

# CHAPTER I

## INTRODUCTION

In this chapter, the study will provide explanations to the research background, followed by the problem statement, research objectives and research questions. Also, this chapter will mention the benefits that can be gained from the research, along with its limitations. The outline of the research will be found at the end of this chapter.

### 1.1 Background

Successful companies understand their customers well to increase their profitability to improve and maintain their business while coping with the customers' expectations. This accomplishment is achieved through strengthening customer loyalty, which is about predicting the behaviour that customers will demonstrate (Dick & Basu, 1994; Robinson & Etherington, 2006). According to Dick & Basu (1994), customer loyalty is defined as a measure of relationship depth between a customer's 'relative attitude' towards a business entity (e.g., brand, service, or store) and repurchase intention. Customer loyalty is an intangible asset regarded as one of the most important aspects of business success (Chaudhuri & Holbrook, 2001). In the recent years, companies have tried to engage with their customers to increase their loyalty (Yang, Chen & Huang, 2017; Kassim & Abdullah, 2008). It has been a major goal for companies to improve on this matter because loyal customers have a higher capacity to spend their money

on goods and services that companies can offer and, thus, lead to higher profit (Donio, Massari & Passiante, 2006; Anderson & Mittal, 2000). In the fast-paced present-time economy, it has become a challenge to cope with the ever-growing demands of customers regarding time, quality and costs of goods and services delivered.

It is not a surprise to find existing and new companies keep on introducing incentives to promote loyalty, such as through customer retention programs that usually comes with exclusive offers or rewards, and better customer support (Gómez, Arranz & Cillán, 2006). Companies are faced with an ongoing, highly competitive market where it becomes necessary to enhance existing products and services to deliver customer satisfaction and to survive amongst their competitors (Dick & Basu, 1994; Donio, Massari & Passiante, 2006). The benefits of having loyal customers are that they would be repetitively willing to pay more for products or services offered by a particular company, and they can act as ambassadors that promote said products or services through positive word-of-mouth which assists in exposing the company to new opportunities (Söderlund, 2006). Consequently, loyal customers would lead to cost minimisation (e.g., marketing) and create higher brand reputation (Robinson & Etherington, 2006).

Many studies emphasise the connection of loyal customers with customer satisfaction. Studies believe that loyalty can be gained through meeting customer expectations and attracting the competitor's dissatisfied customers (Kim, Wong, Chang & Park, 2016; Anderson & Zeithaml, 1984; Kim & Yoon, 2004). However, other studies assert that loyalty is developed from customer's repeated and

accumulated satisfaction and that such satisfaction generates loyalty without commitment (e.g., Wolter, Bock, Smith & Cronin, 2017; Donio, Massari & Passiante, 2006). The reasons for loyalty without commitment due to such satisfaction are that the repeated satisfaction is seen as insignificant as customers become used to the quality of the products or services after a period of time, and that customers find it inconvenient to look for an alternative which results in repeated patronage due to factor of convenience instead of loyalty (Donio, Massari & Passiante, 2006). Aside from that, it is certainly possible to produce loyalty with commitment towards a manufacturer with customer satisfaction through performance-based experience encountered by the customers, especially in terms of products. This can be found in earlier studies which mentioned that device features have significant impact on customer satisfaction in relationship to loyalty, which takes features such as product design and its functions (Kim, Wong, Chang & Park, 2016; Deng, Lu, Wei & Zhang, 2010; Xu, Peak & Prybutok, 2015).

