers can not afford or if the customer's purchase power is limited.

The study conducted by Huddleston et al (2003) indicates that satisfaction does not imply commitment to a store either; many respondents stated that they could be persuaded to shop elsewhere.

In 2002 Heskett came out with a view customer satisfaction is the lowest level from the five level hierarchies of customer behaviors.

Customer Behaviours include mere loyalty, ( Repeat Purchase), Commitment (Willingness to refer others to a product or service), and the willingness to recommend the products service and ownership to the others.

The factors such as competition and increasing customer expectations have resulted in the creation of a climate where "quality is considered to be a major strategic variable for improving customer satisfaction" (Smith, 1990)

Lucas, Bush and Gresham (1994) came out with a finding that decision such as visiting a particular store can be influenced by numerous factors. The profitability and customer loyalty can be improved by identifying those factors and incorporating them in to store operations.

They had identified the following nine basic motives for the store selection includes: general store characteristics, physical characteristics of the store, convenience, merchandise, prices, store personnel, in-store effects, customer service and advertising. They had also identified the five motives for patronising services, which include: quality of service provided, appointments, and reasonable fees, waiting areas, attitude of service provider.

These concepts are well established in a more capitalized way in the model Profounded by Oliver (1997)

### **Oliver's four stage loyalty model**

Oliver in 1997 came with a new theory on customer's loyalty. Oliver defined loyalty as a deeply held commitment to re buy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts that have the potential to cause switching behavior. According to him loyalty is a learning process that highlights relationship between attitude and behaviour. He observed that loyalty would be develops in three stages. "Loyalty is first in cognitive sense, later in a affective sense and still later in a conative manner". These three stages are always

associated with the definitions of attitude. Many studies conducted all over the world has proved that attitude should be divided into three classes such as cognition, affect and conation which can be otherwise called as behavioural intention.

**Cognition** : refers to people's thoughts about the attitude object. At this stage various attributes such as price, quality of the goods and services influences peoples' loyalty. Henceforth it is considered as the weakest in the four stage model. The consumer may switch from his existing brand once he is informed about or if he perceives alternative offerings as superior respective to the value for money.

**Affect**: It is the behavioural responses such as feelings, moods and other emotional factors that can be interpreted from verbal reports or from their physiological actions. Affective loyalty relates to a favorable attitude a specific brand or product. Basically attitude can be considered as a function of cognition (eg: expectancy). Whenever expectations are met or conformed, it will lead to satisfaction, which in turn induce affective loyalty. (Bitner1990) Sambandam and Lord (1995) say that affective loyalty is also subject to deterioration because the cause for deterioration is higher attractiveness of competitive offerings and enhanced liking for competitive brands, which is conveyed through creative and competitive marketing communication strategies.

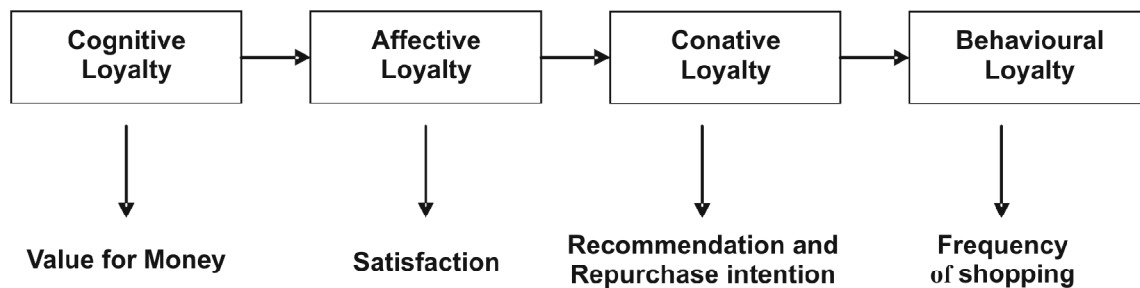
**Conation**:It is the behavioural intention or willingness to act. Bagozzi (1978) stated that "The Conation Dimension is said to depict the action

tendencies one has to approach or avoid an object or perform some response”: This implies the attitudinal loyalty should be accompanied by a desire to act. A typical example is the desire to repurchase a particular brand of product. It is stronger than the attitudinal (affective loyalty) but, it is also prone to certain weaknesses. Service failures, poor way of handling complaints are some of the strong reasons that diminish conation. The customer may opt for alternative brands when they frequently encounter mismatch in their expectations, such as inappropriate service.

