Market – Oriented Research and Customer Retention in Nigerian Food Products Manufacturing SMEs

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Abstract

Market-oriented research is an important marketing activity for small and medium enterprises (SMEs) in Nigerian food products manufacturing sector. The objective of this study is to determine the extent to which market-oriented research influences customer retention in Nigerian Food Products manufacturing SMEs. The study adopted quantitative survey research approach with the aid of correlational statistical tool. A total of 220 subjects made-up of Owners/ Managers, Research and Development Executives and other marketing executives in the framed of five (5) respondents from each firm were surveyed through questionnaire. The sample size was drawn from a randomly selected number of 44 food products manufacturing SMEs out of 50 currently registered with Port Harcourt Branch of National Association of Small Scale Industrialists (NASSI). Analysis of data collected revealed that significant relationship exists between market-oriented research and customer retention. We therefore conclude that market-oriented research enhances a firm's ability to retain its customers. Hence, we recommend that Food Products Manufacturing SMEs should always conduct market-based research which will enable them to be abreast with developments in their target markets so as create superior customer value that will create room for customer retention.
KEYWORDS: Market-oriented research small and medium enterprises (SMEs) customer retention

Introduction

Market-oriented research which is an aspect of marketing research is an indispensable part of marketing activity for all levels of business enterprises, particularly for small and medium enterprises in Nigeria. It must be stated that the essence of marketing is to identify the needs and wants of customers so as to develop customer-driven strategies and programmes to maintain profitable customer relationship. Developing effective marketing strategies is based on proper understanding of the customer. Understanding the customer is achievable through marketing research. According to Curry (2007), marketers who fail to conduct a thorough and comprehensive marketing research run the risk of not achieving their marketing objectives. Granted that the gap between producers and final consumers has widened, most firms stand the danger of losing touch with the actual needs and wants of their customers. To avoid or minimize such risk, business owners must embark on marketing research.

The concept of marketing as a business philosophy defines marketing as a process that is intended to find, create, satisfy and retain customers profitably. Central to marketing practice is the customer and his relationship to business offerings (i.e. whether the customers consider a firm's product or service to meet a need or want). Therefore, market-oriented research is imperative for a company to know what type of products or services would be profitable to introduce in the market. Besides, with respect to existing products in the market, good market research enables a company to know if it has been able to satisfy customer needs and whether any changes need to be made in terms of packaging, delivery or the product itself.

Today, consumers are increasingly knowledgeable about products and services offered in the market. Besides, their buying behaviour is becoming more dynamic, sophisticated and complex granted that we are in the era of

knowledge explosion. To compete effectively, information search which is a consideration in marketing research is indeed imperative. It is necessary to understand what influences or what determines the buying decision, who makes the actual purchase, who informs others about the existence of the product, who influences the purchase decision and who ultimately uses the product. To achieve this, market-oriented research must be adopted. Adeleke (2003), defines market-related research as the objective and systematic collection, recording, analysis, interpretation and reporting of information about existing or potential market behaviours. Without frantic efforts directed at obtaining valid and reliable information, decision making especially concerning markets would degenerate to a game of chance (Roseland, 2001). Therefore, systematic approach to the task of obtaining information about market developments is important if business organizations must offer superior value to customers so as to retain them.

Unfortunately, adoption of market-oriented research by small and medium enterprises in Nigerian Food Products Manufacturing Sector appears very low. Business operators in Nigeria tend to believe that only big organizations should conduct marketing research. SMEs in Nigeria fail to understand that marketing research should cut across all organizations irrespective of size. Lack of interest and involvement in marketing research often expose SMEs to making decision with limited and inadequate facts (Ogbadu, 2013). Most SMEs in Nigeria think that research about markets is not necessary. This believe is predicated on the erroneous assumption that many SMEs in Nigeria can survive without carrying out marketing research. Sometimes, they see marketing research as expensive.

However, the reality is that the Nigerian SMEs, particularly those in Food Product Manufacturing sector are not immune from tough competitions in today's business world. Customer needs and wants are increasingly becoming dynamic; companies are witnessing high rate of customer defection and firms that do not understand and track the changing needs of their customers are less likely to retain the patronage of such customers. They will rather switch to competitors who offer superior value. Against this backdrop, this study is designed to achieve the following objectives:

i)   To find out if there is a relationship between market – oriented research and customer retention.

ii)   To determine the extent to which market – oriented research influences customer retention.

iii)   To make necessary recommendations which company executives will find useful if implemented.