Furthermore, there is customer loyalty generated by customer-company identification which is found in many recent researches and adopted by modern business practitioners (e.g., Yang, Chen & Huang, 2017; Wolter, Bock, Smith & Cronin, 2017). The notion of customer-company identification can be derived from psychological studies in business contexts concerned with social identity approach emerging from social identification and self-categorisation theories (Haslam, 2012). Earlier studies found that loyalty gained from customer-company identification results in customer loyalty with commitment, which is believed to

surpass barriers related to situational problems, competitor's attractiveness and financial constraint (Dick & Basu, 1994; Wolter, Bock, Smith & Cronin, 2017). It can be understood that such loyalty built upon conviction tends to disregard factors derived from inconveniences, and that it predicts higher possibility of attitudinal and behavioural loyalty (Wolter, Bock, Smith & Cronin, 2017). However, there are other factors that need to be taken into consideration, namely the effect of switching barriers to customer loyalty, since it is well-known that customer loyalty itself does not necessarily indicate repurchasing intention or other related behaviours (Jones, Mothersbaugh & Beatty, 2000). Therefore, further study needs to be conducted in an attempt to understand the influence of customer satisfaction and customer-company identification on customer loyalty.

Considering switching barriers, Jones, Mothersbaugh & Beatty's (2000), Kim, Park & Jeong (2004), and Liu, Guo & Lee (2011) mentioned that there is a relationship between switching barriers and repurchase intentions. While Jones, Mothersbaugh & Beatty (2000) and Kim, Park & Jeong (2004) found that satisfaction is vital to promote loyalty through customer retention, it is worth noting that switching barrier have a significant influence on customer loyalty behaviour specifically the repurchase intentions. In a study by Kim, Wong, Chang & Park (2016), it is found that switching barriers result in the development of different levels of customer loyalty. It is apparent that switching barriers exist in practical business settings but, still, there are very few studies found on the effects of switching barriers on customer loyalty. Thus, further investigation is necessary

to understand the relationship between switching barriers and customer loyalty to gain a better understanding of customers' attitudinal and behavioural loyalty.

Looking at Indonesian gaming market alone, according to Diela (2016), it was projected that the Indonesian gaming market reached up to 465 million USD last year being the second largest gaming market in Southeast Asia after Thailand. Even in 2015, Indonesia was amongst the fastest growing market which contributed around 312 million USD to Asia's total sales in the gaming industry of 41 billion USD (Diela, 2016). TheJakartaPost (2017) reported that, according to Ardian Elkana, chairman of Indonesian Animation and Creative Industry Association (AINAKI), Indonesia managed to reach estimated earnings of 880 million USD in revenues in the gaming industry compared to the industry's worldwide revenue of around 94 billion USD. Still, China ranked top as contributors to the growth in the gaming industry worldwide, accompanied by the United States in the second place and Japan in the third place, with Indonesia catching up at the 16<sup>th</sup> place with great potential as of December 2017 (TheJakartaPost, 2017; Newzoo, 2017).

Provided with the information above, this research will study about customer loyalty in the context of the gaming laptop industry. The popularity of gaming laptops has been increasing over the past two decades, and it has continued to grow. According to a report by Technavio (2017), the gaming laptop market of the 'Americas', 'Asia-Pacific', and 'Europe, the Middle East and Africa' combined is anticipated to reach as high as 22.52 billion USD in the next three years with an estimated compound annual growth rate of around 21 percent.

Although the report indicates the Americas, especially the US being a developed country, as the main contributor to the market, this study will focus on the Asia-Pacific region – as it is predicted to have the highest growth rate at least until 2021 – mainly Indonesia, Singapore, and China (Technavio, 2017). The reason for this study to choose Indonesia is due to gaming having become very popular in Indonesia that it was estimated there were 43.7 million active gamers in Indonesia last year in 2017 (TheJakartaPost, 2017). China is selected in the study because, as mentioned, it is the country that has contributed most in the global gaming industry (Newzoo, 2017). While Singapore is chosen being that it is a country with high diversity with a total foreign workforce estimated at around 1,368,000 as of December 2017 (Ministry of Manpower, 2018). The above information by Technavio (2017) is further supported by the statistics published by Statista (2016), which shows that the Asia-Pacific region has the highest population of gamers in the past recent years as shown in Figure 1.1.

