

**Factors Influencing Customer Loyalty in 3<sup>rd</sup> Party Automotive Shops**

By

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**Abstract**

This study aims to address the current gaps in knowledge by identifying the main factors that influence customer loyalty to third-party automotive repair shops and provide strategies so that the latter can enhance customer loyalty and retention. The study focuses on third-party independent, automotive repair and service because of the limited and incomplete research on customer loyalty and strategies for improving business processes in this context. The dependent variable was Customer Loyalty and the independent variables were: Service Quality, Perceived Value, Trust, Habit, Reputation & Servicescape. The study found that Service quality, Trust and Reputation have a significant influence on customer loyalty on third party automotive shops.

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## **CHAPTER 1: INTRODUCTION**

Small enterprises, defined as having 1–99 employees, are the foundation of the Canadian economy and account for 97.9% of all businesses (Innovation Science and Economic Development Canada, 2016). Out of the total private labour force, they employ 70.5% or 8.2 million Canadians (Innovation Science and Economic Development Canada, 2016). Small businesses that are largely family-owned must deal with many factors, such as attracting and retaining talented employees and ensuring service quality and customer satisfaction, in order to be successful (Judge & Robbins, 2013). The latter can lead to repeat or loyal customers who can further help businesses by acquiring new customers through word-of-mouth marketing (Arndt, 1967; Reinartz & Kumar, 2002). In the automotive industry, loyalty to a specific brand, such as GM or Ford, can be retained through generations with offspring more likely to purchase the same vehicle brand owned by their parents (Anderson, Kellogg, Langer, & Sallee, 2013). Loyalty to an automotive dealership for repair and service, however, significantly declines after a vehicle's warranty period expires and many people turn to independent garages (Nadzri, Musa, Muda, & Hassan, 2016; Wormald & Gardner, 2000).

Automobile service and repair shops are business units that engage in vehicle repair and maintenance, including fluid changes and other services recommended by vehicle manufacturers (Coates & Reiley, 2013). Operators in this industry include dealerships, third-party auto repair and service shops, self-employed mechanics, car care centers, and garages (Peter Pauper Press, 2015). Peter Pauper Press (2015) defines a third-party automotive service and repair shop as a company that is unaffiliated with any vehicle manufacturer and that provides maintenance and repair services to light trucks and passenger cars. The same author also notes that a majority of third-party automotive service and repair shops are individually or family owned (Peter Pauper Press, 2015).

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There are numerous third-party automotive service and repair shops ranging from small family owned ones to large dealerships and chains. In the face of such competition, these shops are keen to attract and retain customers not only to sustain themselves but also to ensure growth and profitability (Bowen & Chen, 2001). Customer loyalty refers to behaviors where customers repeatedly obtain a particular service from only one service provider. The reasons for staying with one provider include satisfaction with services, reasonable costs, familiarity with employees, trust and ease of use (De Ruyter & Bloemer, 1999). In Canada, nearly half of all Canadians have their vehicles serviced, such as oil changes, at local third-party shops with 70 percent repeatedly returning to the same shop for services (Canada Post Marketing Research, 2008).

Regardless of the type of automotive repair or service shop, customers universally fear this segment of the automobile industry due to the number of scams that are reported in the media (Scott, 2014). Scott (2014) argues that customers are becoming increasingly vigilant in choosing automotive repair shops due to trust issues. Regardless, there are many automotive repair and service centers that aim to provide credible and reliable services, and consequently increase customer loyalty. Very few studies, however, have been conducted on the actual perception of customers using third-party automotive service shops and factors influencing their loyalty and retention. Research pertaining to the auto repair industry and customer loyalty can be classified into three categories: customer disloyalty; customer loyalty; and customer satisfaction (Rugman & Collinson, 2004).

The literature surrounding customer loyalty in the automotive industry is mostly geared towards automotive dealerships once a car is sold. Instead, the research presented here will focus on the third-party independent automotive repair and service sector because there is limited research on customer loyalty for this segment.

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There is incomplete research on strategies for improving business processes to increase customer loyalty within the third-party automotive industry. Although it is known that women (76%) are more likely than men (66%) to return to the same service centre year over year, the factors which influence this loyalty in the Canadian automotive service sector is unknown (Canada Post Marketing Research, 2008). Furthermore, although there are studies on customer loyalty in other sectors of the economy, that knowledge may not be transferable to the automotive sector because business strategies are specific to business types (Gronholdt, Martensen, & Kristensen, 2000). A strategy that works in one sector may not work in another. An effective framework for customer retention should include customer compatibility, customer defection and service failure management, shop environment, relationship building, employee training, marketing and service recovery (Petzer & Steyn, 2006). Compatibility management is managing customer-to-customer interactions to prevent or reduce dissatisfying consumer encounters (Petzer & Steyn, 2006). Service failure refers to an organization's failure to meet customer expectations, while service failure management aims to prevent in-house issues to reduce service failures (Petzer & Steyn, 2006; Petzer, Steyn, & Mostert, 2009). The aim of service recovery is to resolve service failures and satisfy clients in order to retain them.

Relationship marketing strategies can be geared towards inertial relationships between a shop and a consumer. Inertia can include habits that incline a person to the same shop due to satisfactory service or high switching costs, such as having to research the costs, services, and goodness of service offered by another shop (Beck, Chapman, & Palmatier, 2015). This thesis will focus on relationship marketing that influences customer habits. Tobias (2009) defines habits as the "associations between situational cues and repeatedly performed behavior options" (Tobias,

2009, p. 409). For example, one study found that more than 85% of customers repeatedly purchased items without exhibiting emotional attachment to the brand (Schneider & Hall, 2011).

The aim of this research is to address the current gaps in knowledge by identifying the main factors that influence customer loyalty to third-party automotive repair shops and provide strategies so that the latter can enhance customer loyalty and retention.

### **1.1 Statement of Purpose**

Consumers generally perceive themselves to be overcharged and underserved by the automotive service industry (Parasuraman, Zeithaml, & Berry, 1985). Although this might occasionally be the case, most automotive service shops are honest, provide quality services, and offer competitive prices. There has also been increased competition between third-party automotive shops thereby forcing service centers to provide better service and quality products in order to maintain or gain customers (Judge & Robbins, 2013). This has been fueled partially by the internet since it provides consumers with fast and accessible information on the quality of services and prices for nearly every third-party automotive shop in every major city of the world (Bagga & Gupta, 2014). Given these factors, there is a need for third-party automotive shops to determine what drives customer loyalty, increases word-of-mouth marketing, and to retain and/or grow their customer base. By understanding their own shortcomings, as well as consumer perceptions, third-party automotive service shops may be able to innovate and utilize specific strategies to maintain or increase customer loyalty.

The primary aim of this research is to capture and examine the factors that lead to customer loyalty for third-party automotive shops. This research will also critique the effectiveness of strategies employed in maintaining client loyalty.

## **1.2 Research Question**

The primary research question is, “what factors influence customer loyalty towards third-party automotive shops?” This research will:

1. Examine the factors that influence customer loyalty towards third-party automotive shops (e.g., service quality, habit, trust, perceived value, reputation, servicescape);
2. Examine the strategies that third-party shops use to increase customer loyalty; and
3. Investigate the effectiveness of strategies that are used to obtain customer loyalty.

## **1.3 Organization of the Study**

Following the introduction, chapter two is a detailed review of the literature that aims to put the present study in context and outline the research gaps that this study will fill. Chapter two is followed by the research methodology, data collection, statistical analysis, and a discussion of results. Next, the implications of our findings to third-party automotive shops, limitations of the study, and finally, a conclusion of the research is presented.

## **CHAPTER 2: LITERATURE REVIEW**

Third-party automotive shops co-exist and compete with numerous similar service providers. These include car dealerships such as General Motors, Ford, and Toyota, and other automotive service chains like Midas, Wal-Mart and Canadian Tire. Most of these third-party shops have maintained their businesses because customers are comfortable with receiving services from a shop where they are recognized, the service is reliable, the parts are dependable, and customer demands are met (Devaraj , Matta, & Conlon, 2001). Generally, third-party automotive shops are more interactive with their clients and directly reveal the price they charge for a given automotive service. Furthermore, automotive service shops have kept pace with improvements in technologies and they have offered these to customers (Biery, 2014).

Chain service centers and car dealerships have a distinct advantage over third-party shops in terms of being certified by major automobile manufacturers. Third-party shops, however, have an advantage in terms of customer recognition and trust due to personal interactions over the course of many years (Gurski, 2014). Due to increased competition between third-party shops and other such service providers, retaining customers using strategies such as offering gift cards or discounts has increased (Gurski, 2014). Even small mistakes in handling clients can cost a company clients' loyalty, create bad word-of-mouth marketing, or lead to weak online ratings (Ahmad & Buttle, 2002). The customer is valuable for all businesses and thus customer loyalty cannot be taken for granted. The intention of this literature review is to scrutinize some factors that influence customer loyalty towards third-party automotive shops.

### 2.1 Service Quality

Service quality can be defined as a consumer's expectation for a given service and can be considered to be positive when almost all of a customer's expectations are met and negative when the reverse occurs (Parasuraman, Zeithaml, & Berry, 1988). However, service quality consists of a broad spectrum of factors, all of which make a customer feel satisfied and increase the possibility of them returning (Parasuraman et al., 1988). These include being reliable, responsive to a customer's needs, competence in carrying out the necessary work, and employing people who are approachable, courteous, trustworthy and exhibit strong communication skills (Parasuraman et al., 1988). It also includes ensuring that the customer has no doubts about the quality of the work and product, knowing the client's needs, and ensuring that the employees and facility itself are appropriate and presentable in physical appearance (Bitner, 1992).