 Market – Oriented Research

Simply put, market – oriented research relates to set of marketing activities undertaken to find out information about a particular target market (Aduks, 2006). It can be considered as marketing activity that links an organization to its market through the gathering of information (Kotler and Armstrong, 2004). Such information allows for the identification and definition of market-driven opportunities. It also allows for the generation, refinement and evaluation of marketing actions as well as for monitoring of marketing performance and improved understanding of marketing as a business process.

Market – oriented research consists of a plan that charts how relevant market data is to be collected and analyzed so that the results are useful and relevant for making marketing decisions. It provides managers of organization with in-depth information regarding crucial factors that have impact on the target market and existing marketing

mix. Market research allows managers to make the changes necessary for better results through adopting a proactive approach. Therefore, through market research, a firm can determine what type of products or services would be profitable to introduce in the market. Through market research, the firm can know if its existing product has been able to satisfy customer needs.

Market – oriented research is a unique subset of marketing research which enables marketers to study and understand target market's needs and wants and how they make consumption decisions. Granted the changing nature of customers' needs and wants, managers must employ market – oriented research so as to obtain accurate information about customers, competitors and other developments in the market, in order to make the right decisions. This implies that marketers often adopt formal studies that provide them with customer and general market insights for specific marketing situations and decisions (Kotler and Armstrong, 2004).

Through market – oriented research, marketers obtain insight into customer motivations, purchase behaviour, and satisfaction. It helps marketers to assess market potential and market share or to measure the effectiveness of pricing, product, distribution and promotion activities with respect to a particular existing or potential market. It is important to emphasize that market – oriented research is the application of marketing process to generate relevant information on existing and potential markets and analyzing same in order to reach informed decisions on such market (Anyanwu, 2013).

Customer Retention

Customer retention has become a vital goal for firms that emphasize on the relationship with customers (Sharmeela – Benu et al, 2012). Customer retention generates several economic benefits to organizations (Ang and Buttle, 2006). It is believed that retained customers' purchases increasingly grow bigger together with the referrals they make during their lengthy tenure with the company. Bowen and Chen (2001) argue that retained customers are those who continuously stay with the company. Customer retention has also been considered as the degree to which a customer exhibits repeat purchasing and price tolerance behaviour to a company in addition to positive attitudinal and cognitive disposition (Ahmadu and Buttle, 2002; Hennig – Thuran, 2004). Customer retention refers to the longevity of a clients' relationship with a product and/or service providing firm (Menon and O'Connor, 2007). It is argued that firms with effective customer retention convince their clients (customers) to stay with them (Bruhu and George, 2006). Besides, customer retention could be seen as the maintenance of continuous trading or business relationships with customers over long term; it is the act of keeping customers resulting from delivering superior value to customers (Ross, 1995). The theoretical framework guiding the consideration of customer retention in this work is that of Reichheld (1996). In proposing the framework, Reichheld cited a three – track approach in a study of service companies by Bam & Co. He submitted that firms should strive to find and attract the right customers, employees and investors.

Measures of Customer Retention

Bowen and Chen (2001), noted that retained customers are those who continuously stay with the company. They discovered three distinct methods to measure the retention rate of customers – behavioural, attitudinal and

composite measurements. The behavioural measurement method is defined as consistent and repeat purchase behaviour (Oliver, 1999; Bowen and Chen, 2001).

Secondly, customer retention rates can also be assessed by measuring customers' attitudinal data which reflects the emotional and psychological attachment of customers (Bowen and Chen, 2001). This measure relates to a sense of loyalty, engagement and adherence. There are customers who hold a favourable attitude about company, i.e. spread positive word of mouth about a company to their friends. The third approach is composite measurement which involves combining both behavioural and attitudinal measurements (Bowen and Chen, 2001). With this approach, customers are said to be retained when they make continuous purchases and hold favourable attitudes towards the company. Customer retention has also been characterized as the degree to which a customer exhibits repeat purchasing and price tolerance behaviour to a company in addition to positive attitudinal and cognitive disposition (Ahmad and Buttle, 2002; Hennig – Thurau, 2004). Besides holding a favourable attitude and making repeat purchases, retained customers are believed to be compromising with changes in prices by the company.

