Proposed Marketing Strategy for RAM Water to Enhance Customer Loyalty

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ABSTRACT : *Home appliances industry has a good opportunity to continue to grow. Compound Annual Growth (CAGR) in worldwide is projected to increase in the period 2022-207 to reach 5.77%. Indonesia is a country that has the opportunity to sell these home appliances. Gross Domestic Product (GDP) in the household housing equipment category increased in the first to fourth quarters in 2021. In addition, online shopping trends are also increasing, especially among generation Z and millennials. This is also experienced by several E-commerce in Indonesia which experienced an increase in sales in the home and living category which doubled in sales in 2020. By looking at this situation, RAM Armalia as a company engaged in the home appliances industry must take the opportunity to continue to survive by making improvements to the products and services offered, in order to retain and maintain customers in a long-term relationship and achieve competitive advantage. Moreover, in 2021, RAM Armalia, especially in sales of water processors (RAM Water) will experience a decline in sales due to several factors. In order to retain and maintain customer in long-term relationship, the company can conduct a marketing strategy for RAM Water to Enhance customer Loyalty.*

KEYWORDS – *Customer loyalty, marketing strategy, SEM-PLS, water processor*

I.   INTRODUCTION

Home appliances industry shows growth every year. This is an opportunity for business players engaged in this industry. The Compound Annual Growth Rate is projected in the period 2022-2027 to reach 5.77% [1]. In addition, the total revenue from these home appliances is projected to increase in 2025 by USD 332, 585 million from USD 232, 839 million in 2021 [1]. Indonesia is one of the countries that has the opportunity to sell home appliances. Based on Gross Domestic Product (GDP) especially in the household housing equipment will increase in 2021 in the first quarter to fourth quarter. The first quarter is IDR 205, 300.62 billion and the fourth quarter is IDR 211, 731.94 billion [2].

In addition, online sales channels on home appliances products are predicted to increase in 2025 by 43.7% from 36% in 2022 [1]. In addition, the large population in Indonesia becomes an opportunity in selling home appliances. According to the 2020 population census that generation Z as much as 35% and millennials as much as 33% dominate online shopping purchase activities [3]. Moreover, several E-commerce in Indonesia experienced an increase in sales on home appliances in 2020 [4]. Looking at this situation, RAM Armalia as a company engaged in the home appliances industry must take this opportunity to continue to survive in this industry in order to add value to existing customers and potential customers and be able to compete with competitors to achieve competitive advantage.

Moreover, In 2021 RAM Armalia experienced a decrease in sales of water processor products used to purify water and convert water into alkaline water, namely RAM Water products. This decline in sales was caused by several factors. When, the researcher conducting a preliminary survey of users of RAM Water products, it was stated that there was a lack in services, product variants, product design, product durability, promotion, and payment which received negative feedback. Because this issue, the company must carry out a marketing strategy to survive in this industry and make improvements so that the company can maintain and retain customers in long-term relationships. In order to retain existing customer and maintain log-term relationship, the company must make a marketing strategy to enhance customer loyalty by measuring customer loyalty to users from RAM Water.

II.   LITERATURE REVIEW

Loyal customer is a crucial issue of customer relationship management in an enterprise approach. Companies can pay attention to customer loyalty because it is related to profitability of business. Customer loyalty foster purchase of product and repeatedly by customer [5]. Maintain the existing customers is a more successful strategy compared to acquiring the new customer [6]. In addition, customer loyalty is very important

because companies can build commitment with customers to build long-term relationships as well as to re-purchase the product or services offered [7].