In a study conducted by Yee & Faziharudean (2010), their measure of service quality was geared towards a virtual website and some of the questions are related to web design, quickness of loading pages, ease of navigation, and promptness of customer service. In the context of this study, however, the same questions apply but must be adapted to a physical environment. For a third-party service center, "ease of navigation" becomes "how easy was it to find our location?", and "quickness of loading pages" becomes "was the wait time acceptable?" Some of the questions in this research will be similar to those asked in the aforementioned study. For example, "the service is performed properly the first time" (Yee & Faziharudean, 2010, p. 11) is as applicable to a website as it is to a place of business. Similarly, the phrase "an image of reliability and trustworthiness in one's transactions is transmitted" (Yee & Faziharudean, 2010, p. 11) becomes, referring to the physical shop, "do the employees and environment of the service center project an image of reliability and trustworthiness?" It should be kept in mind that most of the studies that

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measure service quality are essentially derived from Parasuraman et al.'s study (1988) and they have been adapted to the nature of the industry being studied.

Regardless, the quality of service that customers receive from auto service shops directly influences customer loyalty (Bei & Chiao, 2001; Bloemer & De Ruyter, 1998; Gronholdt et al., 2000). Quality, in this case, means that customers have their vehicles serviced with care and use quality parts, factors that go towards making a customer feel satisfied (Boulding, Kalra, Staelin, & Zeithaml, 1993; Cronin, Brady, & Hult, 2000). It is in an organization's best interest to meet and even exceed customer expectations. This requires that shops hire people who are competent in repairing and servicing vehicles, and that all of the staff is appropriately dressed, courteous, communicates well with clients, and listens to clients' concerns (Bernoff & Schadler, 2010). An organization can reduce customer complaints by meeting these requirements (Yee & Faziharudean, 2010). Furthermore, communicating with the client after a service to confirm that the vehicle is functioning correctly heightens customer satisfaction and increases the shop's reputation. This is likely to result in the customer returning and referring the shop to their associates and relations, thereby increasing the number of clients (Parasuraman et al., 1988).

Given the importance of customers, they have often been considered as the primary stakeholders in any business and thus their satisfaction should be a business's priority (Callaway & Callaway, 2012). Taking clients' complaints or grievances seriously is also a part of the perceived service quality. A recent article investigated the relationship between complaint management and customer loyalty in car repair shops (Gurski, 2014). The latter author, using a survey methodology and analyzing the data using multiple regressions and a confirmatory factor analysis, found that the timely management and satisfactory handling of complaints had a positive

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impact on customer loyalty with customers returning for more services. It was further noted that customer loyalty can decrease if complaints are poorly handled (Gurski, 2014).

Service quality is important to all service organizations and it is key for developing client loyalty. It is in the interest of any business organization to evaluate the quality of services often, as this is the central aspect of customer loyalty and satisfaction. In one study, the authors studied the loyalty model and consumer satisfaction by surveying 495 customers of 15 Nissan, Toyota and Mitsubishi repair centers (Bei & Chiao, 2001). They discovered that the service quality affected satisfaction and consumer loyalty while the fairness of price had both indirect and direct effects on consumer loyalty. This study had similar findings to a more recent study done by Gurski (2014). Both studies showed that service quality affects consumer loyalty and satisfaction.

### **2.2 Perceived Value**

Perceived value can be defined as a customer's perception of the differences between the services or products they received and the sacrifice they made in order to obtain a service or product (Woodruff, 1997). When a consumer feels that the offering's value is fair or equitable, and is similar or better than a competitor's, the perceived value is higher (Agbor, 2011). This higher value perception can win the consumer's loyalty and increase repeat business (Agbor, 2011). However, when the exact services a consumer wants are readily available at numerous shops with almost equivalent pricing, such as an oil change, the perceived value will not be monetary but rather reflect servicescape, the cordiality and trustworthiness of the employees, and promptness of service.

As the number of companies offering similar services increases, and there is an explosion of internet reviews of shops, services and costs, customers are much more aware if their expenditures represent a good value. Similarly, given that third-party automotive shops provide a

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service that is readily available elsewhere, there are no switching costs for the consumer (Parasuraman, 1997; Yang & Peterson, 2004). This is why it is more advantageous to ensure customer loyalty, as opposed to seeking new customers who may not be as easily convinced to buy the company's products or services (Reichheld & Teal, 2001).

The services provided by the automotive shops and their prices should be fair and reasonable. If businesses sell their replacement parts at fair prices and make honest service recommendations, customers are more likely to trust the employees and business. The commitment in purchasing a commodity is based on its perceived value along with the emotional bond existent between the consumer and business (Reichheld & Teal, 2001). This implies that although a customer may pay more for a service at a given location, they may not wish to switch to a different provider because of other non-monetary factors that are being met, such as courteousness or promptness of service. This calls for marketing strategies that take the emotional needs of clients into account. The perceived value of these non-monetary factors is important because it determines the return of customers and recommendations of services to friends, family and relatives (Reichheld & Teal, 2001).

### **2.3 Trust**

Trust is defined as “a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another” (Rousseau , Sitkin, Burt, & Cameet, 1998, p. 395). This is directly applicable to the vulnerability that customers experience when they make a purchase or enter a business for a service as they do not know if the item or service will meet their standards. This is true not only of the first time a customer enters the premises of a business, it holds for any repeat transactions as at each visit the customer is in a state of vulnerability. Although over time this state of vulnerability can dissipate as the customer

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develops a relationship with the business and its employees, customers always expect that the exchange partner is dealing in good faith and that the result of the transaction will not be disadvantageous to them (Rousseau et al., 1998). Further underlying the importance of trust is the fact that, unlike other retail items, a customer cannot return the goods, such as the oil and filter (Janakiraman, Syrdal, & Freling, 2016). Trust, therefore, is critical to sustain and grow any business and it is essential for having loyal customers who repeatedly patronize the business and help with marketing the firm (Doney & Cannon, 1997).

Within the broader automotive industry, there is a lack of trust for auto repair and service shops as there are many media reports on shops who defraud customers (Aviva Canada, 2017; Singh & Sirdeshmukh, 2000). This is done in a myriad of ways and include charging for new or premium parts but using old and lower quality ones, overcharging for labour, or recommending services that are not required (Canadian Broadcasting Corporation, 2017; Scott, 2014). Additionally, many oil change franchises have marketed the idea that vehicle owners should change their vehicles engine oil every 5,000 kilometers, when in fact most automobile manufacturers suggest that it should be done every 7,000 to 10,000 kilometers (Renfrew Chrysler, 2017; Tchir, 2017). When customers realize they are being taken advantage of, they are likely to avoid returning to the same business for services and it increases their wariness towards the auto repair and vehicle services industry.

Customers should be treated well so that they will trust the automotive shop with their vehicles, with the expectation that the vehicles will be returned in a better condition than before. Trust is important because customers will feel secure knowing that their vehicles are safe and the vehicles will perform well without breaking down. Generally speaking, women are less likely to know about automobile repairs and services and some service centers may take advantage of this

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fact by overcharging or offering services that are not required (Busse, Israeli, & Zettelmeyer, 2017). However, once trust is gained, female customers are more likely to become loyal to a shop as compared to men (Canada Post Marketing Research, 2008). Interestingly, repair shops, when asked to do so, offer women more discounts for services than men (Busse et al., 2017). In any event, men are thought to be more adventurous and will try multiple shops before committing to one (Schneider, 2002). For women, on the other hand, social skills are more important in gaining their trust as compared to the actual quality of services or parts (Reichheld & Teal, 2001). This implies that automobile shops can potentially attract and retain women clients by promoting customer service and social skills (Payne & Frow, 2013). It has been noted that customers desire satisfaction when they buy a product or service and that both hard needs, the specific purpose for which the customer has come to the shop, and soft needs, which are human interactions, are required to fully satisfy clients (Rai & Srivastava, 2012). With automotive shops, hard needs include customers' desires to have their vehicles serviced and repaired while soft needs include customers' needs to feel recognized, respected and valued by the service provider.

### **2.4 Consumer Habit**

Nearly half of people's behavior is repeated daily and is "a specific form of automaticity in which responses are directly cued by the contexts (e.g., locations, preceding actions)" (Wood & Neal, 2009, p. 579). This tendency to repeat behaviors is further compounded because of time pressures and being comfortable with a particular service or business. Researchers have confirmed this tendency and have noted that consumers purchase the same brands across different shopping episodes or locations (Seetharaman, 2004).

Consumer habit is behavior that is automated and repeated without regards to the quality of parts, services, or prices (Alshurideh, Masa'deh, & Alkurdi, 2012). Habit formation, however,

typically requires an initial investment of research about a shop, placing trust in a product or service, and being satisfied with the quality received. Therefore, once a business has earned a consumer's trust, it can take advantage of this fact by reinforcing the customers' habitual behavior (Tobias, 2009). In part, this is because once customers know that a business is credible and offers reliable services, they will repeatedly come to the same establishment. This is because the customers do not need to expend additional energy to search for and try the services of another establishment (Aarts, Verplanken, & Knippenberg, 1998).