In addition to repeat purchases and price tolerance (Zeithaml et al, 1996) proposed two additional measures namely word-of-mouth communications and complaining behaviour in measuring the retention rate of customers. They argued that customer who spread positive word of mouth among his or her social contacts, tend to stay longer with the company (Kumar, et al, 2007). Often, these customers become reference group for the potential customers. On the other hand, the retained customers are likely to complain less about the company and its offerings.

In summary, customer retention can be measured by evaluating their characteristics in terms of repeat purchases, spreading positive word of mouth (WOM) about the company, resistance to competitors' enticement, insensitiveness towards changes in price of products and attitudes of not complaining (Bowen and Chen, 2001; Ahmad and Buttle, 2002; Hennig – Thurau, 2004; Kumar et al, 2007). Accordingly, this study proposes that customer retention can be measured in terms of Repeat Purchase, Spreading Positive WOM, and Resistance to Competitors' Enticement in terms of low defection to competitors.

Figure 1 illustrates the adopted and modified measures of customer retention.

Concept		Measures

Customer Retention (CR)

Repeat Purchase (RP)

Positive Word-of-Mouth (PWOM)

Low Customer Defection (LCD)
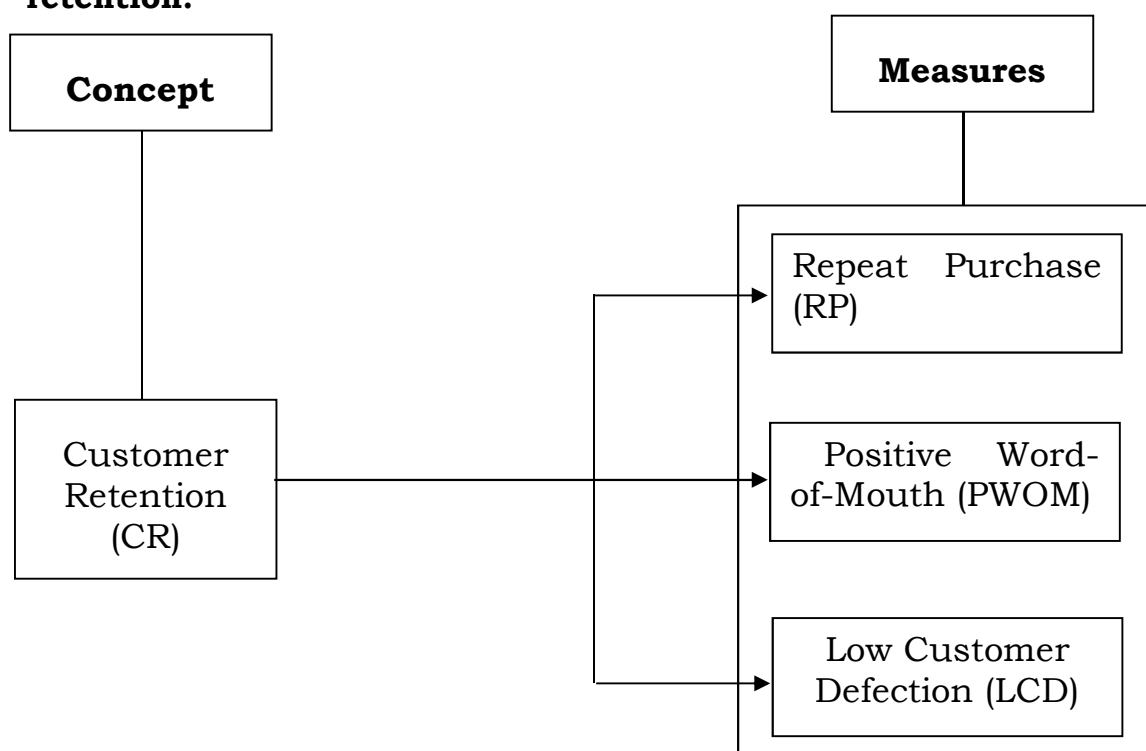
Source: Researchers' Conceptualization (2015)

Market– oriented research and Customer Retention

Organizations generally, irrespective of size are greatly focusing on customer retention efforts rather than customer acquisition in order to increase their bottom line. This is sequel to the report of Reichheld and Dawkins (1990) which submitted that a 5 percent increase in customer retention generates an increase in customer net present value between 25 percent and 95 percent. It is argued that customers who are retained, grow in value over time and climb a stair case or value ladder from prospect and first-time customers to majority customer and ultimately to partners or advocates status (Christopher, et al, 2002).

