

THE INFLUENCE OF PRODUCT, PRICE AND PROMOTION TOWARD THE SATISFACTION OF BUSINESS CUSTOMERS OF TOKO NAGA EMAS SURABAYA BRANCH

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ABSTRACT

This research aims to determine the influence of three variables – product, price and promotion, to the business customers' satisfaction of Toko Naga Emas, Surabaya branch. The population of this research is 59 individuals who are business customers of Toko Naga Emas, Surabaya branch. The sampling method used is census where all 59 individuals are respondents of this research.

This research uses multiple regression with three independent and one dependent variables. The result of processed data shows that all three variables – product, price and promotion, simultaneously influence business customers' satisfaction significantly. However, partially, only product and price significantly influence the business customers' satisfaction with the strength of influence according to aforementioned order.

Keywords : paint industry, product, price, promotion, customer satisfaction, regression analysis

INTRODUCTION

Indonesia is one of Asia's developing countries with indisputable economic growth, as mentioned by World Economic Forum (WEF). In its research regarding the Global Competitiveness Index, in 2013 Indonesia attained the 34th position in the international markets' listings (Prasentiantono, 2014). Moreover, in November 2015, PricewaterhouseCooper published a journal titled "Riding Southeast Asia's Automotive Highway", in which it was mentioned that Indonesia, together with Thailand, are considered as the largest automotive markets in Southeast Asia, be it on production, consumption and export prowess. In relation to that, the automotive industry in Indonesia is a lucrative market consisting of many different complementing and supplementing industry inside, such as raw metal and plastic, automotive repair, automotive customization, et cetera. Paint and Coatings industry is one of them. In 2014, the world's research institution released a document where Indonesia placed itself as the fourth largest country, which consumed volume paint and varnish. Consuming as much as 877.459 ton of paint related products.

One of the enduring players in Indonesia's Paint and Coating's industry, especially in Surabaya, is Toko Naga Emas. Established in 1988 by Mr. Erwin, Toko Naga Emas grew to have six branches. Focusing in Surabaya and its surrounding towns, such as Sidoarjo and Mojokerto, each with its challenges and market differences, there are five categories of products and services offered by Toko Naga Emas that contributes to 84.8% of earnings.

Table.1 Product and Services Contribution to Earnings

Category	Percentage (%)
Paint	30.7
Putty	24.2
Varnish	13.6
Thiner	8.8
Mixing	7.5
Others	15.2

Naga Emas has two groups of market to cater to: end-user consumer market and business-to-business market. The Surabaya branch of Naga Emas focuses on the business-to-business market, as it comprises 70-80% of its total earnings. The business-to-business market includes paint distributors, retailers, garages and constructions laborers. Through target market selection and service product excellence, Naga Emas has enjoyed a steady increase in earning from 2005-2012. However, in 2013 the growth dropped as much as 4.4% and continued to plummet as much as 8.6% in 2015. To investigate this phenomenon, a preliminary survey that yielded interesting results had been conducted. The survey results showed significant reduction of business-to-business consumers on the affected years. Therefore in 2016, further study consisting of simple interview and unstructured open ended questions was done to find variables and motive that causes the reduction of purchase frequencies. The responses were then categorized to elements of Product, Price, Place, Promotion and others.

Table.2 Variable that causes Reduction on the Business Consumer's Purchase Frequency

Category	Percentage (%)
Product	53.33
Price	46.67
Promotion	40.00
Place	13.33
Others	13.33

The survey has shown that the reduction of business consumer's purchase frequency is largely caused by three elements, Product, Price and Promotion. Thus, the variables must be further examined in order to find more detailed evidence that these elements are indeed the deciding factors that have huge impact to customer satisfaction of business-to-business customers.

