

Effects of Mediation of Products Quality and Brand Image on the Effect of Price Policy and Quality of Service on Customer Loyalty

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ABSTRACT : *The number of motorcycles increase rapidly in Indonesia, causing Indonesia to be a strong magnet for producers which supply the motor vehicle stuffs, one of which is a manufacturer of engine oil. The growth of motor vehicles will increase the need for engine oil, so that Indonesia become a very lucrative market for the engine oil industry. That's why the competition of the engine oil industries in Indonesia is also very tight. This study tries to provide a more convincing confirmation of the effect of each variable, especially in the context of the loyalty of Castrol Oil's customers in DKI Jakarta Province, a model that can explain in more satisfying way about the factors of Castrol brand's loyalty can be obtained. Based on the above results, we can conclude some of the following: (1) price policy affects customer loyalty, (2) Quality of service has no effect on customer loyalty, (3) There is a significant relationship between price policy to Customer Loyalty with mediation of Product Quality (4) There is a significant difference between the price policy and the Customer Loyalty with mediation of Brand Image. There is a significant effect of quality of service on Customer Loyalty with mediation of Brand Image*

KEYWORD : *KewKata Kunci: mediasi GeSCA, Brand Image, Customer Loyalty*

I. BACKGROUND

So far customers' loyalty is still acknowledged as a highly valuable corporate asset and even more demonstrates its critical role in sustaining the company in the middle of the swift competitive climate . The significance of loyalty as the company's capital to survive by Chaudhuri and Holbrook (2001) is due to its existence which implies the expanding market share and its effect to relative demand price to competitors . The increase in customer loyalty can also help companies to lower the cost of marketing , take a lot of customers , and the relatively influence the increase of the trade (Aaker , 1997) . Then, loyal customers also strengthens promotions by word of mouth, to resist competitors' strategies (Dick and Basu, 1994) resulting in higher corporate profits (Reichheld et al . , 2000). Customers' loyalty is influenced by various factors, so the company must be able to identify it precisely so that appropriate strategies can be formulated to maintain and build it anyway. Based on theoretical studies and past researches the factors that affect loyalty are price policies (Virvilaite et al., 2009), quality of service (Kheng et al., 2010; Bloemer and de Ruyter, 1998), product quality (Jahanshahi et al., 2011; Luarn and Lin, 2003), brand image (Tu et al., 2012; Andreani et al., 2012), and Customers' Loyalty (Flavian and Guinaliu, 2006; Dagger and O'Brien, 2010).

This study tries to provide a more convincing confirmation of the effect of each variable, especially in the context of the loyalty of Castrol Oil's customers in DKI Jakarta Province, a model that can explain in more satisfying way about the factors of Castrol brand's loyalty can be obtained. PT Castrol Indonesia as an oil producer (engine lubricant) understands the importance of setting prices effectively, providing excellent services, maintaining product quality, building a positive brand image, and build customers' loyalty as a continuous effort to build loyal customers. By doing this way, the Castrol will have a strong competitive edge and be able to achieve sustainable profitability. The number of motorcycles increase rapidly in Indonesia, causing Indonesia to be a strong magnet for producers which supply the motor vehicle stuffs, one of which is a manufacturer of engine oil. The growth of motor vehicles will increase the need for engine oil, so that Indonesia become a very lucrative market for the engine oil industry. That's why the competition of the engine oil industries in Indonesia is also very tight. The emergence of competition occurred after the government issued Presidential Decree No. 21 of 2001 which provides an opportunity for enterprises, cooperatives, and private companies to participate in engine oil market . This leads to opening up opportunities for other engine oil companies to come into play in the engine oil sector in Indonesia . Castrol is fully aware that the competition which is going on in the engine oil industry is very tight, so it requires a strategy that is effective in all aspects. The strategy is not just about improving the quality of products and services, but also how to build customer loyalty.

Customer loyalty acts as a valuable asset to support the viability of the business. Customers who believe in the company will provide many benefits for the company, because it can lower the cost of promotion which usually occupies a large proportion of costs in the corporate spending. Therefore, companies must constantly maintain and build customer loyalty.