In many studies customer satisfaction has a relationship with customer loyalty as mediates variable to determine whether the customer will be loyal or not [8]. Customer satisfaction as mediating function between factors of satisfaction and customer loyalty [5]. Element of marketing mix consist of 4P's which can be controlled and reflect customer satisfaction [9]. The 4P's marketing consists of product, price, promotion, and place. Products are good or services offered to the target market to meet their needs and desires. Increasing the marketing mix in products or service will increase customer satisfaction [10]. Then, the price is the nominal issued by the customer to buy products or services offered by the company. Price is a crucial factor because customers will feel satisfied if the product quality exceeds the cost incurred [11]. Likewise with promotion which is an activity in communicating the products to be sold. The elements of promotion are advertising, personal selling, sales promotion, and public relations. To increase customer satisfaction, promotion activities must be based on information that is truthfulness, transparency, and full sincerity [12]. In addition, there is place element which is a location where the company markets the products or services offered. Inconvenience place will cause customer dissatisfaction which will cause negative things for the company in the future [12].

The marketing mix not only focuses on the 4P's, but can focus on the 7P's which adds elements of people, process, and physical evidence. This is due to the re-evaluation of traditional marketing management by blurring the boundary between goods and services, forcing the realization that many products consist of both tangible goods and intangible services [13]. People are all actors who have a role in carrying out processes in the company. People can define the representative from the company. Representatives of companies that have direct contact with customers need to give a positive impression because it will affect customer satisfaction [14]. Then, there is an element process which is a flow, a procedure owned by the company to provide product and service to customers. This element will provide a factor in determining customer satisfaction because such as waiting times, the information given, and helpfulness staff are crucial to customer satisfaction [14]. In addition, in element physical evidence which is related to the visual of the design or interior of the business place. According to Duncan (1996), by designing a service environment such as physical layout will increase customer satisfaction [15].

III.   RESEARCH METHOD

This research use mix methods approach with qualitative and quantitative data. The qualitative is in the form descriptive or describing the phenomenon. Meanwhile, quantitative data is in the form of numeric, statistical data, such as data that has been grouped and provides information about the problem [16]. The qualitative data in this research conducted by in depth interview. Meanwhile, the quantitative data is carried out for the analysis of factors that affect customer loyalty through customer satisfaction as mediating variable. The quantitative data was carried out using the Structural Equation Model (SEM) and using Partial Least Square (PLS) as a tool. The results of the analysis of both can be used in proposed marketing strategy to enhance customer loyalty.

IV.   RESULT AND DISCUSSION

The questionnaire is distributed online using a Google Form. In this research the population is unknown. According to Amalia (2015), in determining the minimum sample in the population unknown, can use the formulation from Lemeshow (1997) [17]. The minimum number of samples is 151.

The scope and limitation in this research are RAM Water user, aged 25-55 years, and domiciled in Bandung, Indonesia. The researcher distributed the questionnaire to 153 users of RAM Water. There is the scale is use namely Likert scale with interval of 1 to 5 (strongly disagree-strongly agree). In this research, there are several steps carried out, namely the evaluation of the reflective measurement model (outer model) and the evaluation of the formative measurement model (inner model). Figure 1 is the structural model that use in this research. The results of the reliability and validity analysis using Smart PLS show that are some indicators must be eliminated consist of PRC 3, PROM 1, PROM 6, PLC 2 and PEP 2.
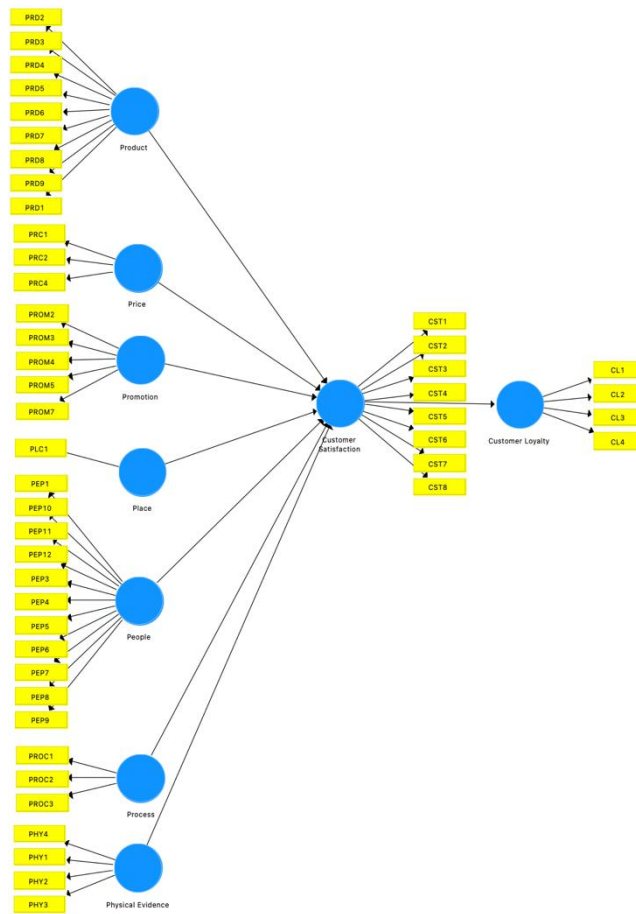
Figure 1 The Structural Model