Darley, Luethge, & Thatte (2008) have noted that habit results from behavioral preferences while Rai and Srivastava (2012) have noted that habitual behavior allows for the continuation of the same purchase intents, ideally strengthening the position on each occasion (Darley et al., 2008; Rai & Srivastava, 2012). It should be noted that prior to a habitual response to a service or product, the consumer must first be won over through quality of service and product, trustworthiness, and acceptable perceived value.

### **2.5 Reputation**

Reputation can be defined as "a concept related to image, but one that refers to value judgments among the public about an organization's qualities, formed over a long period, regarding its consistency, trustworthiness, and reliability" (Bennett & Rentschler, 2003, p. 207). The reputation of a business often precedes it even before a client or consumer sets foot into the premise or agrees to the services. A positive reputation is difficult to build and requires years of being able to maintain a high quality of service and products. Once built, reputation is able to withstand adverse publicity or a finite lag in quality or services (Whitmeyer, 2000). Previous literature suggests that the third-party automobile service industry is heavily reliant on positive word-of-mouth, which necessitates the importance of a good reputation (Loureiro, Sarmiento, &

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Le Bellego, 2017). While a good reputation can draw new customers and keep them loyal, a bad reputation can reduce the number of loyal customers and decrease the number of new ones.

Overall, clients prefer shopping in a premise and purchasing a brand that has a good reputation (Bennett & Rentschler, 2003; Loureiro et al., 2017). Third-party automotive shops are able to build and maintain a good reputation as they maintain close interactions with their clients, which in turn wins them loyalty. When clients come back for services to a company, it shows that the company has built strong trust and its products or services are reliable (Srinivasan , Anderson, & Ponnayolu, 2002). Even when there is a failure in service or reliability, the reputation a shop has been able to build often buffers against the loss of customers as it will be seen as an anomaly (Sengupta, Balaji, & Krishnan, 2015). By having a reputable business, loyalty is created and this in turn brings an increased number of customers while also retaining the present ones.

### **2.6 Servicescape**

Servicescape describes all of the physical attributes without and within a given business and includes its location, physical characteristics, cleanliness of the premises and employees, product and furniture placement, odor, lighting conditions, and sounds (Bitner, 1992). In the context of a third-party automotive shop, servicescape is the appearance and layout of the service bays, the location, and the sounds and smells in it. According to the servicescape model, the environment where services take place can play a big role in explaining people's behavior (Bitner, 1992). Given that the environment can influence behaviour, a business can change the environment in order to positively influence a customer's impressions and in turn increase the loyalty of its clients (Bitner, 1992).

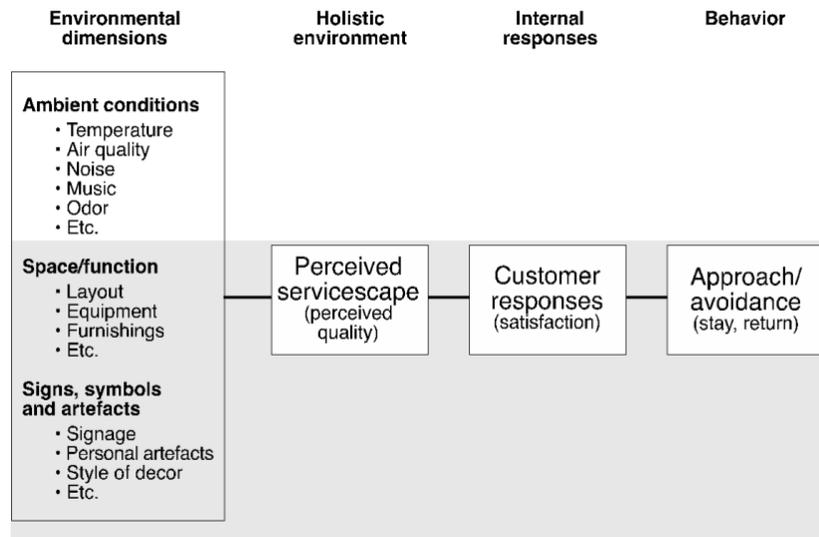
Traditionally, the basics of marketing products or services has been described by the four P's: product, price, promotion, and place (Boulding et al., 1993). Using this model for an

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independent garage, the product is the entire experience of the customer, from the time they see the shop, enter it, and their experiences until they leave. Price is the charge for services while promotion is any activity the shop may conduct, such as advertising, which in turn may stimulate sales (Boulding et al., 1993). Place is the location where the consumer interfaces with the product or service (Kim & Moon, 2009). The latter can include placement of an item at eye level in a grocery store, the first item that appears when one searches for a product on the internet, or the locale, color, and interior of the shop. Over the last three decades, business studies have adapted a biological model of an organism and how it reacts to its environment to study consumer feelings and behaviors when customers interact with a place (Rosenbaum & Massiah, 2011; Tombs & McColl-Kennedy, 2003).

A consumer's reaction to a place or servicescape is complex and stimulates, often unknowingly, a person cognitively, emotionally, and physiologically (Figure 1) (Wakefield & Blodgett, 1994). This suggests that if the physical environment can be changed to one that is receptive to the consumer, a place can be made more hospitable and comfortable and thereby mold a consumer's perception of a business. Bitner (1992) further notes that most organizations think of the physical environment only tangentially rather than thinking of it as a resource that could further an organization's goals. Internally an organization wants employees to be more productive, motivated and satisfied with their work; externally an organization wants customers to be happy and satisfied with the services that are provided (Darley et al., 2008). Servicescape can help to positively alter the perception and behaviour of both as it can be seen as an incentive for employees to remain in a given business, similar to incentives such as wage increases, benefits, or promotions, while at the same time it can be an alternative to offering customers discounts or spending money on advertising in order to draw customers in and keep them loyal.

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*Figure 5: Servicescape and how the environment affects a consumer. Figure from Wakefield & Blodgett, (1994).*

Servicescape includes all aspects of the physical environment and how they work towards influencing a customer's attitude towards a business or shop (Wakefield & Blodgett, 1994). In effect, servicescape looks at the neighborhood, accessibility, parking space, building, its design and color, lighting, air quality, temperature, noise and music, cleanliness, smell, layout of furnishings, signs, symbols (such as flags), employee uniforms, and a myriad of other things (Wakefield & Blodgett, 1994). As an example, the cubicles in a fast food restaurant are typically spartan and meant for a fast-paced and quick turn-around environment. This differs from a restaurant with dim lighting, chairs, tables with tablecloth and cutlery. The latter is suggestive of luxury and elegant dining and a place where guests can comfortably linger (Reimer & Kuehn, 2005). In effect, a servicescape can cause people to either approach or avoid a business, and stay or flee (Lin, 2004). A servicescape can favorably influence a client to see the employees and shop in a positive light, even when the service may be less than adequate (Reimer & Kuehn, 2005).

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It has also been noted that servicescape, similar to people forming opinions of others based on the clothes and cars they drive, has a bearing on a customer's belief about whether a firm is expensive or affordable, successful or unsuccessful, and trustworthy or untrustworthy (Kim & Moon, 2009; Reimer & Kuehn, 2005). In addition to the servicescape model, it has also been suggested that once a servicescape alters a person's behavior or perception towards a business, this emotion in one person acts as a contagion and helps to alter other people's views about a business. It becomes a social servicescape whereby the perception of a business can spread through word of mouth (Tombs & McColl-Kennedy, 2003). It is because of the social and physical aspects of a business that some people prefer Starbucks over a Tim Horton's, or a Burger King over McDonald's. The atmosphere, mood, furnishings, and many other cues discussed above, lead to a profound person-place attachment. Moreover, it has also been suggested that the servicescape of different businesses has a restorative dimension because once people know they can trust a certain place, they become relieved and less anxious (Kim & Moon, 2009). Servicescape is something that can hinder or promote perceptions of an organization and it plays a critical role in customer loyalty (Harris & Ezeh, 2008). Many customers will judge the services and quality of third-party automotive shops by the servicescape, and in turn will decide to place their trust in it.

## CHAPTER 3: CONCEPTUAL MODEL & HYPOTHESES

### 3.1 Conceptual Model

The concept of service quality, which is directly linked to customer satisfaction and loyalty, has evolved over the last half century, from brick and mortar businesses to the present internet-based ones. Despite the changes, the fundamental aspects have remained and researchers have adapted the model to study different industrial sectors and business types. In the present thesis, and based on the literature review, a conceptual model was developed which consists of the determinants of customer loyalty as the independent variables (IV), and of customers' loyalty behavior as the dependent variable (DV). A brief history of the service quality model, its adaptations to various sectors, and how the present model expands on and fits into this evolution is presented below.

Parasuraman et al. (1985) published seminal work on service quality and since its publication, numerous other industries such as hospitals (Thawesaengkulthai et al., 2015), hotels (Stefano et al., 2015) and the airline industry (Ostrowski et al., 1993), amongst others, have adopted its broad outlines to gauge the quality of their services (Parasuraman et al., 1985). Initially, Parasuraman et al. (1985) identified ten categories to measure service quality (SERVQUAL) (Figure 2). However, this was later reduced to five categories (Parasuraman et al., 1988) (Figure 3) and has been widely utilized by numerous researchers to study different industrial sectors and businesses (Ostrowski et al., 1993; Stefano et al., 2015; Thawesaengkulthai et al., 2015; Yee & Faziharudean, 2010). The five main dimensions of SERVQUAL (Figure 3), which can be quantitatively measured, are tangibles (e.g., appearance of facilities, equipment), reliability (e.g., accurately performing promised services with dependable results), responsiveness (e.g., promptness of service and responsiveness to customer), assurance (e.g., knowledgeable and

## Factors Influencing Customer Loyalty in Automotive Shops

courteous employees who inspire trust), and empathy (caring for customers' needs and delivering on them) (Parasuraman et al., 1988). While the work by Parasuraman et al., (1985) was initially used to determine the quality of service provided by an enterprise or business, it has since been used to determine if the five dimensions have a bearing on customer loyalty to a brand or company.