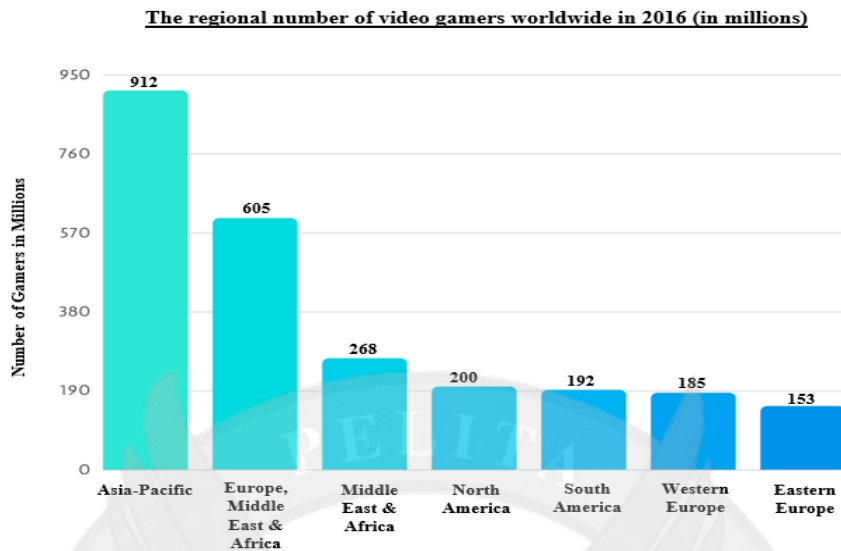


Figure 1.1. The regional number of video gamers worldwide in 2016 (in millions)

Source: Number of gamers worldwide by region 2016 | Statistic. Statista.

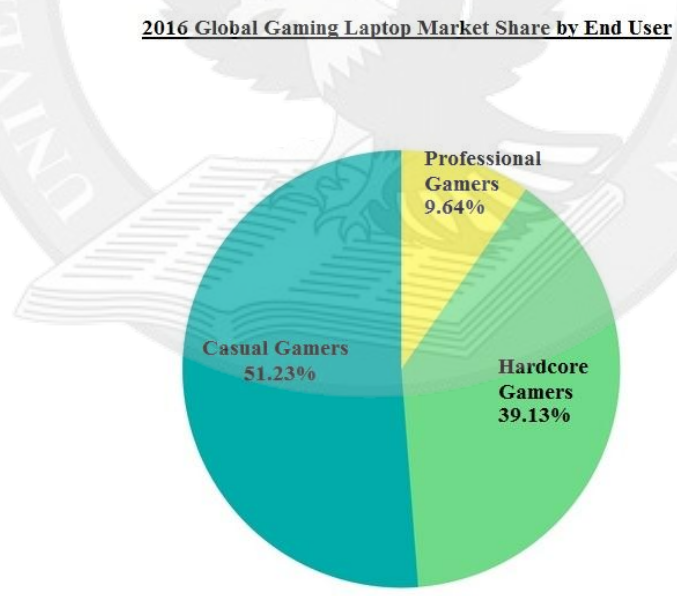


Figure 1.2. Global Gaming Laptop Market by End User

Source: Technavio. (2017). Global Gaming Laptop Market 2017-2021 (pp. 1-70).

Technavio Research.

In spite of few studies conducted on gaming laptops compared to regular laptops or desktop personal computers, Statista (2017) mentioned that, according to a survey conducted by Cint – an insight exchange platform based in Sweden – in 2016, from an online survey of 12,211 Indonesian respondents aged 18 and above, it is found that most Indonesians at 34.69% use ‘Windows-based desktop/laptop’ for gaming in regular basis as shown in Figure 1.3. As a matter of fact, it is widely known that all gaming laptops are built with Windows operating system due to its high compatibility with most video and computer games. The statistics do not indicate the trend of using laptops over desktops for gaming, or whether those laptops are either regular or gaming laptops. However, Statista (2017) clearly indicates that the result of the survey by Cint shows the popularity of using Windows-based laptops and desktops for gaming over other operating system, gaming consoles or mobile devices.