In view of obvious benefits of retained customers, to achieve customer retention, business organizations, including SMEs must adopt necessary marketing activities aimed at reducing customer defection so as to avoid possible reduction in their market share and profit level. Oliver (1997) argued that activities directed at retaining customers will result in benefits such as low customer defection, repeat purchase, high referrals, cross-selling etc. To this end, firms employ various marketing activities to improve their customer retention goals. One possible way of retaining customers is by seeking to identify customer needs and wants and ensuring that those needs and wants are met.

Kotler and Armstrong (2004) opine that the key to winning and retaining customers is to understand their needs better than competitors do and to deliver superior value to them. This implies that firms must be committed to understanding customer needs and desires; and using information obtained about needs to deliver satisfaction to the customer. This is achievable through market – oriented research as it establishes a link between an organization and its market through gathering of information. Market related decisions; particularly regarding customer retention requires accurate information about customers, competitors and other issues about a target market. It is therefore not surprising to submit that a sound market research can lend a support to marketing success which can be measured in terms of customer retention (Green, 2007). The fact remains that marketing success in term of customer retention cannot be attained without having the right data about customers, products and the target market in general. Therefore, market – oriented research tends to represent an essential management tool for a viable business plan that can enable any company including SMEs in Nigerian Food Products Manufacturing Sector to survive and thrive in today's fiercely competitive markets.

Base on the foregoing, we develop the following hypotheses to guide this study.

Ho$_1$:   Market – oriented research is significantly associated with repeat purchase

Ho$_2$:   Market – oriented research is significantly associated with positive world-of-mouth.

Ho$_3$:   Market – oriented research is significantly associated with low customer defection.

The above hypothesized relationship can be illustrated in a framework as shown below:

Figure 2: Study Framework Showing the Link between Market – Oriented Research (MOR) and Measures of Customer Retention (CR)
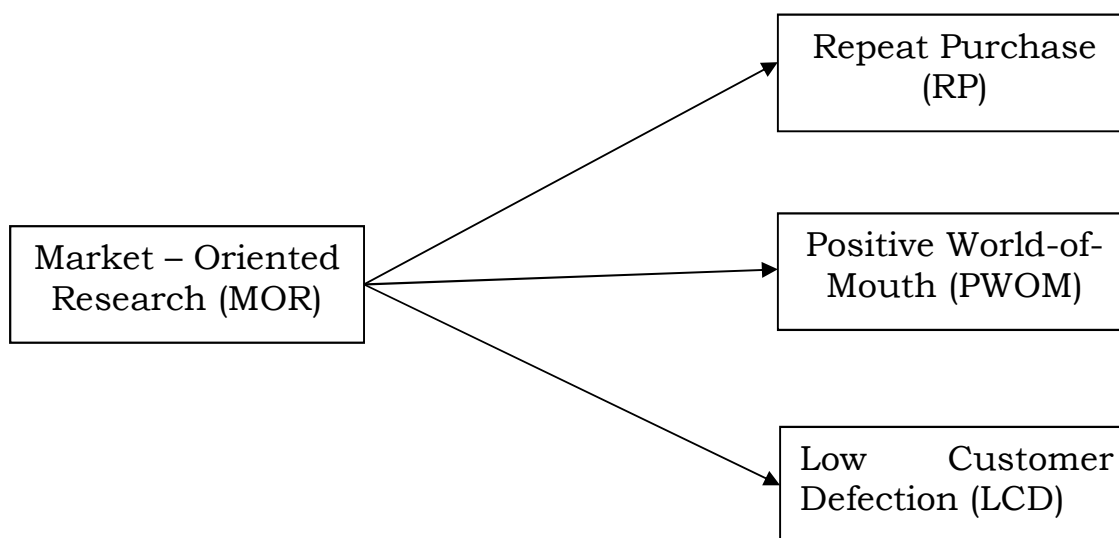
Source: Researcher's Conceptualization (2015)