II. LITERATURE REVIEWS AND PAST RESEARCHES

Friederich as cited by Winarno (2002) reveals that the policy is a course of action proposed by a person, a group or a government in a particular environment, which gives the constraints and opportunities of the proposed policy for the use and overcome in order to achieve a goal, or realize a goal or a purpose. Then Rose as cited by Winarno (2002) states that policy is more or less a series of activities and the associated consequences for those who concern rather than as a separate decision. According Winarno cited by Anderson (2002), a term policy or a *policy* is used to designate the behavior of an actor (eg, an official, a group or a government agency) or a number of actors in a particular field of activity. The sense of loyalty that is often cited in the marketing literature is one from Oliver (1999),

namely: *"a deeply held commitment to rebuy or repatronize a preferred product/service 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."* This definition reveals that loyalty is a deeply held commitment by the customers to purchase or re - subscribe in the future an item or service that is consistently favored, thus it leads to repeated purchases for a brand or a set of the same brand, despite situational influences and marketing efforts having the potential to lead the behavior to switch to other products .

Price is also important in influencing a customer's perception of the quality of a product. Premium-priced products generally have a better level of quality when compared to products with cheap price. In contrast, the general view of products that have lower prices of products whose quality is perceived as inferior. Research conducted by Verma and Gupta (2004) proves that the price which is too low has negative impacts on the quality of the product. In a study conducted by Mastrobuoni et al. (2012) also concludes that the price is a signal of quality. In addition, a study conducted by Dodds and Monroe (1985) also finds that the price has an influence on the quality of the product. The price of a product or service can have an impact on the image of a brand \. In general it can be seen that the brands that have products with high price (the premium) have a great reputation. Expressed by Saktishree (2010) that there is a Customer Loyalty if the high price enhances the brand image, and conversely a low price has lowering impact to the brand image. This is why the producers are afraid to give the brand a price in lowest category or frequently revise the price, because of their efforts to enhance the brand image. In a general sense, a product that has a low price is called "cheesy" and is likely to have unfavorable or negative image. As with products priced in the premium category that show an exclusive product have a good or positive image. Research conducted Verma and Gupta (2004) also proves that the price that is too low has negative impact on the image of the product .

A research related to the impacts of price on loyalty was conducted by Virvilaite et al. (2009) as shown in a study entitled *" The Relationship between Price and Loyalty in Services Industry."* The research was conducted in AB Birstonas Versmė sanatorium. The data was collected using a 1-5 Likert scale questionnaire involving a sample of 112 respondents . Data using multiple regression analysis . Research results indicate that equity prices (price fairness) have a significant effect on customer loyalty . Relevant research related to the impact of service quality on loyalty was conducted by Bloemer et al. (1998). His research was entitled: *" Customer loyalty in high dan low involvement settings: the moderating impact of positive emotions."* The research objected a services company in Belgia covering train service, restaurant, travel agency, and entertainment venues. The data was collected using a Likert scale questionnaire with 9 points. Samples involved were as many as 924 respondents. The data was analysed using OLS regression. The research results proved that service quality had a significant influence on loyalty .

III. RESEARCH METHOD

This study is classified as an explanative research, that is a research that seeks to explain the conditions of each variable and revealing the causal relationship between such variables. The data were collected using survey method. Survey is a research used in large and small populations , but the data studied are data from samples taken from the population, so that the relative occurrences, the distribution and the relationships between sociological and psychological variables are found(Kerlinger and Lee, 2000). Meanwhile, according to McMillan and Schumacher (2006), the survey is used to study the attitudes, belief, values, demographics, behaviors, opinions, habits, desires, ideas and other types of information.

This method was chosen because it could include a wide range of phenomena as its presence and enable broader study conducted because of the relationship of various variables studied. The study also measured the causal relationship between exogenous and endogenous variables. The data were analysed using descriptive and inferential statistics. Descriptive statistical analysis was used to describe the condition of the study variables, while the inferential statistical analysis was used to determine the effect between the study variables and also to test the research hypothesis .This study took the Castrol brand costumers who were in DKI Jakarta as the objects. The Jakarta province was chosen as a test site because of at least two reasons. First, so far there has been no research on the Jakarta Province revealing the impacts of price and quality of service to product quality, brand image, customer loyalty and customer loyalty to the Castrol brand. Second , the Jakarta province was the most important and also the largest market in Indonesia for oil products and machinery lubricants. Therefore, the behavior of customers in the province of Jakarta could represent customers behavior toward the engine lubricating oil in other regions in Indonesia.

The study population was all Castrol oil users who made purchases of Castrol oil at least twice in the province of Jakarta, amountin to 12,495 users across 73 Castrol Auto Service (CAS) in Jakarta. The research sample was designated as 388 customers who were taken with the technique of *multistage proportional systematic random sampling* proportionally from 73 CAS in Jakarta.