### Indonesia - types of gaming platform used 2016

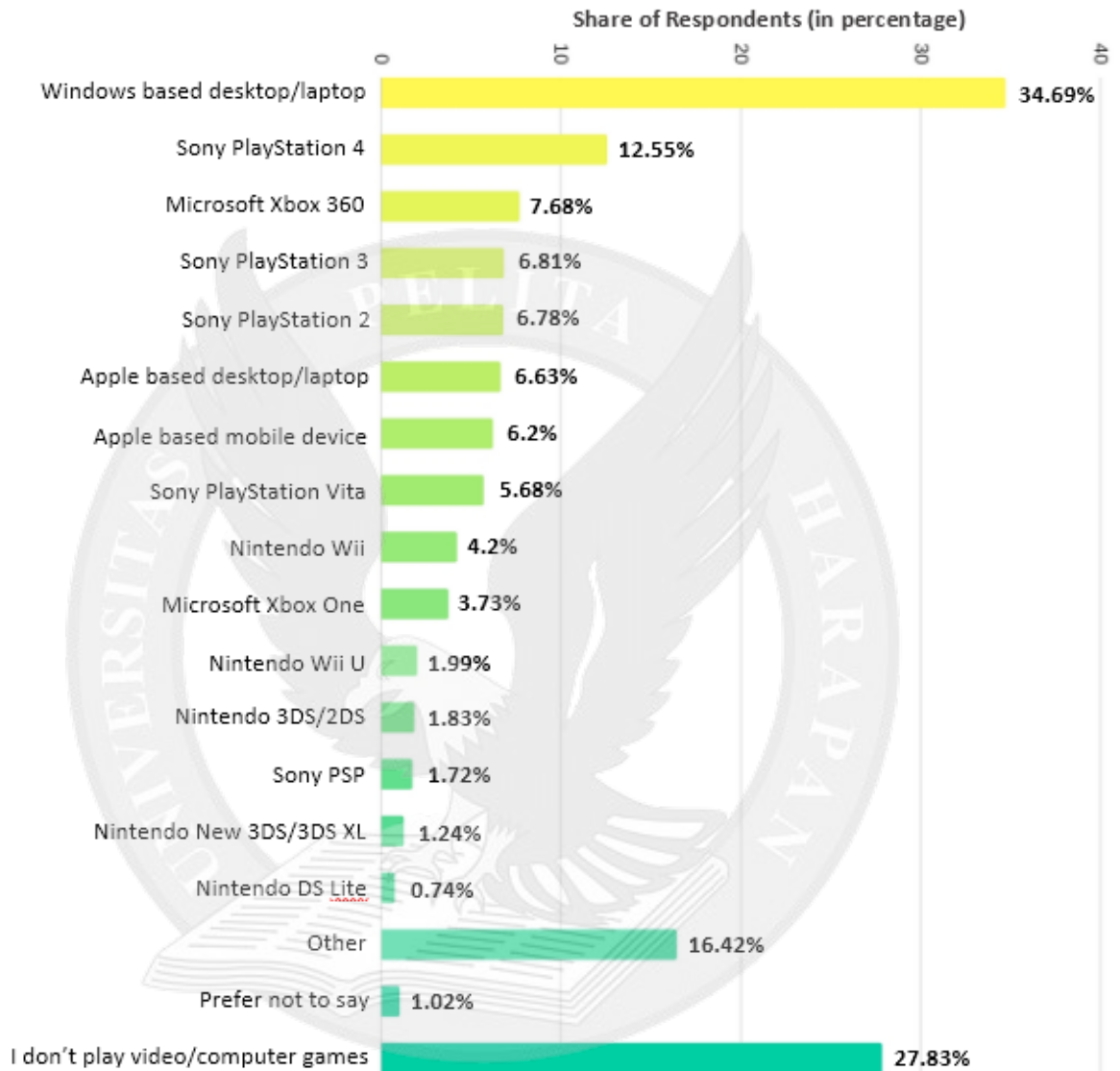


Figure 1.3. Indonesia: Which gaming platforms do you regularly use

Source: Statista (2017). Indonesia - types of gaming platform used | Survey 2016.