**Behaviour /Action:** This is the last component of Oliver model. Let us take the case

of a customer who becomes cognitively loyal in initial stages, based on beliefs and attributes of a particular brand. He /she will turn affectively loyal with the fulfillment of his or her expectations. In the next phase it will develop into a conation in which they exhibit commitment towards a particular brand. According to Oliver these three loyalty states will lead to a readiness to act. This readiness is accompanied by consumers' willingness to search for the favorite offering .In these search competitive offerings are not considered as alternatives even if considerable efforts are put forward by competitors. This facilitator of repurchase is called action inertia. By completing this cycle customers will become truly loyal (oliver, 1997).

### Olivers model of Loyalty



The conceptual framework of this study was based on the work of Plato Ranjan Dutta and Bonya Rani Chakraborty (2006), which conceptualises loyalty as the relationship between relative attitude towards store and patronage behaviour. There were many attempts to consider selected links between different stages of loyalty. Only limited empirical research has been conducted on testing the four-stage loyalty model in Indian context. The objective of

this paper is to find empirical evidence of this model on the basis of following Hypothesis:

- H1:**Customer satisfaction and Behavioural Loyalty are independent.
- H2:**Conative loyalty and Behavioural loyalty are independent.
- H3:** Customer Satisfaction and Cognitive loyalty are independent

## Methodology

The study was conducted on department stores of Nilgiris, a leading retail major in India at the Silicon Valley city of India, Bangalore, and Karnataka.

Random sampling is applied for data collection. A structured schedule was used for collecting the information from the customers. Interview was used to help in gaining better knowledge about the customers' attitude and experience of customers who were at the shop for purchasing various grocery items.

A sample of 150 customers who are identified to have knowledge was selected from various times Data were collected in May 2006 by interviewers for a period of almost a month. In order to reduce possible shopping patterns biases interviewers used stratifying interviews across the time of the day. After collecting data from the field data were coded and analysed by using SPSS software. Quantitative tools like, weighted Average, simple percentage and Chi-Square were

used for analysis in order to understand the degree of store loyalty.

## Empirical Findings

### Results

The major outcome of the study was as follows:

**Cognitive Loyalty** : In this stage the customers' focus will be on quality and prices of products and service. The improved quality of goods and services will make them patrons of a particular store. The cognitive loyalty is not very much strong, because there is every possibility of customer switching to a new store which he or she perceives as a better store The evaluation of service and value for money are taken as the numerical indicator of their cognitive loyalty.

The cognitive loyalty factor depends upon cost and benefits that the customers evaluate of their shopping. Two statements were framed for this. The scores are interpreted using a five point Likert scale.(see Table 1)

**Table - 1**

<b>Cognitive Loyalty factor</b>	<b>Score (on a five point scale)</b>
Value for Money is a major factor	4.6
You may switch over if another store offer better service	4.51

The scores on questions based on cognitive loyalty are 4.6 and 4.51. This proves that retail customers are very much conscious about the value that they receive for the money they dispense. The high score on switching indicate that cognitive loyalty is weak.

**Affective Loyalty** : Affective loyalty is related with the satisfaction that a customer derives out of his or her shopping activities. This stage the loyalty customers loyalty is influenced by variables such as satisfaction they gain from the products and services offered in a particular store.