The analysis Method used GSCA (*Generalized Structured Component Analysis*) approach with the Sobel test approach. GSCA is a new approach to structural equation models. According to Wold (in Ghozali, 2012), GSCA is a powerful analytical method, because it is not based on many assumptions, such as variables which should not be distributed in multivariate normal way (with scale indicator categories, ordinal, interval up to the ratio can be used on the same model), the number of Data does not have to be large (minimum recommended range from 30 to 100 cases). GSCA can analyze the constructs formed with reflective and formative indicators simultaneously, which may not run in CBSEM. Under such circumstances, the GSCA can be used to perform the analysis in this study. In this research, the mediating effect of product quality and brand image on the impacts of price and quality of service to Customer Loyalty is shown in the following path diagram:

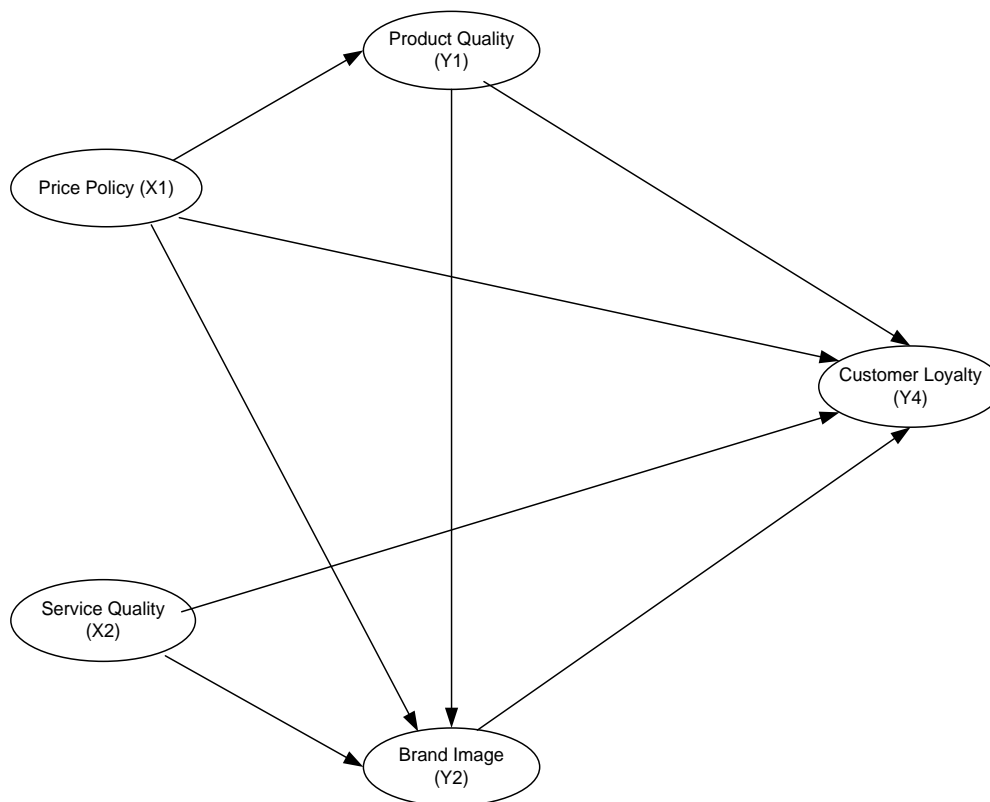


Figure 1: Conceptual Framework

IV. RESULTS

This study used GeSCA analysis. The results of the calculation of the path coefficients indicating the effect of price policy on brand image, product quality, and Customer Loyalty are summarized in the following table

Table 1. structural model of GSCA results

Path	Path Coefficient	t-count	P-value
Price Policy (X ₁) → Product Quality (Y ₁)	0.807	10.76	0.000
Price Policy (X ₁) → Brand Image (Y ₂)	0.115	1.30	0.194
Price Policy X ₁ → Customer Loyalty (Y ₄)	0.332	4.15	0.000
Service Quality (X ₂) → Brand Image (Y ₂)	0.194	2.85	0.004
Service Quality (X ₂) → Customer Loyalty (Y ₄)	0.100	1.42	0.156
Product Quality (Y ₁) → Customer Loyalty (Y ₄)	0.179	2.41	0.016
Brand Image (Y ₂) → Customer Loyalty (Y ₄)	0.188	2.27	0.023

After conducting a test using the GSCA analysis, image hypothetical model of the research is presented in Figure 2