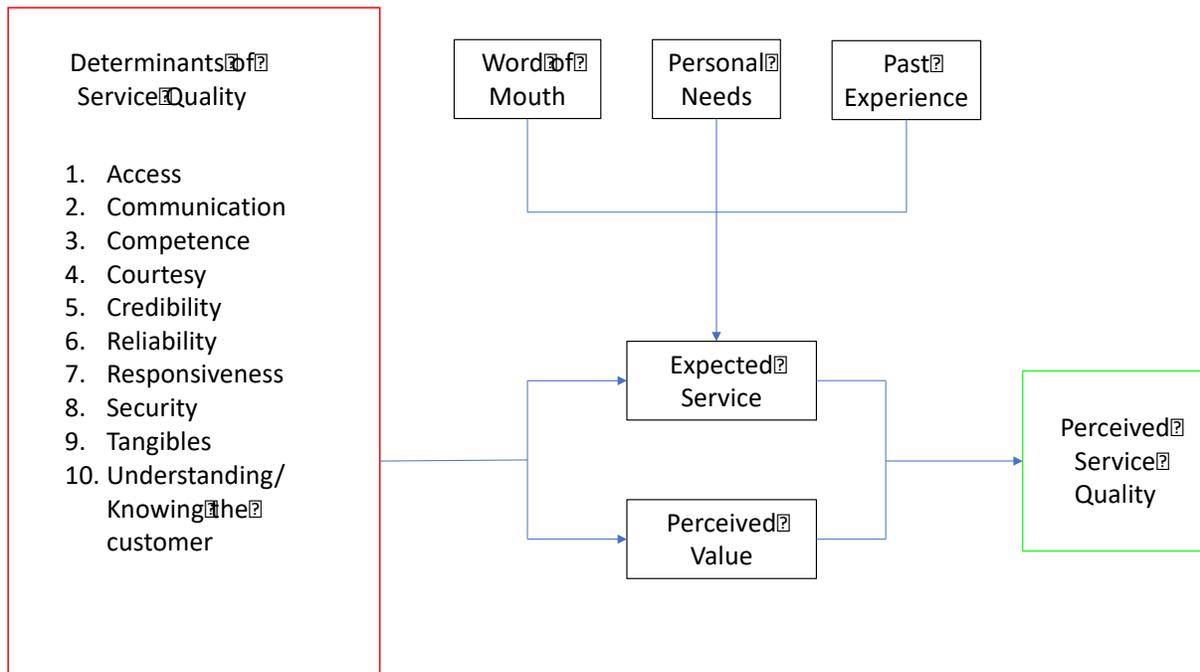


Figure 6: Categories used to measure service quality (SERVQUAL). Adapted from Parasuraman et al., (1985).

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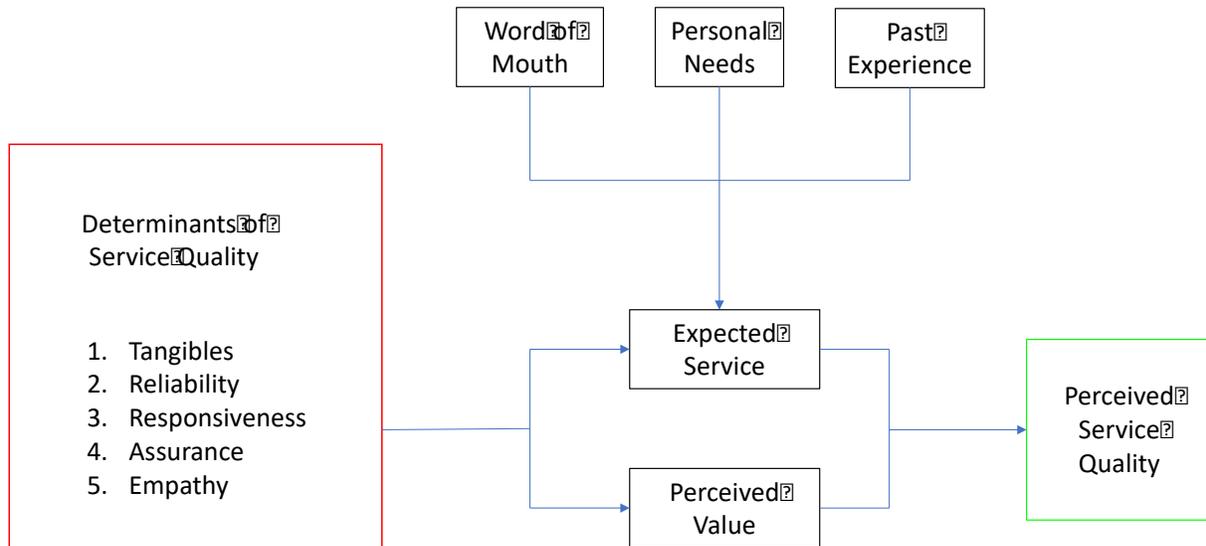


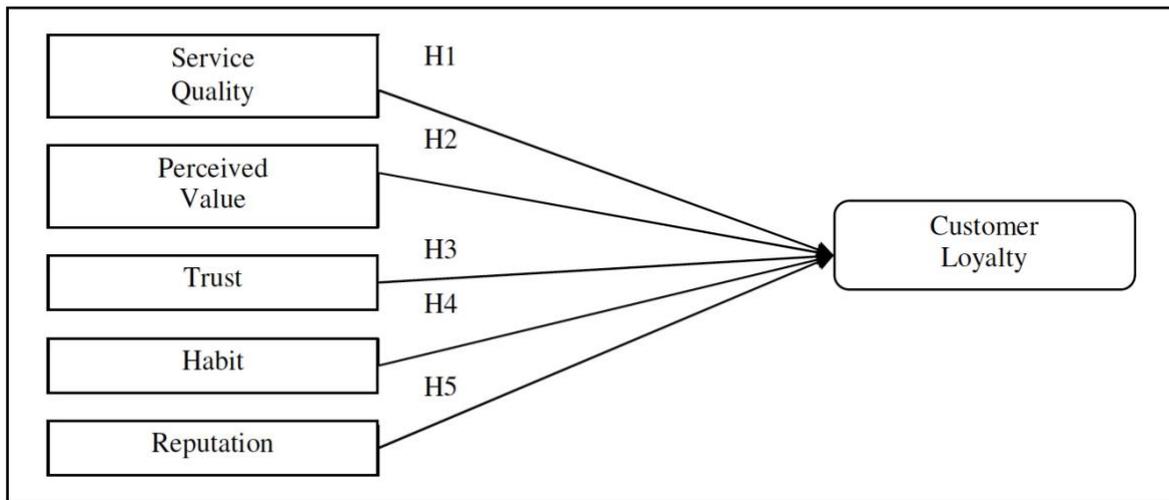
Figure 7: Five determinants of service quality. Adapted from Parasuraman et al., (1988).

Continuing research and scholarship have further deepened our knowledge regarding variables that influence people's loyalty to a business or brand. It has been found that customer loyalty is positively and directly correlated to the perceived level of SERVQUAL with it being high when SERVQUAL is good and the opposite if it is poor (Zeithaml et al., 1996). Similarly, customer loyalty has also been linked to a service or a product's perceived value (Yang & Peterson, 2004), trust (Singh & Sirdeshmukh, 2000), habit (Aarts et al., 1998) and reputation (Loureiro et al., 2017). As an example of how scholars have broadened and deepened our understanding of factors that influence loyalty, the model shown in Figure 7 simply states "tangibles", which includes the appearance of workers, facilities, and equipment as having a direct bearing on consumer confidence. This simple idea has been significantly extended as scholars have realized that characteristics such as lighting conditions, aroma, color, music and noise, and numerous other sensory stimuli have an emotional effect on a consumer. These environmental traits collectively influence a consumer's perception of a shop (Bitner, 1992; Harris & Ezech, 2008). These

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dimensions, which are a subset of service quality (e.g., appearance of facilities, equipment) are together termed as servicescape (Bitner, 1992; Reimer & Kuehn, 2005; Rosenbaum & Massiah, 2011). The influence of servicescape on customer loyalty, in addition to the other mentioned factors, can be applied to the automotive industry since it may play a role in influencing customer loyalty towards a particular auto repair shop. According to the researcher's knowledge, no previous study has researched the influence of servicescape on customer loyalty towards a third-party service shop.

The present work adapted the model used by Yee & Faziharudean (2010), a study which researched the variables of service quality, perceived value, trust, habit and reputation and their influences to customer loyalty towards a banking website (Figure 4) (Yee & Faziharudean, 2010). The authors found that customer loyalty was most strongly correlated, in decreasing order, to the bank's reputation, trust, habit, perceived value, and service quality. Furthermore, the latter two factors had almost no influence on customer loyalty (Yee & Faziharudean, 2010). Given that there is no human interaction when one banks on the internet, which is very different from an automotive service center, some of the author's findings are unlikely to be relevant to the research conducted here. However, the customer loyalty model with its five factors is useful in understanding which of the aforementioned factors are the most important in garnering loyalty to a third-party automotive service center.