Relative attitude, which is based on previous loyalty dependent on cognitive loyalty. The factors considered for measuring affective loyalty are store location, cleanliness and store atmosphere, Variety of merchandise, degree of service from

sales personnel, cafeteria and other facilities (see Table –2)

The factors considered and the respective scores are as follows:

**Table - 2**

<b>Affective Loyalty Factor</b>	<b>Score (on a five point scale)</b>
Location	3.67
Quality Of Food Items (Dairy and Confectionaries)	4.6
Quality Of Food Items (Vegetables & groceries)	4.3
Variety Of branded Items	4.8
Variety of ethnic foods	3.6
Visual appeal of Store	4.2
Store Layout	4.5
Customer Service	4.6
Presentable Staff	4.5
Complaints Handling	4.1
Cafeteria	3.8
Operating Hours	4.5
Credit Card facilities	4.4
Parking	3.56
Feeling Of Security in dealings	4.8

**Conative Loyalty** : The satisfied customer will hold a commitment to buy from a particular store. The repurchase intentions will increase. The satisfied customer is the best advocate and promoter for the store and recommend it to

members of his reference group repurchase intentions and willingness to recommend are taken as a criterion to determine the conative loyalty. The Score obtained for the factors associated with conative loyalty are shown in table -3

**Table - 3**

<b>Conative Loyalty factor</b>	<b>Score (on a five point scale)</b>
You are willing to make this store your permanent avenue	4.52
You will suggest the stores to friends and relatives	4.46

The Score indicates that a satisfied customer will go for repeat purchase and he/she will recommend the brand in the reference circle.

Olivers model. The Behavioural loyalty is determined on the basis of frequency of customers visit. The customers who are satisfied with the various factors visit the store frequently. The score for action loyalty factor is:

**Behavioural loyalty** : This is the Last stage of

**Table - 4**

Behavioural Loyalty factor	Score (on a five point scale)
Frequency of Visit	3.8

A loyal customer will be dedicated to the store, which provides him maximum satisfaction. He will not switch over even if there are stiff pressure due to competitors Marketing effort.

### Hypothesis tested

#### Hypo thesis 1 : Customer Satisfaction and Behavioural Loyalty

**H0:** Customer satisfaction and behavioural loyalty are independent.

**H1:** Customer satisfaction and behavioural loyalty are dependent.

**Table - 5**

Statistical measure	Value	Degrees of freedom	AsympSig. (2-sided)
Pearson Chi-Square	29.851	16	0.019
Likelihood Ratio	21.866	16	0.148
Linear-by-Linear Association	0.15	1	0.903
No. of Valid Cases	150		

The Chi-Square test revealed the association between Customer Satisfaction and behavioural loyalty. From the Chi-Square test output table we see that a significant level of 0.019 (Pearson's) has been achieved. This means that the Chi-Square test is showing a significant association between the two variables at 98.1% confidence level. Thus we accept the alternate hypothesis H1, that at 95% confidence level that customer satisfaction

and behavioural loyalty are dependent on each other.

#### Hypothesis 2 : Conative loyalty and Behavioural loyalty

**H0:** Conative loyalty and behavioural loyalty are independent

**H1:** Conative loyalty and behavioural loyalty are dependent

**Table - 6**

<b>Statistical measure</b>	<b>Value</b>	<b>Degrees of freedom</b>	<b>AsympSig. (2-sided)</b>
Pearson Chi-Square	26.341		16 0.049
Likelihood Ratio	16.485	16	0.420
Linear-by-Linear Association	1.083	1	0.298
No. Of Valid Case	150		

The Chi-Square test revealed the association between conative loyalty and behavioural loyalty. From the Chi-Square test output table we see that a significant level of 0.049(Pearson's) has been achieved. This means that the Chi-Square test is showing a significant association between the conative loyalty and Behavioural loyalty at 95.1% confidence level. Thus we accept the alternate hypothesis H1, that at 95% confidence

level conative loyalty and behavioural loyalty are dependent.