LITERATURE REVIEW

Previous Research

To further cement the foundation of this study, several similar researches are used as references. One is a research done by Alelign and Rao (2014) that titled "*The Impact of Marketing Mix on Customer Satisfaction: A Case of MOHA Soft Drink Industry S.C.*,

Hawassa Millenium Plant". This particular research was done to see the effect of 4P marketing mix towards customer satisfaction. With total sampling of 80 customers out of 542 population size using the stratified random sampling method, this research used Pearson Correlation Analysis and Regression Analysis to process its data. The result of this research found that the marketing mix significantly explains 59.2% of the overall customer satisfaction. Whereas the Regression Analysis showed the percentage of how much each marketing mix variables explains the customer satisfaction. This case yields a result where that Place variable explains 45%, Promotion explains 34.8%, Product variable explains 29.9% and Price variable explains 29.8% of customer satisfaction (Alelign and Rao, 2014:59-72). Another research used as reference is the "*7Ps Marketing Mix and Retail Bank Customer Satisfaction in Northeast Nigeria*". Similarly, this research used quantitative analysis to process 415 questionnaires spread proportionally in Northeast Nigeria. The research showed that Product, Process and Physical Evidence variables significantly affected the customer satisfaction, while the remaining four variables (Price, Place, Promotion and People) did not significantly affect customer satisfaction (Mohammad, 2015:71-88). The third research used as a reference is titled "*Marketing Mix: Its Role in Customer Satisfaction in the South African Banking Retailing*". Aimed to observe the role of the 4Ps of Marketing Mix as a tool to maintain customer satisfaction, the population of this study is the whole customer base of the four largest banks in South Africa's retail banking sector. Using cross tabulation and descriptive statistics analysis, this research yield result where the Price variable holds the highest position in achieving customer satisfaction (36.36%), followed with Product (24.24%) and Promotion (22.73%) (Ateba *et al.*, 2015: 83-91). The three published journals above were used as reference points for this study, as additional factor to decide what research method, sampling method and analysis to be used.

Theoretical Background

Definition of Business-to-Business Customer

According Ranade (2012), customers are those who bought or consumed products in the form physical good or services and have the freedom to choose from an array of products and seller. Thus, Business-to-Business Customers are customer who acts as an intermediary to the end users. In the case of Toko Naga Emas, business customers are consumers who make purchases at least twice per quarter with minimum total purchase of IDR 3.000.000 a year.

Product

Kotler and Armstrong (2012:236) stated that Product is anything that can be offered to the market to attract attention, cause acquisition or consumption that can satisfy a demand or need. The characteristic of Product can be seen further from Product Quality, Product Features and Product Design.

Price

Price is the value to be paid or sacrificed by the customer in order to attain the product or services offered (Venter and Rensburg, 2011:260). Collins and Parsa (2006) in Nuseir and Madanat (2015) stated three commonly used pricing strategy used with the purpose of increasing customer's satisfaction. These includes: Cost-Based Pricing – where one calculates the total cost and marks it up according to the sought after profit margin; Customer-Driven Pricing – where one analyzes the spending capacity of the target market and adjust the price of the product to the purchasing power of the customer; Market-Driven Pricing – where one uses the pricing of other similar product or services already available in the market as a benchmark to decide on the price.

Promotion

Promotion is a tool for a company to communicate the value of product and services. It can be directed either to the potential new customers (Drummond and Ensor, 2005 in Ateba *et al.*, 2015) to entice them into considering to utilize the offered products or service or to the existing customers with the intention for them to keep using the product or service offered and increase their consumption level. Promotion can be done through many different ways and media, those including but are not limited to the use of sales force, public relations, sales promotion in the form of discounts, direct marketing, word of mouth and point of sales display (Shankar and Chin (2011) in Ateba *et al.* (2015).

Customer Satisfaction

Oliver (1997) in Erjavec (2014) defined customer satisfaction as the result of customer's cognitive and emotional evaluation to the experience of the product and services. Customer satisfaction is an assessment that the attributes or characteristics of a product or service have achieved the level that invokes pleasurable emotion. Erjavec (2014) in his study stated several manifestations that can indicate customer satisfaction. Those are customer satisfaction as a whole, estimation on expectation fulfillment and comparison with ideal product or service, (Fornell *et al.*, 1996), positive review on product or company (Boulding *et al.*, 1993), willingness to recommend to others (Pasuraman *et al.*, 1988) and loyalty to product or company as time goes by (Rust and Zahorik, 1993).