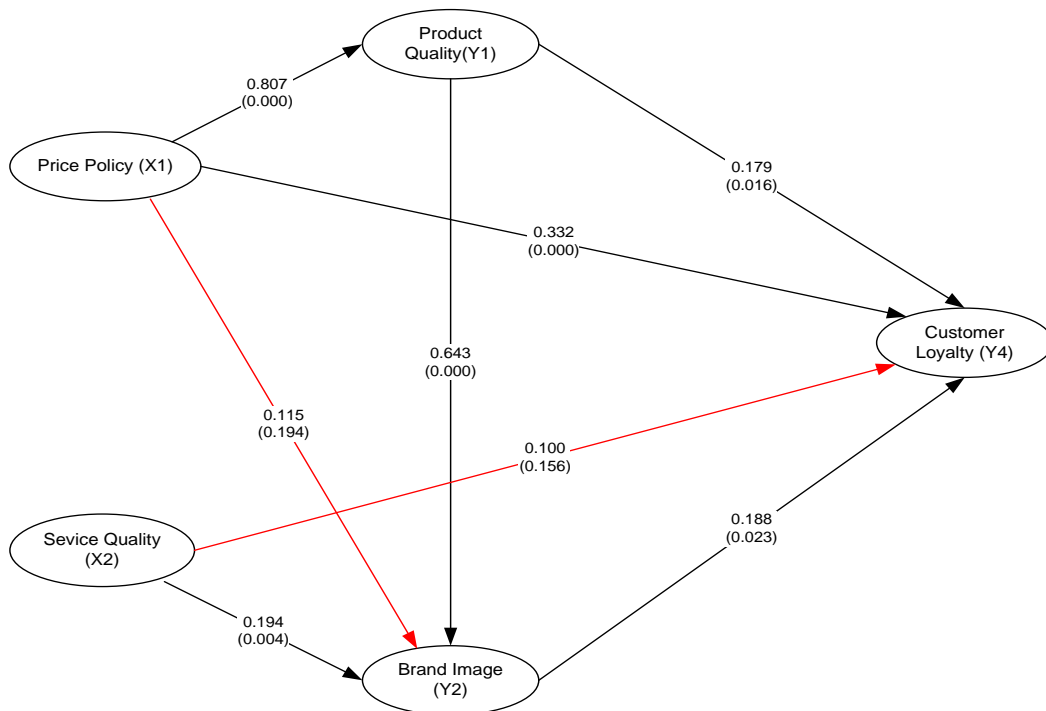


Figure 2. Results of Research Hypothesis Model

4.1. First Hypothesis: Policy rates have a significant effect on Customer Loyalty

The first hypothesis in this study is a "price policy affects on loyalty." The hypothesis is statistically described as follows

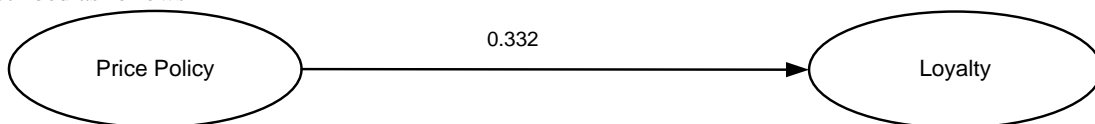


Figure 5.3. Direct influence of Price Policy on Loyalty

From the calculation of the path coefficient, the influence of pricing policy on loyalty (β₄₁) obtained a value of 0.332. The path coefficient was positive which suggested that pricing policy would impact the increase

on customer loyalty. T-value at $4:15 > 1.96$, and p-value $0.000 > 0.05$ were obtained, so H_{o4} rejected and H_{a4} accepted. This means that the price policy affects the customer loyalty

4.2. Second Hypothesis : Service Quality has significant effect on Customer Loyalty

The second hypothesis in this study is the "service quality has direct effect on loyalty." The hypothesis is statistically described as follows:

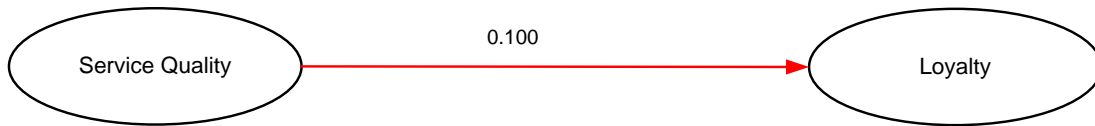


Figure 5.4. The direct effect between Service Quality on Loyalty

From the calculation of the path coefficients, the effect of service quality on loyalty (β_{42}) obtained a value of 0.100. The path coefficient was positive indicating that good quality services would affect the increase on customer loyalty. T-values at $1:42 < 1.96$, and p-value $0.156 > 0.05$ were obtained so H_{o7} accepted and H_{a7} rejected. The conclusion that can be derived from these results is that the quality of service does not affect the customer loyalty