*Figure 8: Foundational framework (e-SQ) adapted from Yee & Faziharudean, (2010).*

For the research work undertaken here, the model created by Yee & Faziharudean (2010) has been extended by including servicescape as one of the factors which impacts customer loyalty towards third-party automotive centers (Figure 5). Servicescape is an important measure to research because a consumer directly and closely interacts with the employees and with the exterior and interior of a third-party automotive shop. These sensory stimuli have been found to have an effect on a consumer's perception of a business, which then has a bearing on loyalty (Harris & Ezeh, 2008; Kim & Moon, 2009; Lin, 2004). The model used in the present work looks at service quality, perceived value, trust, habit, reputation, and servicescape and how these factors influence consumer loyalty towards third-party automotive service shops.

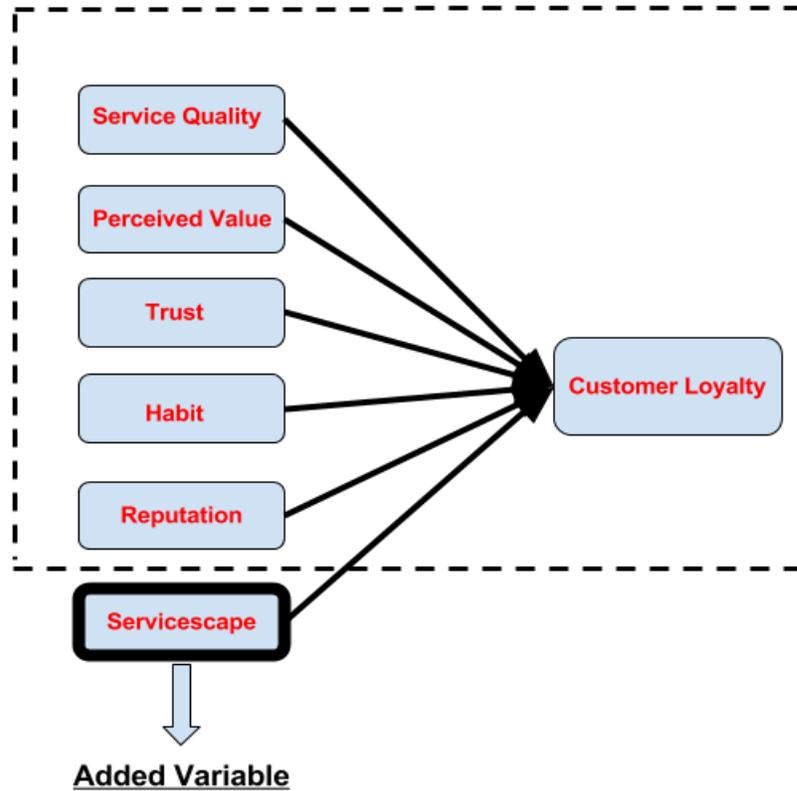


Figure 9: Extended conceptual model adapted from Yee & Faziharudean, (2010). Original model is shown by the dotted line.

## 3.2 Hypothesis

### 3.2.1 Service Quality

As noted previously, service quality is a measure of a consumer's expectation for a given service and is positive when the expectations are met or exceeded and negative when the quality of service is below expectations. Moreover, a number of researchers have studied the relationship between service quality and loyalty and found that there is a direct link between these two factors (Woodruff, 1997; Yee & Faziharudean, 2010).

***H1: Service Quality has a positive, significant influence on Customer Loyalty towards third-party automotive shops.***

### **3.2.2 Perceived Value**

Perceived value is defined as a customer's perception on the differences between the services or products they received and the sacrifice they made in order to obtain a service or product (Woodruff, 1997). The customer has to research the prospective shops that could perform the work in the area they live in, querying their friends or internet sources about a reliable and reputable business, and then locate and visit the business to have work done. Given these efforts, the perceived value is if the customer's efforts were worth the services or products they received. A customer's perception of the perceived value of a service or product has been shown to directly affect their loyalty to the service provider or product brand (Yee & Faziharudean, 2010). If a business provides services or products which are perceived by the customer as being valuable, that customer is likely to remain loyal. Customer loyalty will be reduced if the perceived value is below the efforts a customer placed in seeking out a business.

***H2: Perceived Value has a positive, significant influence on Customer Loyalty towards third-party automotive shops.***

### **3.2.3 Trust**

As noted above, trust has been defined as "a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another" (Rousseau et al., 1998, p. 395). In other words, when a customer enters the premises of a business or purchases a product about which they have no previous experience, the customer is in a state of vulnerability but takes a leap of faith in having services performed or purchasing a product. The customer expects that the other party is dealing in good faith and that they will not be cheated. Trust is established only if the customer feels that the service or product met their expectations

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and the exchange was not disadvantageous to them. It has been shown that trust has a direct impact on customer loyalty and the greater the trust, the greater the loyalty (Lin & Wang, 2006).

***H3: Trust has a positive, significant influence on Customer Loyalty towards third-party automotive shops.***

### **3.2.4 Habit**

Habit entails an automatic behaviour repeated often in response to cues and contexts. Although it is not directly linked to loyalty as it relates to a brand or a business, it becomes so once trust has been established (Wood & Neal, 2009). This tendency to repeat behaviors can be seen in the repeated purchase of the same vehicle brand across generations and the same brands across different shopping episodes (Seetharaman, 2004). Once trust has been formed, habit then directly influences loyalty with a customer preferring the same brand or business regardless of whether the brand type or services are of a good quality or not (Gefen, 2003; Liao, Palvia, & Lin, 2006).

***H4: Habit has a positive, significant influence on Customer Loyalty towards third-party automotive shops.***

### **3.2.5 Reputation**

Reputation of a brand or business is a value judgement formed over a long period (Bennett & Rentschler, 2003). Loyalty has been found to be directly related to reputation. Even when standards of a service or product momentarily decrease, a customer is unlikely to immediately seek a replacement (Whitmeyer, 2000). Even when a new similar offering is cheaper and of a greater quality than a product or service with the greater reputation, a customer is likely to distrust it and remains loyal to the reputable brand or service (Goode & Harris, 2007).

***H5: Reputation has a positive, significant influence on Customer Loyalty towards third-party automotive shops.***

### **3.2.6 Servicescape**

Servicescape refers to all of the physical attributes of a given business (Bitner, 1992) as well as the emotional responses it arouses in customers as to whether a product or service is trustworthy or not (Kim & Moon, 2009; Reimer & Kuehn, 2005). A customer's loyalty is influenced by servicescape. Even when a product or service is inadequate, a client will keep returning or purchasing the same item or service (Reimer & Kuehn, 2005). Servicescape has been shown to play a critical role in customer loyalty and is a characteristic which businesses can influence (Harris & Ezeh, 2008).

***H6: Servicescape has a positive, significant influence on Customer Loyalty towards third-party automotive shops.***

## **CHAPTER 4: RESEARCH METHODOLOGY**

The purpose of this chapter is to describe the methods carried out in this research study, and the rationale for choosing them. The chapter begins with the research design, followed by techniques, instruments, and paradigms used. This section will also discuss the sample sizes and time frames and describe the questionnaires and data collection.

### **4.1 Research Design**

Research design supports the entire research process. The main focus of the current study is to address current gaps in knowledge by identifying the primary factors that influence customer loyalty towards third-party automotive repair shops and provide strategies to enhance customer loyalty.

A structured questionnaire was developed, using the indicators from Yee and Faziharudean (2010) as a template, and adapted to suit customers visiting a third-party repair and service shop. Customers were asked about their opinions and judgements concerning the following six variables: service quality, perceived value, trust, habit, reputation, and servicescape. The hypotheses were tested by analysing the data using statistical methods. Although the variables listed above have been previously used to measure how they affect loyalty towards services and products in other industries, this is the first study which has 1) extended loyalty analysis by adding servicescape to the model, and 2) is researching customer loyalty towards third-party automotive service centers. The research model served as the basis for developing the literature review, which then went towards developing a questionnaire and testable hypotheses.

### **4.2 Instrument**

For the purpose of collecting data for this study, an online survey was constructed with a software tool (Qualtrics, 2018). The questionnaires and the respective answers were populated with questions intended to measure customers' opinions and judgements about service quality, perceived value, trust, habit, reputation, and servicescape and are based on a 7-point Likert Scale. The Likert scale was used because 1), it has been well established as a meaningful method which can help to understand customer loyalty and how it is influenced by the six variables (Finstad, 2010; Lin & Wang, 2006; Yee & Faziharudean, 2010), 2) it allows for responses more expressive than a simple yes, no or neutral, and 3), because the Yee & Faziharudean, 2010 study, from which the present work is adapted, used the Likert scale and therefore allows to compare results across studies. The 7-point Likert Scale ranged from strongly disagree (=1) to strongly agree (=7) and is more sensitive to measuring a respondent's actual views as compared to a 5-point item scale (Finstad, 2010). The theoretical model evaluated how the six independent variables influenced customers' intentions to return to the same repair shop. Prior to being presented to customers, the online questionnaire was tested to ensure that it performed accurately and reliably.

### **4.3 Sampling**

Prior to administering the survey to customers, the survey questions and the study were approved by the Research Ethics Board of Ryerson University. Customer recruitment was done in-person by approaching customers who were visiting a third-party repair shop in order to have services performed on their vehicle. The customers were read a script, for consistency, and asked if they would take a voluntary survey which required ten minutes of their time. They were made aware of the study, its rationale, and that the survey was completely confidential as the questionnaire did not require them to provide any information which could identify them. The

script, along with a consent form, was provided to the customers to read and sign. The customers who agreed to take the survey did so inside of their vehicles. An Apple iPad was provided to the customer to take the survey. All of the customers who were approached were provided an instant \$10 discount on their invoice (whether they chose to participate or not). The sampling procedure utilized convenience sampling as this was the easiest way to obtain participants in order to complete the survey.