RESEARCH METHODS

Data Gathering Methods

The purpose of this research is to find the specific cause of one or more thing, this research is considered as a causal research, as defined by Sekaran and Bougie (2010:70). Using quantitative method, this research utilizes data gathered from a population of 59 Naga Emas Surabaya's recorded business-to-business customers in the year-end of 2015. As the amount of population is not large, the entirety of the population is surveyed which will yield results with minimal error. As it uses as it uses the whole population as sample, this sampling method is called census sampling (Sugiyono, 2012:92). The data is collected using questionnaires, which uses 5-point likert scale for its scaling method. The respondents are asked to select one out of five responses for every question. In accordance with Kuncoro (2009:179), the five responses are scaled from the lowest to the highest as follows:

1. Very Disagree; 2. Disagree; 3. Quite Agree; 4. Agree; 5. Very Agree.

This research uses two types of variables, Independents Variable and Dependent Variables. There are three Independent Variables (X) used Product (X1), Price (X2) and Promotion (X3). Each variable have indicators assigned to it, which are selected based on theoretical background, Naga Emas business practice and other supporting data. The independent variables and its respective indicators are shown in Table 3. Dependent Variable (Y) in this research is the customer satisfaction which indicators are mainly based on researches of Reichheld and Sasser (1990) and Rust *et al.* (2000) in Nuseir and Madanat (2015), such as:

- Satisfied with the purchase experience in Toko Naga Emas
- Will do repeat buying in Toko Naga Emas
- Will recommend Toko Naga Emas to relations and/ or business colleague
- Will make Toko Naga Emas as the first choice to shop

Table.3 Independent Variable and Indicators

Product (X1)	<ul style="list-style-type: none"> • Product offered suits the need of customer (a) • Products are varied (b) • Products bought are functioning properly (c) • Sold products are in good condition (b) • Store has sufficient stock of goods (b)
Price (X2)	<ul style="list-style-type: none"> • Price is worth the quality of the product (d) • Price is worth the quantity of the product (d) • Price of products reflects the given service (e) • Price is competitive (d)
Promotion (X3)	<ul style="list-style-type: none"> • Shopkeeper have sufficient product knowledge to assist in purchase decision (g) • Shopkeeper informs promotional information (whether there are new products or price amendments) (f) • Shopkeeper is maintaining good relationship with customers by keeping contacts (through telephones or other media) (f) • Store sign is giving off clear information (d) • Store gives out appreciation for loyal customers (gifts, souvenirs, gimmick, etc) (b)
<p>Theoretical Background:</p> <p>a) Kotler and Armstrong (2012)</p> <p>b) Alam and Faridi (2014)</p> <p>c) Kotler and Armstrong (2010)</p> <p>d) Probosuci, Deoranto and Santoso (2014)</p> <p>e) Venter and Rensburg (2011)</p> <p>f) Shankar and Chin (2011) in Ateba <i>et al.</i>(2015)</p> <p>g) Niharika (2015)</p>	

Data Analysis Methods

Reliability and Validity Test

The gathered data are put through reliability test to measure the reliability of variables in the questionnaires. A questionnaire can be considered as reliable if the answer of respondents are always consistent and stable from time to time (Ghozali, 2012:47). A quantifiable value of this can be seen from the value of Cronbach Alpha. If the value of Cronbach Alpha of a variable is lower than 0.70 point, the independent variable is removed from independent variable pool. Validity test shows if the questionnaire is valid in measuring the concept researched (Sekaran and Bougie, 2010:157). This test is mainly seen through the value of significance (sig.) in Pearson correlation. Should it be discovered that the indicator's sig. value is lower than 0.05, the indicator is considered invalid and is removed,

Bivariate Linear Regression Analyiss

The Bivariate Linear Regression is used to measure the influence of Independent Variable to Dependent variable, and by extension, predict the value of Dependent Variable based on Independent Variable. (Ghozali, 2012:96). This therefore, the Bivariate Linear equation for this research is: $\hat{Y} = b_0 + b_1 X_1 + b_2 X_2 + b_3 X_3$

Where:

\hat{Y} : Predicted Customer Satisfaction b_0 :

Regression Constant

b1 : Product Variable Coefficient X1 :

Product Variable

b2 : Price Variable Coefficient X2 :

Price Variable

b3 : Promotion Variable Coefficient X3 :

Promotion Variable

Goodness of Fit

Goodness of fit is required to reflect the accuracy of the regression function in predicting the value of the actual population. This includes checking three things: Coefficient of Determination (R^2), F-Test and t-Test. The R^2 shows how far the model is able to explain the dependent variable. The closer its value to 1, means that the Independent Variable in the model is able to completely explain the entire movement of Dependent Variable. F- Test measures if the Independent Variable simultaneously explains the Dependent Variable. If the sig. F value is lower than 0.05 then the Independence Variable simultaneously are significant influencers to Dependent Variable. The t-Test shows how far each Independent Variable at its own explains the Dependent Variable. If the t-Test results in sig. <0.05 then the Independent Variable independently influences Dependent Variable.