[online] Statista.

Today, the quality of gaming laptops is comparable to those of desktop computers. The term “gaming laptop” refers to a portable laptop equipped with high-end components that include the latest and most advanced video cards or processors in the market (Ung, 2015). The quality of the components delivers high performance that does not only support users in playing video games, but also in work-related productive activities such as creative design and video editing. Gaming laptops are often designed in a unique, ostentatious manner (e.g., symbolic design style or colourful LED lights), that it could sometimes be easy to distinguish a gaming laptop from one manufacturer to another just from examining the external body. Also, they often come in bigger sizes as compared to the regular laptops for a better cooling system by providing more efficient heat dissipation (Ung, 2015). Hence, gaming laptops may have a considerable potential to attract customers that are concerned with product aesthetics (or fond of being in the limelight) in addition to gaming enthusiasts and professionals.

The market of gaming laptop has been growing as computer hardware manufacturers compete to raise their market share by introducing more innovative products. The growing popularity of video gaming has led players in the industry for rapid product development. The idea of eSports is becoming more common, along with the adoption of video gaming as a profession. eSports refers to participating in competitive online-gaming under given rules (e.g., leagues or tournaments) (Weiss & Schiele, 2013). It is found that consumers have been moving away from the prevalent, traditional culture towards representing professional consumers that perceive eSports as both forms of entertainment and

source of income (Seo, 2016). In order to do heavy tasks on computers such as video editing and gaming, it is logical that gaming enthusiasts and professionals prefer having gaming laptops due to its mobility and portability. Moreover, the idea that consumers choose laptops over desktop computers is supported by Statista (2018), where statistic shows that since 2010 up until 2017, the shipments of desktop computer worldwide has been declining and it is forecasted that the shipments of laptop will continue to increase in the next few years, which tells that laptops have higher sales than desktop computers.

Very few studies are found in the gaming laptop market, but data from recent research by ZDC Internet Research Center in China shows that, in the first half of the year 2017, up to 36.9 percent of Chinese laptop users buy laptops intended for gaming as shown in Figure 1.4 (ZOL, 2017). According to ZOL (2017), the remaining reasons for people in China to buy laptops are for entertainment purposes at 12.6 percent, for business and commerce at 16.6 percent, due to the thinness and lightweight at 17.9 percent, and lastly due to the 2-in-1 (also known as convertible and hybrid) characteristics at 16.0 percent. From this, it is understood that the laptop market, particularly in China, has considerably high expectations for gaming laptop manufacturers and their products.