Convenience sampling is a non-probability sampling strategy that is used to obtain a reasonable response rate which could provide a measure of customer loyalty as well as a springboard for further research (Delice, 2010). The population of interest are consumers who visit third-party automotive repair shops for services. Customers were recruited from two of the most significant players in the automotive repair and service business, Jiffy Lube and Pennzoil, both of which are owned by Royal Dutch Shell (Royal Dutch Shell plc, 2018). To ensure a representative sample size and statistically significant data set (one in which type I and type II errors are reduced), 306 surveys were distributed (Delice, 2010). Convenience sampling and the use of iPads allowed for data to be obtained in a timely, cost-effective manner. After 153 people from each location had taken the survey (306 total), the survey was closed.

#### **4.4 Data Analysis**

In this study, SmartPLS was used to analyze the data (Ringle, Wende, & Will, 2005). Smart PLS is a software application used for Partial Least Squares Structural Equation Modeling (PLS-SEM)

Initial analysis consisted of obtaining the maximum, minimum mean, median, and standard deviation for the research variables of service quality, perceived value, trust, habit, reputation, servicescape and customer loyalty. Cronbach's alpha (reliability coefficient) was used

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to measure the internal consistency and reliability of the dataset obtained from the questionnaires (Saunders, Lewis, & Thornhill, 2013). As for the reliability of the research data, the respondent size of 300 people represents a statistically significant sample size representative of the customers visiting the service shops (Leung, 2015; Saunders et al., 2013). Specifically, given that there are six variables used to measure their influence on customer loyalty (there are six arrows pointing at a construct), with a 5% probability of error 130 observations are required to achieve a statistical power of 80% for detecting  $R^2$  values of at least 0.1 (Hair Jr et al., 2016). Statistically, therefore, having 306 participants in this study are more than adequate to realize a statistically significant sample size.

Data analysis consisted of, first, SmartPLS which was used as a confirmatory factor analysis to evaluate whether the indicators for each variable were convergent (Wong, 2013). The structural model was then tested via the PLS algorithm which calculated path coefficients and  $R^2$  for the endogenous variables. Bootstrapping was used to calculate the t-values by setting the sample size to 5000. Second, an average variance extracted (AVE) score was used to measure the validity of questions. This score also assessed the convergent and discriminant validity (Jarvis et al., 2003). Third, test regression analysis was conducted and was used for prediction and forecasting, as well as estimating the relationship between the variables. It measured the impact on the dependent variable, customer loyalty, with respect to the independent variables (service quality, perceived value, trust, habit, reputation, and servicescape) (Henseler & Sarstedt, 2013).

## CHAPTER 5: RESULTS

This section centres on the results and analysis of the survey data. It begins with descriptive or demographic results, followed by the various statistical analysis and models used to test for validity, reliability, and significance between the variables as they pertain to customer loyalty.

306 total customers were approached. After cleaning the raw data, it was found that due to some customers not completing the survey or because of the attention filter, 16 surveys were discarded. This means that a total of 290 surveys were analyzed. This in turn yielded a response rate of 94.7%. The response rate in this study was high due to the fact that this was a locally owned family business and that the participants could take the survey while their car was being serviced. I was also present in the shop while the surveys were being taken. In addition, a \$10 off discount coupon was offered. It has previously been shown that surveys with low response rates are not necessarily inaccurate as compared to surveys with higher response rates (Visser et al., 1996).

### 5.1 Descriptive Statistics

The result of the six research variables and respondent demographics are shown below in Tables 1-4. Descriptive statistics of variables show the mean, median, and standard deviation for the research variables of service quality, perceived value, trust, habit, reputation, and servicescape. The gender of the survey takers was nearly equal with 51.2%, (n=152) being Males and 48.8%, (n=145) female's (Table 1).

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*Table 1: Respondents Gender*

<b>Gender</b>	<b>Number (n)</b>	<b>Percent (%)</b>
Male:	147	51.2%
Female:	143	48.8%
<b>Total:</b>	<b>290</b>	<b>100</b>

The age distribution of the survey takers (Table 2), varied with the majority (48.5%) being between the ages of 22-40. The next largest group was those between the ages of 41-52 (27.6%), followed by people in the age range of 53-71 (17.2%). Those between the ages of 72-82 only comprised 1% of the people while it was 5.7% for those between 18-21 years of age.

*Table 2: Ages of survey participants.*

<b>Age group</b>	<b>Number (n)</b>	<b>Percent (%)</b>
18-21	17	5.7%
22-40	144	48.5%
41-52	82	27.6%
53-71	51	17.2%
72-82	3	1%
	<b>290</b>	<b>100.00</b>

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In terms of educational level, the majority of the respondents were college graduates (63.5%), followed by university graduates with a bachelor's degree (23.8%), and a small portion that completed high school (11.2%) (Table 3). Only 1.3% of the respondents had completed a postgraduate degree while there were no participants who had not finished high school.

*Table 3 Respondents' Education Level*

<b>Level of Education</b>	<b>Number (n)</b>	<b>Percent (%)</b>
Less than High school	0	0
High School	34	11.2
Some College	192	63.5
University Undergraduate	72	23.8
University Postgraduate	4	1.3
<b>Total:</b>	<b>290</b>	<b>100</b>

The majority of the participants (52.3%) had an annual income between \$50,000 and \$74,000, followed by 29.8% whose income was between \$30,000–\$49,000 (Table 4). Only 10.6% of the survey takers had an income between \$75,000 and \$99,999 while 2.98% of the survey participants had an annual income below \$30,000.

*Table 4: Annual Income of Respondents*

<b>Annual Income</b>	<b>Number (n)</b>	<b>Percentage (%)</b>
Less than \$30,000	9	2.98
\$30,000–\$49,999	90	29.8
\$50,000–\$74,999	158	52.3
\$75,000–\$99,999	39	10.6
\$100,000–\$149,999	6	1.98
Over \$150,000	0	0
<b>Total</b>	<b>290</b>	<b>100</b>

## 5.2 Statistical Analysis

Statistical analysis is described as the collection and examination of quantitative data in order to discover fundamental causes, patterns, kinships, and trends (Hayes, 2008). There are two steps performed in SmartPLS analysis: confirmation of the measurement model and the calculation of the coefficients in the path model (Chin, 2010). Four assessments were conducted: composite reliability, outer loadings of indicators, the average variance extracted (AVE) and the Fornell - Larcker criterion. The composite reliability examines the internal consistency; outer loadings show the indicator reliability for each construct; AVE examines convergent validity; cross loadings, Fornell - Larcker criterion and the Heterotrait - Monotrait ratio of correlations (HTMT) will examine the discriminant validity. The HTMT criterion is a new method for assessing discriminant validity in partial least squares structural equation modeling (PLS-SEM). This test will allow to further establish discriminant validity in this study.

The second part of the analysis was the calculation of the path coefficients. Bootstrapping with 5000 samples was conducted in order to calculate the t-statistic and p-values for each path.

### 5.3 Testing the Measurement Model

#### 5.3.1 Outer loadings

The SmartPLS algorithm helps calculate outer loadings of each variable. Outer loadings show the indicator reliability for individuals. The numbers in Table 5 were used to measure each item’s impact on the assigned variable construct (Hair Jr et al., 2016). The results show that all indicators were convergent, as their correlation coefficients were greater than 0.708 (Henseler & Sarstedt, 2013). It can be concluded that all items are measuring the allotted construct because all construct items were convergent.

*Table 5: Outer Loadings*

Latent Variable	REP	SQ	PV	SS	HAB	TRU	CL			
REP1	0.913									
REP2	0.926									
REP3	0.897									
SQ1		0.835								
SQ2		0.810								
SQ3		0.793								
SQ4		0.810								
SQ5		0.826								
PV1			0.968							
PV2			0.933							

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PV3			0.969						
SS1				0.840					
SS2				0.735					
SS3				0.811					
HAB1					0.974				
HAB2					0.905				
HAB3					.977				
TRU1						0.883			
TRU2						0.874			
CL1							0.851		
CL2							0.867		
CL3							0.803		
CL4							0.814		

### 5.3.2 Internal Consistency

Cronbach's alpha is a tool that assesses how closely related a set of items or variables are as a group (Koonce & Kelly, 2014). In the present study, Cronbach's alpha was used to check the reliability constructs relating to loyalty (Morosan & DeFranco, 2016). The value of Cronbach's alpha ranges between 0 and 1 where the closer the value is to 1, the better the indication that the variables are consistent amongst each other (Hair Jr et al., 2016). A Cronbach's alpha value of 0.70 or higher is considered acceptable in most research studies and is considered to be reliable (Santos, 1999). In the present study, the Cronbach's value ranged from 0.716 to 0.954 (Table 6). The acronyms for the variables studied are as follows: service quality (SQ), perceived value (PV), habit (HB), servicescape (SS), trust (TR), and consumer loyalty (CL).