Methodology

This study is designed to ascertain the extent to which market-oriented research influences customer retention in Nigerian food products manufacturing SMEs. A descriptive survey research design is adopted. The study population comprise of forty – nine (49) food products manufacturing SMEs operating in Port Harcourt. The sample size consist of 44 firms based on Krejcie and Morgan (1970) table for determining sample size as quoted by Sekaran (2003). A total of 220 subjects made up of owners/managers, Research Executives and Marketing Executives in the frame of five (5) from each firm were surveyed through questionnaire. The questionnaire was divided into three sections involving questions relating to respondents' profile, questions relating to market-oriented research and questions relating to customer retention.

The questionnaire items were pre-tested for comprehension, relevance and validity. Those chosen for the pilot survey were asked to identify possible limitations as touching the content of the questionnaire and their responses formed the bases for improving upon the final copies of the questionnaire. Thereafter, final copies were sent out. An impressive response rate of 84.1% representing 185 useable copies of questionnaire was obtained out of the 220 copies distributed. The usable copies retrieved formed the bases for analysis. Items used to measure the study variables were largely drawn from existing literature. Data on market-oriented research and customer retention were captured on a five – point Likert scales with I depicting "strongly disagree" and 5 depicting "strongly agree".

Previous studies established the validity of the items employed. However, a pilot study was adopted to reconfirm the applicability of the measures in the present study. To ensure the reliability of the measures, Cronbach's Alpha was used and a test score of 0.75 was obtained, which shows a relatively high reliability which implies that the items are internally related to the factors they are expected to measure.

Analysis, Results, Findings and Discussion

A correlation tool was employed to determine the extent to which market-oriented research influences customer retention as well the strength of association between the two variables. The analysis was facilitated by SPSS which was considered useful in testing the study hypotheses.

Analysis

Table 4.1: Descriptive Statistics

	Mean	Std. Deviation	N
MOR	61.67	64.005	185
RP	61.67	64.806	185
PWOM	61.67	67.141	185
LCD	61.67	61.909	185

Table 4.2 Pearson Correlations Analysis.

		MOR	RP	PWOM	LCD
MOR	Pearson Correlation	1	.989**	.987**	.987**
	Sig. (2-tailed)		.000	.000	.000
	N	185	185	185	185
RP	Pearson Correlation	.989**	1	.995**	.968**
	Sig. (2-tailed)	.000		.000	.002
	N	185	185	185	185
PWOM	Pearson Correlation	.987**	.995**	1	.954**
	Sig. (2-tailed)	.000	.000		.003
	N	185	185	185	185
LCD	Pearson Correlation	.987**	.968**	.954**	1
	Sig. (2-tailed)	.000	.002	.003	
	N	185	185	185	185

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

Table 4.3: Spearman's Rank Correlations Analysis

			MOR	RP	PWOM	LCD
Spearman's rho	MOR	Correlation Coefficient	1.000	1.000**	1.000**	.886*
		Sig. (2-tailed)	.	.	.	.019
		N	185	185	185	185
	RP	Correlation Coefficient	1.000**	1.000	1.000**	.886*
		Sig. (2-tailed)	.	.	.	.019
		N	185	185	185	185
	PWOM	Correlation Coefficient	1.000**	1.000**	1.000	.886*
		Sig. (2-tailed)	.	.	.	.019
		N	185	185	185	185
	LCD	Correlation Coefficient	.886*	.886*	.886*	1.000
		Sig. (2-tailed)	.019	.019	.019	.
		N	185	185	185	185

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

*. Correlation is significant at the 0.05 level (2-tailed).