**First half of 2017 Laptop Users Focusing on  
Category Distribution in China**

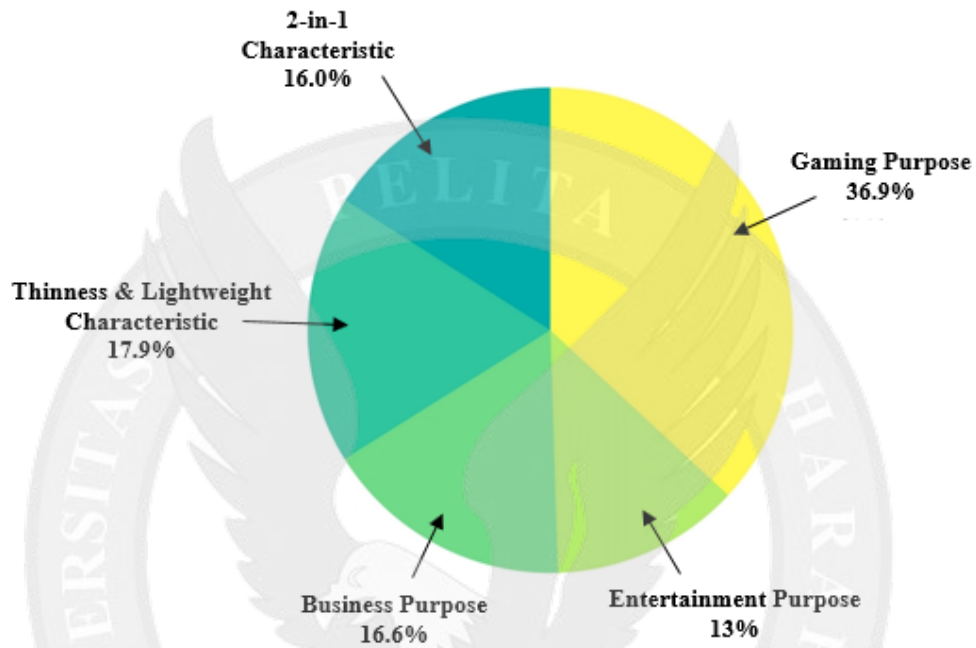


Figure 1.4. First half of 2017 Laptop Users Focusing on Category Distribution

Source: ZOL. (2017). ZDC 数据年中报告：买电脑的人都在关注些什么？

(\*translated: ZDC Mid-year Data Report: What laptop computer customers look for when purchasing computer). Ifeng News.

In spite of the positive growth mentioned in the market, the industry of computer hardware is faced with declining customer loyalty due to the increase in ‘transparency and universal access to information’ (Peppers & Rogers, 2016). According to Peppers & Rogers (2016), customers have higher bargaining power as they are offered with a rising number of choices by which they can choose from

to make purchases as the use of the internet has become more common. In the case of gaming laptop, this belief is supported by the overt fact that computer hardware companies today are employing the e-commerce and social media to interact with customers in hope to gain better feedbacks, brand awareness, and also recognition to their products and services (Kassim & Abdullah, 2008). For this reason, it becomes necessary to recognise the influencing factors of customer loyalty in pursuit of true customer loyalty.

Still, however, ZOL (2017) mentioned that there are many companies that suffer from the lack of brand awareness, particularly in China. It is reported that the ZDC Internet Research Center found that Lenovo, Hewlett-Packard and Dell ranked top in terms of brand awareness in the market, respectively (ZOL, 2017). On the other hand, in Indonesia, Maulida (2017) claimed that research by IDC found that the market share of Asus rose from 33 percent in 2016 up to 41 percent in 2017. It can be understood that Asus has dominated the Indonesian computer hardware and laptop market, which can be caused by the increase in customer loyalty, convenience due to product accessibility (e.g., large number of distributors and stores available), or the lack of brand awareness to competitor brands. Certainly, it is yet to be known why manufacturers can succeed in earning substantial loyal customers in one region while failing in another. It is also a possibility that one company has higher brand awareness in one region due to loyal customers' active support through positive word-of-mouth and sharing of positive referrals online (Wangenheim & Bayón, 2004).

In addition, it is mentioned that in 2016 alone, the global market share of gaming laptop market was dominated by casual gamers estimated at around 50 percent, followed by hardcore gamers at nearly 40 percent and professional gamers reaching almost 10 percent as shown in Figure 1.2 (Technavio, 2017). From this, it is understood that customers (or users) are gaining considerably better knowledge over the past recent years in regards to products present in the market as gaming laptop is not necessarily only demanded by gaming enthusiasts despite being more costly than its regular counterparts. This has led manufacturers to be more competitive in developing products that satisfy different customers with the best offers - lowers switching barrier in the market - which means that players of the industry are faced with difficulty in creating loyal customers as it becomes harder to predict customers' purchase decisions (Jones, Mothersbaugh & Beatty's; 2000). For that reason, what influence customer loyalty? Many findings suggest that customer satisfaction plays a great role in determining customer loyalty and that customer-company identification creates loyalty that is built upon enhanced self-biases (Kim, Wong, Chang & Park, 2016; Kim & Yoon, 2004; Wolter, Bock, Smith & Cronin, 2017). It is a problem when it is insufficient to gain customer satisfaction based on performance alone (e.g. product's capability, proper customer service), thus, raises the attention on preference-based aspects. However, very few studies are found when it comes to gaming laptop. Aside from customer satisfaction developed by expectations on performance, the research will attempt to understand the effect of social identity approach on customer loyalty in the gaming laptop market.