Classical Assumption Test

In order to verify the validity of Regression Analysis model and result, several other tests are done to ensure that the result is free from signs of multicollinearity, autocorrelation and heteroscedasticity. Moreover, the tests are done to ensure whether the residual is distributed normally as well as if the resulting model is suitable with linear model. An Autocorrelation test result is done to ensure that there is no connection between residual. This uses *Durbin-Watson* value to confirm. With sample number of 59, Independent Variable of 3 ($k=3$) and significance of 5%, lower threshold (dL) of 1,480 and upper threshold (dU) of 1,689 is attained (Meier, Brudney, dan Bohte, 2012:534). If the Durbin-Watson value (d) is larger than ($4-dL$) and less than the lower threshold (dL) then this indicates that there is autocorrelation in regression result. Heteroscedasticity test is then used to test if there are variance differences from the residuals. For this Glejser test is used. If the resulting number from Glejser test is higher than 0.05 (sig. > 0.05) then there is no heteroscedasticity and vice versa. Normality test is done through One Sample Kolmogorov-Smirnov (K-S), should the significance (2-tailed) is higher than 0.05 then the residual has normal distribution. Lastly, if the Linearity test yields result of sig. deviation from linearity higher than 0.05, it verifies that the regression model is linear. A good data is one that has linear relationship in between Independent Variable and the Dependent Variable.

RESULT AND DISCUSSION

The outcome of the preliminary test shows that one indicator from Promotion Variable (X3) must be left out, more specifically the “Store sign is giving off clear information” indicator. This is due to several point such as the low value of Corrected Item-Total Correlation of 0.302, and the low Cronbach Alpha point of 0.708, but most notably the increase of Cronbach’s Alpha Value if Item Deleted increase to 0.744. Other than this specific case, the remaining variables and indicators pass the Reliability and Validity test with no problem.

Moreover, looking at the average result of each variable, the indicators of “Products bought are functioning properly” and “Sold products are in good condition” have the highest score for Product variable. Meanwhile, the indicator “Price of products reflects the given service” scores highest for Price variable and the indicator “Shopkeeper is maintaining good relationship with customers by keeping contacts (through telephones or

other media)” scores highest for Promotion variable. For the dependent variable, the indicator “Will do repeat buying in Toko Naga Emas” scores highest in Customer Satisfaction variable.

Looking deeper on the causal side of this research, the R square result is as much as 56.2% showing that the mix of Product, Price and Promotion could explain that much of Customer Satisfaction, while the other 43.8% is influenced by other variables that are not included in this research. However, the R square result does not mean that the independent variables are not of concern of Naga Emas Surabaya branch, since F test shows that the mix of those three variables altogether is significant in influencing Customer Satisfaction.

Based on the t-test results, Product and Price are individually significant in influencing Customer Satisfaction. Meanwhile, sig. value for Promotion variable is bigger than 0.05, which means that Promotion is not significant in influencing Customer Satisfaction. The Bivariate Linear Regression resulted in an equation model where Customer Satisfaction (\hat{Y}) = 0,126 (b0) + 0,419 Product (X1) + 0,402 Price (X2) + 0,172 Promotion (X3). The model shows that the Product and Price Variables have more impact on the Customer Satisfaction dependent variable, each increases the value of Customer Satisfaction by 0.419 and 0.402 respectively for each point added. The Promotion Variable holds the least amount of impact to Customer Satisfaction with 0.172 points added to the Customer Satisfaction Variable for each added point.

Managerial Implication

Considering the results of the research, there are some things that can be improved for each independent variable. Below are the list of the pre and post actions that are executable instantly by Toko Naga Emas, Surabaya branch.