4.3. Third Hypothesis: Policy rates have a significant effect on Customer Loyalty through Quality Products

The third hypothesis is that the effect of price policy on loyalty through quality products by using the Sobel test. The test on hypothesis of the effect of price policy on loyalty through quality products and images is presented in the table below

Table 2: Mediating Effects of Price Policy on Product Quality to the Customer Loyalty Using Sobel Test

Relationship	Coefficient	P-value
Price Policy → Product Quality	0.807	0.000
Product Quality → Customer Loyalty	0.179	0.016
Price Policy → Product Quality → Customer Loyalty	0.144	0.018

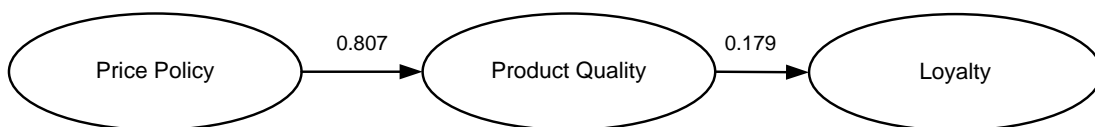


Figure 5.5. Indirect influence between Price Policy on Loyalty through Product Quality

Mediating effect on product quality testing on the effect of price policy on Customer Loyalty using Sobel Test approach, acquired an indirect path coefficient of 0.144, p-value of 0.018. Since the p-value was smaller than 0.05, it indicated a significant difference between the price policy of the Customer Loyalty with mediation Product Quality. Given the coefficient is positive, indicating the better the price policy, with the mediation of the better quality of the product, the better the result in Customer Loyalty would be. Thus, it can be concluded that the Product Quality is a variable that mediates the effect of price policy on Customer Loyalty

4.4. Fourth Hypothesis: Price Policy has a significant effect on customer loyalty through brand image

The fourth hypothesis is the effect of price policy on Loyalty through Brand image using the Sobel test. The test on hypothesis of the effect of policy on loyalty through brand image is presented in the table below:

Table 3: Mediating Brand Image on the effect of Price Policy on Customer Loyalty Using Sobel Test

Relationship	Coefficient	P-value
Price Policy → Brand Image	0.115	0.194
Brand Image → Customer Loyalty	0.188	0.023
Price Policy → Brand Image → Customer Loyalty	0.022	0.262



Figure 5.6. Indirect influence between Price Policy on Loyalty through Brand Image

The mediating effect of brand image on the effect of price policy on Customer Loyalty tested using Test Sobel approach, acquired an indirect path coefficient of 0.022, p-value of 0.262. Since the p-value was greater than 0.05, it indicated that there was no significant effect of price policy on Customer Loyalty with mediation of Brand Image. This indicated that regardless of policy price changes, with a brand image that also changed, would not result in changes on Customer Loyalty. Thus, it can be concluded that brand image is not a variable that mediates the effect of price policy on Customer Loyalty

4.5. Fifth Hypothesis: Quality of Service significantly has a significant effect on the Customer Loyalty through Brand Image

The fifth hypothesis is that the effect of Service Quality on Loyalty through the Brand image using the Sobel test. Hypothesis testing the effect of Service Quality on Loyalty through the Brand image is presented in the table below

Table 4: Mediating Effect of Brand Image on Quality of Service to Customer Loyalty Using Sobel Test

Relationship	Coefficient	P-value
Service Quality → Brand Image	0.194	0.004
Brand Image → Customer Loyalty	0.188	0.023
Service Quality → Brand Image → Customer Loyalty	0.036	0.046



Figure 5.7. Indirect influence between Service Quality on Brand Loyalty through Image

The testing of the mediating effect of brand image on the effect of quality of service on Customer Loyalty using Test Sobel approach, acquired an indirect path coefficient of 0.036, p-value of 0.046. Since the p-value was smaller than 0.05, it indicated a significant difference between Quality of Service to Customer Loyalty with mediation of Brand Image. Given the coefficient was positive, it indicated that the better quality of service, with the mediation of the better brand image, would result in the better Customer Loyalty. Thus, we can conclude that the brand image is a variable that mediates the effect of Service Quality on Customer Loyalty

V. CONCLUSION AND SUGGESTION

Based on the above results, we can conclude some of the following: (1) price policy affects customer loyalty, (2) Quality of service has no effect on customer loyalty, (3) There is a significant relationship between price policy to Customer Loyalty with mediation of Product Quality (4) There is a significant difference between the price policy and the Customer Loyalty with mediation of Brand Image. There is a significant effect of quality of service on Customer Loyalty with mediation of Brand Image.

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