Composite reliability is another measure of internal consistency. This measurement takes into account different outer loadings of the indicator variables of each specific construct (Bollen,

2011). The composite reliability of all the six reflective constructs shown in Table 6 are more than 0.7. In composite reliability, a value greater than 0.70 is considered adequate in exploratory research (Hair Jr et al., 2016). In the present study, the value for composite reliability was high for most variables with the lowest being 0.725 for trust, indicating that the model has high internal consistency (Henseler & Sarstedt, 2013) (Table 6). This shows that there are high levels of internal consistency reliability in all six reflective constructs

*Table 6: PLS Quality Criteria. Construct reliability and validity*

<b>Latent Variable</b>	<b>Cronbach's Alpha</b>	<b>rho_A</b>	<b>Composite Reliability</b>	<b>AVE</b>	<b>Fornell-Larker Criterion</b>
<b>SQ</b>	0.874	0.875	0.908	0.664	0.815
<b>PV</b>	0.954	0.955	0.970	0.916	0.957
<b>HB</b>	0.949	0.965	0.967	0.908	0.953
<b>SS</b>	0.716	0.742	0.839	0.635	0.797
<b>TR</b>	0.765	0.695	0.625	0.531	0.729
<b>CL</b>	0.854	0.861	0.901	0.696	0.834
<b>RP</b>	0.899	0.899	0.937	0.832	0.912

### **5.3.3 Convergent Validity**

The Average Variance Extracted (AVE) is a measure of the variance in a construct compared to the variance as a result of measurement error. The threshold for an adequate AVE is at least 0.50 (Albashrawi & Motiwalla, 2015). Convergent validity measures the correlation of multiple indicators of the same variable set, using a value range between 0 and 1 (Hair Jr et al., 2016). In the present study, the service quality AVE is 0.66 (Table 6), demonstrating that not only is there an internal correlation between the variables, but also that they have convergent validity.

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The AVE of perceived value (0.916), trust (0.523), habit (0.907), reputation (0.832), servicescape (0.576), and customer loyalty (0.592) demonstrated a strong internal correlation.

### 5.3.4 Discriminant Validity

It is necessary to assess the discriminant validity in all research pertaining to latent variables to prevent multicollinearity issues. For this purpose, the Fornell and Larcker criterion is the most widely used method (Fornell & Larcker, 1981). The Fornell and Larcker criterion and cross loading were assessed for discriminant validity. Based on the Fornell and Larcker criterion, the AVE square root of every construct should be more than the highest correlation construct with any other in the model (Fornell & Larcker, 1981). Discriminant validity was measured by comparing the value of the square root in the diagonal with the off-diagonal for each construct, as shown in Table 7. The cross loading shows that all data satisfies the criteria, implying that the square roots of AVE constructs were more than higher correlation. Table 7 illustrates that Fornell - Larcker Criterion supports the discriminant validity among the constructs.

*Table 7: Fornell-Larcker Scores*

Latent Variables	SQ	PV	HB	SS	TR	CL	RP
SQ	<b>0.815</b>						
PV	0.365	<b>0.957</b>					
HB	0.309	0.313	<b>0.953</b>				
SS	0.452	0.338	0.251	<b>0.797</b>			
TR	0.479	0.332	0.235	0.474	<b>0.729</b>		
CL	0.517	0.396	0.298	0.405	0.457	<b>0.834</b>	
RP	0.507	0.319	0.259	0.370	0.344	0.473	<b>0.912</b>

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The Heterotrait - Monotrait Ratio (HTMT) criterion, as shown in Table 8, clearly outperforms classic approaches to discriminant validity assessment such as Fornell-Larcker criterion and (partial) cross-loadings (Hair Jr et al., 2016). The HTMT should be less than 1, since lower HTMT values mean the discriminant validity is higher (Hair Jr et al., 2016). HTMT values are shown in the table below. All values are less than 1, and this supports the discriminant validity among the constructs.

*Table 8: Heterotrait - Monotrait Ratio (HTMT) values*

<b>Latent Variables</b>							
<b>SQ</b>	<b>0.301</b>						
<b>PV</b>	<b>0.402</b>						
<b>HB</b>	0.336	<b>0.328</b>					
<b>SS</b>	0.548	0.393	<b>0.303</b>				
<b>TR</b>	0.580	0.387	0.278	<b>0.643</b>			
<b>CL</b>	0.593	0.438	0.325	0.507	<b>0.566</b>		
<b>RP</b>	0.571	0.344	0.278	0.452	0.416	<b>0.535</b>	

### 5.4 Analysis of the Path Model

Table 9 demonstrates the Collinearity Statistics (VIF). The variance inflation factor (VIF) examines the effect of collinearity between the construct variables in a regression model. The VIF is widely used to measure the multicollinearity of an independent variable with the other existing independent variables in a regression model (Bollen, 2011). Ideally, the independent variables should not be correlated. VIF less than 10 is acceptable (Bollen, 2011).

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- 1 = not correlated.
- Between 1 and 5 = moderately correlated
- Greater than 5 = highly correlated

*Table 9: Measuring the Multicollinearity by VIF*

Variables	VIF
SQ	1.995
PV	7.185
HB	10.368
SS	1.417
TR	1.344
CL	1.979
REP	2.848

The coefficient of determination, denoted as  $R^2$ , is the most commonly used measurement to evaluate the structural model (Hair Jr et al., 2016). The higher the  $R^2$  value of endogenous constructs, the better the construct is explained by the latent variables in the path model. The  $R^2$  value ranges between 0 and 1, where higher levels indicate that more of the variance is due to the independent variables (Hair Jr et al., 2016). In our research model, “intention to use” has a  $R^2 = 0.402$ , which is considered moderately strong (Hair Jr et al., 2016).

Table 10: Summary of results (complete sample)

Number	Hypothesis	Path Coefficient	t value	p value	Supported
H1	SQ --> CL	0.219	2.435	0.015	✓
H2	PV --> CL	0.143	1.902	0.057	X
H3	HB --> CL	0.070	1.056	0.291	X
H4	SS --> CL	0.082	1.013	0.311	X
H5	TR--> CL	0.176	2.525	0.012	✓
H6	RP --> CL	0.209	2.646	0.008	✓

Accept hypothesis if  $p < 0.05$

Table 10 shows that service quality, reputation and trust is significantly and positively correlated with customer loyalty. t-values greater than 1.96 represent a significance with probability of 95% that the hypothesis is true; t-values greater than 2.576 represent a significance with probability of 99% that the hypothesis is true.

## **CHAPTER 6: DISCUSSION**

## Factors Influencing Customer Loyalty in Automotive Shops

This study explored the influence of service quality, perceived value, trust, reputation, servicescape and habit on customer loyalty towards two third-party automotive service shops in Belleville, Ontario. The collected data illuminated which of the six factors noted above motivate customers to remain loyal to one shop and factors that cause customers to leave. The results of the present study can aid third-party service shops in minimizing defection rates, and thereby increase customer retention by altering practices. Moreover, statistical analysis of the data indicates that three hypotheses are supported, while three hypotheses are rejected at the significance level of  $p < 0.05$  (indicated by  $t > 1.96$ ) (Table 10).

***Supported - H1: Service Quality has a positive, significant influence on Customer Loyalty in third-party automotive shops.***

The quality of services significantly influences the level of customer loyalty. Customers frequently visit automotive shops which are reliable, responsive to a customer's needs, competent in carrying out necessary work, and that have employees who are approachable, courteous, exhibit strong communication skills, and trustworthy. Service quality, in this case, means that customers have their vehicles serviced with care and use quality parts as well as other factors that go towards making a customer feel satisfied (Yee & Faziharudean, 2010). Taking clients' complaints or grievances seriously is also a part of perceived service quality (Parasuraman et al., 1988).

***Not supported - H2: Perceived Value did not significantly influence Customer Loyalty in third-party automotive shops.***

Perceived value did not have a significant effect on customer loyalty at the  $p < 0.05$  value. When the exact services a consumer wants are readily available at numerous shops with nearly equivalent pricing, such as an oil change, the perceived value will not be monetary but rather one of servicescape, the cordiality and trustworthiness of the employees or promptness of service (Harris & Ezeh, 2008; Kim & Moon, 2009; Lin, 2004). This may be the reason that perceived value does not have a significant influence on customer loyalty towards the third-party automotive shops.

***Not supported - H3: Habit did not significantly influence Customer Loyalty in third-party automotive shops.***

Consumer habits do not directly relate to loyalty as behavior is automated and repeated without regarding the quality of parts, services, or prices (Alshurideh et al., 2012). This tendency to repeat behaviors can be seen in the repeated purchase of the same vehicle brand across generations and the same brands across different shopping episodes or locations (Seetharaman, 2004). Once trust has been formed, habit then directly influences loyalty with a customer preferring the same brand or business regardless of whether the brand type or services are good quality or not (Gefen, 2003; Liao et al., 2006). It should be noted that prior to a habitual response to a service or product, the consumer must first be won over, through the quality of service or product, trust or perceived value.

***Not supported - H4: Servicescape did not significantly influence Customer Loyalty in third-party automotive shops.***

Servicescape is determined by a number of factors like accessibility, parking space, building, its design and color, lighting, air quality, temperature, noise and music, cleanliness, smell, layout of furnishings, signs, symbols (such as flags), employee uniforms, and a myriad of other things (Wakefield & Blodget, 1994).

This hypothesis was not supported. Some reasons why this result occurred could be due to the fact that third-party automotive shops do not have all the components that make up “servicescape” as they have only a few, which decreases the influence of servicescape as a factor on customer loyalty (Harris & Ezech, 2008; Kim & Moon, 2009; Lin, 2004). Further, when a customer comes in to get their vehicle serviced, the expectation is that the shop will not be clean or comfortable, as its primary objective is to service the car. Hence servicescape is not important. The quality of the services as represented by ServQual is more important.