### **Hypothesis 3: Customer Satisfaction and Cognitive loyalty**

**H0:** Customer satisfaction and Cognitive Loyalty are independent.

**H1:** Customer satisfaction and Cognitive are dependent.

**Table - 7**

<b>Statistical measure</b>	<b>Value</b>	<b>Degrees of freedom</b>	<b>AsympSig. (2-sided)</b>
Pearson Chi-Square	24.123	16	0.087
Likelihood Ratio	21.754	16	0.151
Linear-by-Linear Association	1.611	1	0.204
No. of Valid Cases	150		150

The Chi-Square test revealed the association between cognitive loyalty and behavioural loyalty. From the Chi-Square test output table we see that a significant level of (0.087(Pearson's) has been achieved. This means that the Chi-Square test is showing a significant association between the cognitive loyalty and behavioural loyalty at 91.7% confidence level. Thus we accept the

alternate hypothesis H1, that at 90% confidence level cognitive loyalty and behavioural loyalty are dependent.

Further a strong positive correlation was proved between factors influencing conative loyalty and customer satisfaction.(see. Table-8 Below)

**Table - 8**

<b>Correlations</b>			
Pearson Correlation	CONATION	1.000	.651**
	SATISFA	.651**	1.000
Sig. (2-tailed)	CONATION	-	.000
	SATISFA	-	.000
N	CONATION	150	150
	SATISFA	150	150

\*\*Correlation is significant at the 0.01 level (2-tailed)

The result indicates that there exists a strong correlation between satisfaction and conative factors.

## Conclusion

The study is an effort for gathering an empirical evidence for Oliver's loyalty model. The study helped us to know that Indian customers are having a high degree of cognitive, affective, conative and behavioural loyalty. The entire hypothesis tested was turned negative hence we can say that Oliver's loyalty model stands Valid. The loyalty is a learning process as Oliver stated and a satisfied customer will be a long-term asset for the organisation. Therefore companies should focus on customer loyalty solution and loyalty building models

## References

- Alexander N (1997), International Retailing, London: Blackwell
- Anderson, E.W., Fornell, C., and Lehmann, D.R (1994), "Customer satisfaction, market Share and profitability: Findings from Sweden", Journal of Marketing, Vol. 58, July, pp.53-66.
- Bagozzi, R. P. (1978). The construct validity of the affective, behavioral, and cognitive components of attitude by analysis of covariance structures. *Multivariate Behavioral Research*, 13, 9-31.
- Beatty, S. E., Kahle, L. R., & Homer, P. (1988). The involvement-commitment model: Theory and implications. *Journal of Business Research*, 16, 149-167.
- Bentler, P.M. (1990). Comparative fit indexes in structural model. *Psychological Bulletin*, 107, 238-246.
- Bloemer, J. and Ruyter, K (1998), "On the Relationship between Store Image, Store Satisfaction and Store Loyalty", European Journal of Marketing, Vol. 32, No. 5/6, pp. 499-513
- Huddleston, P., Whipple, J., and VanAuken, A. (2004), "Food Store Loyalty: Application of a consumer loyalty framework", Journal of Targeting, Measurement and Analysis for Marketing, Vol. 12, No. 3, pp.213-230
- Jacoby, J. and Chestnut, R.W (1978). Brand Loyalty: Measurement and Management, New York: John Wiley and Sons.

- Koo, Dong-Mo (2003), "Inter-relationships among Store Images, Store satisfaction and Store Loyalty among Korea Discount Retail Patrons", Asia pacific Journal of Marketing and Logistics, Vol. 15, No. 4
- Oliver R.L.(1997),Satisfaction: A Behavioural Perspective on the Customer,McGraw-Hill,Singapore
- Omar, O.E (1999). Retail Marketing, Harlow, England: Pearson Education
- Sivadas, E., and Baker-Prewitt, J.L (2000), "An Examination of the relationship between service quality, customer satisfaction and store loyalty", International Journal of Retail and Distribution Management, Vol.28, No. 2, pp.73-92
- Kotler, P. (1997), Marketing Management: Analysis, Planning, Implementation and Control, EnglewoodCliffs, NJ.