## 1.2 Problem Statement

This is a short section which explains the problem(s) faced by business entities. Here, issues are defined in order to guide the research to develop and suggest implementation of solution(s) to the problem(s).

Looking and considering the market of gaming laptop industry from the above section, particularly ZOL's (2017) mention of statistical data by ZDC Internet Research Center, companies should focus on creating loyal customers as it is advantageous in terms of sustained sales and profitability that are predictable, along with reduced costs of marketing efforts to retain and attract new customers (Yang, Chen & Huang, 2017; Dick & Basu, 1994; Chaudhuri & Holbrook, 2001; Robinson & Etherington, 2006). As mentioned by ZOL (2017) on ZDC Internet Research Center findings, it is found that more and more customers buy laptops for gaming purposes at almost 40 percent in 2017 in China alone, being the most populated country in the world estimated at around 1,379 billion as of 2016 by The World Bank (n.d.), which means high demand leads to high expectations towards worldwide gaming laptop manufacturers are highly apparent that product manufacturers should meet the many needs and wants of the buyers to deliver satisfactions as shown in Figure 1.4. In a logical sense, the increase in demand leads to the increase of supply of better gaming laptops by manufacturers (Alper & Mumcu, 2007). This means that players in the industry will increase their marketing efforts while developing better products, resulting in lower switching

barrier as players develop differentiated quality products (e.g., design, performance) and introduce better marketing strategies (e.g., customer-company identification, customer loyalty program) (Wolter, Bock, Smith & Cronin, 2017; Kim, Wong, Chang & Park, 2016). Eventually, this situation leads to doubts concerning customer loyalty amongst industry players as customers are provided with a low switching barrier (e.g., alternative attractiveness, switching cost) (Jones, Mothersbaugh & Beatty, 2000; Kim, Wong, Chang & Park, 2016).

Prior research asserts that customer loyalty can be achieved mainly through customer satisfaction by looking at customers' evaluations on the product features (Kim, Wong, Chang & Park, 2016). Unfortunately, it is unclear whether customer satisfaction alone can result and predict attitudinal and behavioural loyalty (Ahearne, Bhattacharya & Gruen, 2005; Yang, Chen & Huang, 2017). Companies should take into account both customer satisfaction and customer-company identification in building customer loyalty because the connection between identity identification of both customers and companies matters in creating customer loyalty as loyal customers prefer to belong and distinguish themselves from other social groups (Yang, Chen & Huang, 2017).

Thus, it is a serious problem for companies when marketing or research and development (R&D) efforts result in customer loyalty with uncertainty in predicting repurchase intentions, positive word-of-mouth and related loyalty behaviours. Hence, this research will aim to investigate the impact of customer-company identification on customer loyalty of individual customers in addition to customer satisfaction in the presence of switching barrier.



### **1.3 Research Questions**

The research questions indicate the things that the study attempts to learn about the topic at the end of the research, and they provide supports in guiding and structuring the researchers in procedures of collection and analysis of information, which eventually lead the research in accomplishing the purpose of the study. In this respect, the research proposes the following questions:

- 1. Do product characteristics influence customer satisfaction?**
- 2. Does customer satisfaction have an influence on customer loyalty?**
- 3. Does customer-company identification have an influence on customer loyalty?**
- 4. Do aspects of social identity approach influence customer-company identification?**
- 5. Does switching barrier variable influence customer loyalty?**
- 6. Which is the stronger determinant of customer loyalty between customer satisfaction and customer-company identification?**

### **1.4 Research Objectives**

The research objectives are the study's focus, which lists clear goals relevant to reasons on why the research is conducted. Looking at the above problem statement, the objectives of this research are as follows:

- 1. To investigate the influence of product characteristics on customer satisfaction.**

2. **To verify the influence of customer satisfaction on customer loyalty.**
3. **To verify the influence of customer-company identification on customer loyalty.**
4. **To investigate the influence of social identity approach aspects on customer-company identification.**
5. **To analyse the influence of switching barrier on customer loyalty.**
6. **To compare the effectiveness of customer loyalty built upon customer satisfaction and customer-company identification.**

### **1.5 Research Benefits**

The research expects that by the end of the research, the study is able to discover and deliver information that is useful and beneficial to the students, faculty mentors or scholars, and business practitioners.