***Supported - H5: Trust has a positive, significant influence on Customer Loyalty in third-party automotive shops.***

The study shows that trust has a direct impact on customer loyalty. With greater trust, there is greater loyalty. When customers enter the premises of a business or purchase a product that they don't have experience with, the customer is in a state of vulnerability but takes a leap of faith in having services performed or purchasing a product. In such instances, the automotive shop can establish trust if the service or product met their expectations and the exchange was not disadvantageous to them. (Lin & Wang, 2006). In general, customers should be treated well so that they will trust the automotive shop with their vehicles, with the expectation that the vehicles

will be returned in a better condition than before. Generally speaking, women are less likely to know about automobile repairs and services and therefore, their expectations are high (Busse et al., 2017). However, if their expectations are met, they are likely to come back (Renfrew Chrysler, 2017).

***Supported - H6: Reputation has a positive, significant influence on Customer Loyalty in third-party automotive shops.***

The study indicates that reputation has a significant influence on customer loyalty. Overall, clients prefer shopping in a premise and purchasing a brand that has a good reputation (Bennett & Rentschler, 2003; Loureiro et al., 2017). Even when a new offering which is cheaper and of a greater quality than a product or service with a greater reputation, a customer is likely to distrust it and remains loyal to the reputed brand or service (Goode & Harris, 2007). Third-party automotive shops are able to maintain a high reputation as they maintain close interactions with their clients, which in turn wins them loyalty. By having a reputable business, loyalty is created and this in turn brings in an increased number of customers while also retaining the present ones.

### **6.1 Theoretical Implications**

The concept of service quality, which is directly linked to customer satisfaction and loyalty, has evolved over the last years. Despite the changes, the key aspects have remained and scholars have adapted the model to study different industrial sectors and business types. From the study, it is clear that the key determinants of customer loyalty (dependent variable) are trust, reputation and service quality. The study has broadened the understanding of factors that influence loyalty. The study also revealed that factors such as lighting conditions, color, music and noise, and numerous

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other sensory stimuli, within an automotive shop do not have an emotional effect on a consumer. Collectively, they are termed as servicescape. However, most of the third-party automotive shops do not have all these components. Servicescape does not have much influence on customer loyalty (Harris & Ezech, 2008; Kim & Moon, 2009; Lin, 2004).

There is no doubt that the theoretical model is applicable in the automobile industry where customer loyalty is a function of a number of factors. It can also prove to be useful in other industries because the factors which influence customer loyalty are related to customer satisfaction. Satisfied customers are likely to come back to the business. Key factors that determine satisfaction are trust (especially in the service industry), quality and reputation.

### **6.2 Implications for Business**

In terms of third-party service shops, there are significant benefits of this research. The collected data illuminates the reasons that motivate customers to remain with one shop and factors that cause customers to leave. For third-party service shops, this research helps them mitigate defection rates, and thereby increase customer retention by altering practices.

Due to increased competition between many third-party shops and other such service providers, customer loyalty is becoming a priority (Gurski, 2014). The study highlighted service quality, trust and reputation as key. This implies that managers in the automotive industry should build their retention strategies around these elements. Customers are often considered the king of any business and thus, customer loyalty cannot be taken for granted. Even small mistakes in handling clients can cost a company clients' loyalty, bad word-of-mouth marketing or harmful Internet ratings (Ahmad & Buttle, 2002)

Consumers who display trust in third-party automotive shops are more likely to be loyal customers to that particular automotive shop. From a managerial perspective, third-party

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automotive shop providers should build a trusting relationship with existing and new customers by being honest, loyal, sincere and keeping promises. Moreover, it is essential to work on customers' welfare. The ability to meet existing customer needs and consistency in service delivery can also build trust between clients and shops.

Findings in a study conducted by Dasu and Chase (2010) found that service providers need to recognize how factors, such as emotions, trust and control, shape how customers perceive their service experience. They found that "ETCs" (emotions, trust and control) can influence customer assessments of service experiences and their loyalty. This study confirms that trust is an important factor in achieving customer loyalty. Organizations that take the time to understand how each of them works will have opportunities to shape new offerings that lead to more positive service results and therefore, loyalty.

This research contributes to sustaining the competitive advantage in the automotive industry. In the face of such competition, businesses are keen to attract and retain customers, not only to sustain their business but also to ensure growth and profitability (Cronin et al., 2000). This is relevant for any kind of business because it encourages companies to strive to offer a service according to customer expectations, or even a service that other businesses cannot offer.

Generalized customer retention management theories ignore the distinctive impact on different business conditions. However, for a customer retention strategy, third-party automotive service shops providers in Canada should look for the exact factors that can assist in establishing customer loyalty in order to have the competitive advantage in the long run (Yee & Faziharudean, 2010).

### **6.3 Future Research**

The study has highlighted trust and good reputation to be among the key factors in influencing customer loyalty in the automotive repair business. In the future, there is need to investigate how trust and good reputation can be built in the automotive business. Considering that in this study, the research focused on third-party automotive shops in Canada, further research could be done to investigate factors influencing loyalty in other services across the world (Adzoyi & Klutse, 2015). Further research can be conducted to critically review and investigate the availability of management tools and the practical ways to achieve customer loyalty (Adzoyi & Klutse, 2015).

### **6.4 Limitations**

The study employed a quantitative design where structured closed ended questions were used to gather data. An important limitation to this study could be that participants were about to have their car serviced and therefore might be influenced to provide more positive answers. There is risk this might have led to limited outcomes being outlined in the study. The findings can't represent the actual occurring, in a generalised form. Further, the participants tend to give limited options of responses depending on the selection made by the investigator. In quantitative studies, it is difficult to control the environment where the respondents provide answers to the survey. This implies that the responses depend on the particular time, which can be influenced by the conditions occurring during that time frame.

## **CHAPTER 7: CONCLUSION**

Among the six independent variables, service quality, trust and reputation were found to be the significant predictors of customer loyalty towards third-party automotive shops. There are customer expectations according to how valuable the firm's goods or services are. However, this

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is highly dependent on the firm's marketing strategy and how well the firm is able to convince customer satisfaction (Fox, Hunn, & Mathers, 2007).

This study aimed to address the current gaps in knowledge by identifying the main factors that influence customer loyalty to third-party automotive repair shops and provide strategies so that the latter can enhance customer loyalty and retention. The study focused on third-party independent automotive repair and service because of the limited and incomplete research on customer loyalty and strategies for improving business processes. Evidently, from this research, customers want assurance that the repairs will last a reasonable time without problems (Field, 2013). In many cases, customers do comparisons of various available products in the market and they usually settle for products that offer quality service at the lowest price (Field, 2013). The quality of products is highly linked to customer loyalty in automotive service delivery.

Customer satisfaction is a significant factor and so, it is crucial to ensure that a customer is completely content with the goods and services provided by a specific seller or vendor (Judge & Robbins, 2013). Moreover, satisfaction is based on the needs and wants of customers and the producer's ability to provide a commodity that best suits the needs. This translates into meeting client's needs seamlessly, which is often called satisfaction, resulting in customer loyalty to the shop.

When considering customer loyalty, excellent customer service from professional experts is usually what comes to mind. High online ratings usually result in more return clientele and an increased client base. Drawing from the findings of the study, third-party automotive shops can increase returning clients and improve customer satisfaction by adopting the variables discussed within this study: service quality, perceived value, habit, reputation, servicescape.

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## APPENDIX A: SURVEY ITEMS

### 1. Service Quality (using e-SQ scale)

SQ1: The work to be performed was explained beforehand

SQ2: The service was completed in a timely manner

SQ3: This shop gave me an image of reliability and trustworthiness within the automotive industry

SQ4: The confidentiality of customer data is ensured

SQ5: Clear information is provided on what is recommended for my vehicle

Based on (Yee & Faziharudean, 2010)

### 2. Perceived Value

PV1 The product/service is a good value for it's money

PV2 The prices charged at this service shop are fair and acceptable

PV3 The perceived value this shops products/services is high

(Yee & Faziharudean, 2010)

### 3. Trust

TR1: Based on my experience today, I know this shop is honest

TR2: Based on my experience today, I know this shop cares about its customers

TR3: I trust the overall service quality of this automotive shop

(Yee & Faziharudean, 2010)

### 4. Habit

HB1: This shop is where I usually go for my basic automotive needs

HB2: I often visit and buy products and services from Pennzoil

HB3: Pennzoil is my preferred automotive service location

(Yee & Faziharudean, 2010)

### 5. Reputation

RP1: This service shop is sincere in dealing with its customers

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RP2: This service shop (Pennzoil) has a good reputation compared to other rival service shops

RP3: I feel this service shop has a reputation for being fair in its relationship with its customers.

(Yee & Faziharudean, 2010)

### **6. Servicescape**

S1: This shop has an attractive look and feel

S2: I like the design factors of this shop

S3: The service staff showed a commitment to satisfy

S4: I did not feel deceived by the service staff

(Kim & Moon, 2009)

### **7. Customer Loyalty**

LOY1: My preference for this service shop would not willingly change

LOY2: It would be difficult to change my beliefs about this service shop (Pennzoil)

LOY3: Even if close friends recommended another service shop, my preference for this shop would not change

LOY4: I intend to keep servicing my vehicle from this shop

(Yee & Faziharudean, 2010)