Results and Findings

(i) Explanation of some terms

Pearson Correlation measures the linear association between two scaled variables and it is denoted by rho (r). Spearman's rank correlation measures the strength of the association between two scaled variables and it is denoted by rho - r_s

Market-oriented Research – MOR

Repeat Purchase – RP

Positive-Word-of-Mouth – PWOM

Low Customer Defection – LCD

(ii) Cross-tabulation Interpretations

$H0_1$: The asymptotic (p-value) significance of 0.989 as shown by the Pearson correlation reveals that there is a positive and significant relationship between the two variables of Market-oriented Research and Repeat Purchase since 0.989 is more than the rule of thumb of 0.05. Equally, the Spearman's rank correlation, which is used to measure the strength of the association between the two variables, shows a value of 1. This suggests that there is high correlation between the variables measured at both 1% and 5% levels of significance. We therefore conclude that Market-oriented Research is significantly correlated with Repeat Purchase in Nigerian food products manufacturing SMEs.

$H0_2$: The asymptotic (p-value) significance of 0.987as shown by the Pearson correlation also reveals that there is a positive and highly significant relationship between the two variables of Market-oriented Research and Positive-Word-of-Mouth since 0.987is higher than the rule of thumb of 0.05. Equally, the Spearman's rank correlation shows a value of 1. This, as in the previous case, suggests that there is high correlation between the variables measured at both 1% and 5% levels of significance. We therefore accept the hypothesis and conclude that Market-oriented Research is significantly correlated with Positive-Word-of-Mouth in Nigerian food products manufacturing SMEs.

$H0_3$: The asymptotic (p-value) significance of 1 as shown by the Pearson correlation also reveals that there is a positive and highly significant relationship between the two variables of Market-oriented Research and Low Customer Defection since 1 is a perfect positive relationship. Equally, the Spearman's rank correlation shows a value of 0.886 which is high and positive too. This, as in the previous cases, suggests that there is high correlation between the variables measured at both 1% and 5% levels of significance. We, again, accept the hypothesis and conclude that Market-oriented Research is significantly correlated with Low Customer Defection in Nigerian food product manufacturing SMEs.

Discussions, Conclusions and Managerial Implications

This research has led to some useful findings. The correlation between Market-oriented Research and repeat purchase is amplified by the findings of Reinartz et al (2005) who stated that the ability of organisations to maintain long-term relationships with customers who repeatedly purchase their goods or services increases the organisation's success stories. The correlation equally reemphasizes that the more the customer retained in the company, the more the customer buys from the same company over and over again.

Besides, food products manufacturing SMEs in Nigeria are yet to tap into the benefits of "free advertising". Oliver (1999) believes that Positive-Word-of-Mouth is an indication of customer retention. The correlation between market-oriented research and positive word-of-mouth has established the fact that when customers are happy with the products/services of a company, they spread the "good-news." Retained customers do not just spread the good news; they become the unpaid marketers (apostles) of the company. In the same vein, the above result could work in the reverse order. Dissatisfied customers can also go around spreading the "bad news" and this significantly affects the success of the firm.

As Nguyen and Leblance (2001) pointed out, customer retention truly exists when customers resist pressures to switch to another brand. This implies that retained customers exhibit low defection to competitors. Customers who are retained feel satisfied and happy and are more likely to stick to their current brand for a long time. However, in cases where customers are not happy with the services offered, they tend to easily switch brands immediately.

Furthermore, the research has revealed that companies that are committed to market-oriented research will spend less in acquiring new customers as their retained customers will do the marketing for them at little or no cost. The money saved from the marketing expenses is reinvested in providing better services delivery to their customers. But lack of commitment to be abreast with developments in the target market increases marketing costs as the companies consistently try to win back lost customers and attempting to acquire new customers. This

negatively affects their cash flow and in most cases, the company folds up. This is the likelihood of the Nigerian situation. But customers who are loyal to their brands tend to not just purchase repeatedly, but resist any attempt by another brand to make them switch brands. According to Curry (2007), marketers who fail to conduct a thorough and comprehensive marketing research run the risk of not achieving their marketing objectives. Granted that the gap between producers and final consumers has widened, most firms stand the danger of losing touch with the actual needs and wants of their customers. To avoid or minimize such risk, business owners must embark on market-oriented research.

Finally, for food products manufacturing SMEs in Nigeria to be competitive locally and globally; attract and retain customers and grow profits, they should make market-oriented research their hallmark. Kotler and Armstrong (2004) opine that the key to winning and retaining customers is to understand their needs better than competitors do and to deliver superior value to them.

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