Product

Table 4. Managerial Implication of Product Variable

Pre-Research	Post Research Actions
Product variety sold lay stagnant for the last 5 years	<ul style="list-style-type: none"> Evaluate product variety, adding new products and removing old obsolete products Additional display units is added to increase capacity for wall paint
Restock is done if most product has been sold out	<ul style="list-style-type: none"> Construct monthly report focusing on the paint color sold Minimal supply of one box each color to ensure product availability
Store product arrangement and storage is left on the whim of shopkeepers	<ul style="list-style-type: none"> First In First Out (FIFO) stocking mechanism is used to ensure fragile and non-sustainable products to be sold timely and orderly fashion

Price

Table 5. Managerial Implication of Price Variable

Pre-Research	Post Research Actions
Cost Based Pricing is used	<ul style="list-style-type: none"> • Evaluate product pricing to adjust the prices based on the price sensitivity of each product • Adding price cuts and bundling method on several goods which are more sensitive to price change • Cross subsidization will be applied to increase competitiveness

Promotion

Table 6. Managerial Implication of Promotion Variable

Pre-Research	Post Research Actions
Obsolete Store Sign	<ul style="list-style-type: none"> • Creating new store sign in to give clearer information for passerby and create further customer awareness
Eid al-Fitr Complimentary Gifts	<ul style="list-style-type: none"> • Evaluate effectiveness of different promotional strategy, including word-of-mouth promotion and e-marketing
Promotional Information Dissemination	<ul style="list-style-type: none"> • Focus on customer centric marketing strategy in order to create customer intimacy, thus changes the nature of relation with customers from transactional to emotional. Some of the methods include: <ul style="list-style-type: none"> ○ Creating membership program with added benefits to registered customers ○ Short-term marketing program such as <ul style="list-style-type: none"> ▪ Each 100.000 rupiah purchase give registered member 1 point that can be exchanged for interesting rewards ▪ Yearly or semiannual raffle with valuable rewards

CONCLUSION

The linear regression model shows that Product variable with the coefficient of 0.419 has the most impact on customer satisfaction. This result positively aligns with Alelign and Rao (2014) where product significantly influential and it is able to explain 29.9% of customer satisfaction. The similar result found as well in Mohammad (2015) and Ateba *et al.* (2015) where product contributes as much as 24.24% of customer satisfaction. It is further confirmed by some literatures stating that good quality of product contributes positively to the customer satisfaction (Selnes, 1993; Janda *et al.*, 2002; Chumpitaz and Paparoidamis, 2004 *in Islam*, 2015).

The second individually influential variable is Price with the coefficient of 0.402. This result is in line with Alelign and Rao (2014) where price can explain 29.9% of customer satisfaction. However, Mohammad (2015) in his research toward banking industry found that price is one of the non-influential variables. Yet, the result of Ateba *et al.* (2015) showed that price contributes highest influence toward customer satisfaction as much as 36.36%. Juwandi (2004) *in Ghozali* (2014) also emphasizes on the importance of price as a factor influencing customer satisfaction, especially for products that have high sensitivity to price change.

The third variable is Promotion. Albeit the non-significant result in t-test, still promotion is a variable that must not be overlooked since it is the main variable in which the company can build emotional intimacy with its customers. Mohammad *et al.* (2012) *in Abdullah khadim*, Abdullah and Abdullah (2016) got the research results where promotion is not significantly influential toward customer satisfaction. In Ateba *et al.* (2015), promotion only contributes as much as 22.73% to customer satisfaction, which is the lowest contribution in that research. Those results are totally reversed in Alelign and Rao (2014) where promotion is the most influential variable and it is able to explain 34.8% of customer satisfaction.

RECOMMENDATION FOR FURTHER RESEARCH

Further researches can contribute both to the industry and to the academic world. Some of the suggestions that can be given are:

- More variables can be added into the mix to increase the predictability of the dependent variable, such as: location, business processes, physical evidence, et cetera
- Following research can go in-depth about type of promotions suitable to be executed in business-to-business industry especially in paint and coatings industry
- Customer loyalty can be the focus of the next research, since many literatures describe loyalty, not satisfaction, as the source of profit for companies

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