- **Academic Benefits**

Firstly, the academic benefits to this research are that it will deliver knowledge, understanding and insights in the academic area - particularly in the context of business - about the relationship of customer satisfaction, customer-company identification, and customer loyalty in the presence of switching barrier. In addition, the research will give the opportunity for the research students involved in this study to test their critical thinking and formal written academic communication skills, along with gaining better understanding about the study related to the research, and deeper comprehension to existing knowledge through

the application of theories learned from the university lecturers of Universitas Pelita Harapan.

- **Practical Benefits in Business Settings**

While the benefits in practical business settings are that the research will provide inputs to new and existing business practitioners that have an interest in understanding the development of customer loyalty through both customer satisfaction and customer-company identification while taking consideration to switching barrier. It will also benefits business entities that are particularly related to the gaming laptop (or related gaming computer hardware) market. Furthermore, the research allows business practitioners to realise the variables that affect the development of customer loyalty concerned with attitudinal and behavioural loyalty aspects, which could contribute awareness on which factor(s) to focus in order to create competitive advantages and better marketing strategies.

### **1.6 Research Limitations**

This section lists the limitations of the research as the study focuses on specific study interest areas. It is worth noting that other limitations may exist and are not listed here depending on the reader's perspective and interest on the study at hand. In this respect, the research limitations of this study are as follows:

- 1. The research only considers customer satisfaction and customer-company identification as the main contributor to customer loyalty.**
- 2. The research does not consider antecedents and other factors (e.g., customer retention, customer delight or customer success) that may**

**contribute to attitudinal and behavioural loyalty aside from customer loyalty.**

- 3. The research only focuses on the customers and industry players in the gaming laptop market in selected parts of Indonesia, Singapore, and China.**
- 4. The research takes into account only a selected number of switching barrier factors in the market.**

### **1.7 Research Outline**

This research contains five separate chapters which will be arranged and listed as follows:

#### **Chapter I: Research Introduction**

Firstly, this chapter covers the background of the research, which discusses the main topic (customer loyalty) and related factors in brief (customer satisfaction, customer-company identification, and switching barrier), the context in which the study focuses (the gaming laptop) and the market in the Asia-Pacific region, particularly Indonesia, Singapore and China. Also, the chapter covers the problem statement along with the research objectives and research questions. Finally, it explains the benefits of the research and lists its limitations.

#### **Chapter II: Literature Overview, Theoretical Framework and Hypotheses Development**

The second chapter covers the explanations of ideas and theories adapted and involved in the study, which will be employed as variables used in the

research. The main dependent variables are customer loyalty, customer satisfaction, and customer-company identification, while the main independent variables consist of aspects of product characteristic, aspects of social identity, and aspects of switching barrier. This chapter covers the hypothesis development along with the research model that is vital to the research.

### **Chapter III: Research Methodology**

The third chapter covers the research design and procedures with respect to the quantitative research method used in the study that will support the research. It covers the research measurements items, data collection methods and analysis, the implementation of the pilot study, the sampling techniques, the statistical tests used, and the tests of validity and reliability.

### **Chapter IV: Result and Analysis**

The fourth chapter covers the data gathered from the research questionnaire. It provides thorough analysis on the findings from gathered data using application softwares, namely the IBM SPSS Statistics and SmartPLS.

### **Chapter V: Conclusion**

The final chapter covers the conclusions along with discussions and related implications generated from the study and findings. It will indicate solutions in response to the research questions and limitations drawn from the research. Lastly, the chapter provides suggestions for future research so that researchers can develop studies that are improved, which overcome the limitations of this research.