Notes : (CL: Customer Loyalty, CST: Customer Satisfaction, PRD: Product, PRC: Price, PROM: Promotion, PLC: Place, PEP: People, PROC: Process, PHY: Physical Evidence).

A. Evaluation of Reflective Measurement Model (Outer)

Evaluation of the measurement model is carried out to measure the relationship between the indicators and the constructs. Evaluation of measurement models can be evaluated based on construct reliability by using composite reliability and Cronbach's alpha. Then, convergent validity using average variance extracted (AVE), and discriminant validity using Fornell Larcker Criterion.

Construct Reliability

Constructed reliability consists of composite reliability and Cronbach's alpha. In composite reliability, higher values indicate higher levels of reliability. Then, the model can be said to be reliable if the value of composite reliability & Cronbach's Alpha are above 0.7 [18].

Table 1. Composite Reliability and Cronbach's Alpha

	Cronbach's Alpha	Rho A	Composite Reliability
Customer Loyalty	0,919	0,927	0,943
Customer Satisfaction	0,952	0,953	0,960
Product	0,933	0,934	0,944
Price	0,832	0,853	0,899

Promotion	0,916	0,917	0,937
Place	1,000	1,000	1,000
People	0,966	0,967	0,970
Process	0,897	0,903	0,936
Physical Evidence	0,870	0,879	0,912

Based on Table 1, it can be seen that composite reliability and Cronbach's alpha in this research model are > 0.70 which indicates that the internal consistency value of reliability is reliable.

Convergent Validity

Convergent validity can be seen from the average variance extracted (AVE). The value of the outer loading should be > 0.708 or number square equal to 0.5. The minimum acceptable AVE is 0.50 – an AVE of 0.50 or higher indicates that the concept accounts for more than half of the variance in the indicator on average. Meanwhile, if the AVE score below 0.50 indicates that there are more errors in the item than the variation explained by the concept [18].

Table 2. Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
Customer Loyalty	0,805
Customer Satisfaction	0,749
Product	0,651
Price	0,748
Promotion	0,748
Place	1,000
People	0,747
Process	0,831
Physical Evidence	0,722

Based on Table 2, it can be seen that all constructs have an AVE above 0.50 which means that the model used in this study is a good model.

Discriminant Validity

Discriminant validity is carried out for measures the extent to which a construct is empirically distinct from other constructs in the structural model. There are validity measures that can be used, Fornell Larcker [18]

Table 3. Fornell Larcker Criterion

	CL	CST	PEP	PHY	PLC	PRC	PROC	PRD	PROM
CL	**0,897**								
CST	0,795	**0,865**							

PEP	0,628	0,844	**0,864**						
PHY	0,662	0,847	0,785	**0,850**					
PLC	0,546	0,612	0,557	0,648	**1,000**				
PRC	0,445	0,650	0,671	0,565	0,389	**0,865**			
PROC	0,706	0,853	0,824	0,797	0,581	0,591	**0,912**		
PRD	0,706	0,848	0,767	0,769	0,632	0,663	0,813	**0,807**	
PROM	0,659	0,707	0,584	0,727	0,795	0,359	0,607	0,683	**0,865**

Based on Table 3 the Fornell Larcker Criterion the square root of each construct's AVE is higher than its correlation with another construct. So there is no discriminant validity problem in the model of this study.

B. **Evaluation of Formative Measurement Model (Inner Model)**

Formative measurement model is used to analyze the inner model which knows the relationship between the construct or latent variable. The evaluation of Formative measurement consists of assessing the structural model for collinearity issues (Value of Inflation Factor), assessing the significance and relevance, assessing the level of (R^2) [18].

Value of Variance Inflation Factors (VIF)

The tolerance level considered is below 0.20, namely VIF above 5.00. If there is a predictor construct that has a value above 5.00, it indicates that the predictor has collinearity. If there is collinearity, the predictor construct must be removed, combined into a single construct or create a new higher construct [18].

Table 4. Value of Variance Inflation Factors (VIF)

	CL	CST	PEP	PHY	PLC	PRC	PROC	PRD	PROM
Customer Loyalty									
Customer Satisfaction	1,000								
People		4,195							
Physical Evidence		4,216							
Place		2,867							
Price		2,154							
Process		4,541							
Product		4,387							
Promotion		3,773							

Based on Table 4, it can be seen that the variance inflation factor (VIF) in the measurement inner model is below 0.5 which indicates the structural model has no collinearity and does not need to eliminate the construct.

Significance and Relevance of Structural Model

The significance and relevance is the level of confidence in a hypothesis that will determine whether the hypothesis will be accepted or not. In this study, the researcher uses a significance level of 5% and use one-tailed that allows for the possibility of an effect in one direction. P value in this study should be < 0.05 [18].

Table 5. Significance and Relevance of Structural Model

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	
Customer Satisfaction -> Customer Loyalty	0,795	0,796	0,031	25,825	0,000	Accepted
People -> Customer Satisfaction	0,220	0,215	0,076	2,898	0,002	Accepted
Physical Evidence -> Customer Satisfaction	0,208	0,208	0,067	3,087	0,001	Accepted
Place -> Customer Satisfaction	-0,093	-0,101	0,052	1,789	0,037	Accepted
Price -> Customer Satisfaction	0,079	0,083	0,046	1,706	0,044	Accepted
Process -> Customer Satisfaction	0,224	0,233	0,081	2,770	0,003	Accepted
Product -> Customer Satisfaction	0,214	0,206	0,077	2,788	0,003	Accepted
Promotion -> Customer Satisfaction	0,190	0,198	0,067	2,846	0,002	Accepted

Based on Table 5, it can be seen the results of the analysis have a P value below 0.05 which means the marketing mix of 7P's have significant effects on customer satisfaction. Then, customer satisfaction has a significant effect on customer loyalty as a mediating variable. In addition, the T value which has a significant level of 5% or one tailed 1,645. Based on the table above the marketing mix of 7P's are positively affecting the customer satisfaction. Then, customer satisfaction affects customer loyalty positively.

R Square

R square measures the prediction accuracy of a model and is determined as the squared correlation between the actual and predicted values of a specified construct.

Table 6. R-Square

	R Square	R Square Adjusted
Customer Loyalty	0,632	0,629
Customer Satisfaction	0,863	0,857

Based on Table 6, it can be seen that the R2 of customer loyalty is 0.629, which indicates moderate and R2 of customer satisfaction is 0.857, which indicates that the questionnaire model used in this study is considerable.

V. CONCLUSION

Based on the analysis carried out, RAM Armalia especially on the sales of RAM Water products, it is necessary to make improvements to the product, price, promotion, place, people, process, and physical evidence in order to make customer loyalty through customer satisfactions as mediator that can retain and maintain customers in long term relations and provide profitability for the company. There are three proposed strategies that can be carried out by company. First provide live chat feature to improve product and services in order to provide fast and responsive service. Second, create flatform connect on the website that have account, history,

points, testimonials, forum and tracking order. Third, create a webinar program that can add value to users who are speakers by influencers.

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