

UNIVERSITI TEKNOLOGI MARA

**CONTRACT MANUFACTURING
SERVICE QUALITY AND ITS
RELATIONSHIP WITH CUSTOMER
SATISFACTION AND LOYALTY IN
F&B INDUSTRY**

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ABSTRACT

Business environment is highly competitive especially for the low entry barrier industry such as F&B industry, characterized by low high-tech involvement. As a result, the industry draws high number of players competing for the target markets. In order to sustain the business as well as to improve their financial performance, F&B manufacturers opt to offer contract manufacturing services (CMS) while marketing intermediaries contracted-out their products. There is a formal relationship established between the service provider and the buyer. However, the impact of service quality on retaining the business relationship particularly has not been empirically investigated. To fill this gap, this study explores the determinants of contract manufacturing service quality (CMSQ) and the interrelationship among CMSQ, customer satisfaction and loyalty of the F&B CMSs' customers in Malaysia. Four focus group interviews (28 participants) were held in this study using a semi-structured guide questions and they comprised 12 contract manufacturers and 16 business customers. The participants were the key personnel, representing organizations that are actively engaged in CMS. Three new dimensions were discovered from the focus group interviews; product development capability, Halal and outcome quality in addition to the SERVQUAL dimensions. Based on service quality literature and focus group discussions, relevant information via structured questionnaires were collected via online survey and drop-off method. 146 usable questionnaires were analysed using partial least squares. The results indicate that CMSQ consists of eight dimensions namely empathy, assurance, reliability, responsiveness, tangibles, outcome quality, Halal and product development capability. Using a one-tailed probability test with a significance level of 5%, all the three linkages are significant: CMSQ dimensions positively influenced customer satisfaction, customer satisfaction positively influenced loyalty and CMSQ positively influenced loyalty. CMSQ was found to have a small effect size on loyalty while customer satisfaction largely influenced loyalty. The result implies that contract manufacturing service quality is a complement in the formation of customer loyalty while customer satisfaction mediates partially the relationship between CMSQ and loyalty. The findings also provide empirical evidence that the contextual specific service quality is essential particularly for contract manufacturing in F&B.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

Today, business environment is highly competitive for the food and beverage (F&B) industry. Due to the low high-tech involvement, the industry is considered as having a low entry barrier and it draws a high number of players. In spite of endless demand from the customers, manufacturers are facing tremendous challenges to meet customers' expectations and to maintain their loyalty. The situation becomes more complicated when the channel members choose to distribute their own brand and the retailer offers its own store brands and private labels (Meza & Sudhir, 2010). Such situation reflects the declining power of manufacturers when compared to retailers (Webster, 2000). With the development of information technology mainly the Internet, it enables the product information to easily reach consumers and as a result consumers have a wider choice for the products (Han, Porterfield, & Li, 2012). There is an apparent competition between the channel members and the manufacturers to penetrate the market. In order to lessen the competition and to take advantage of the present scenario, manufacturers have changed the mode of doing business from concentrating on building own brand to offering contract manufacturing services (CMS). By doing so, the manufacturers are cooperating with the marketing intermediaries in exploiting the business opportunity. Both are taking advantage of their core competency; manufacturing and marketing capabilities to sustain in competitive business environment as well as to improve the firm financial performance (Hsiao & Chen, 2013). However, research on CMS is less developed as compared to purely services industry particularly in relation to service quality. Service quality is regarded as a differentiation strategy to gain a competitive edge over their competitors to survive in a highly competitive environment, since its relation to customer satisfaction and customer retention is apparent (Caceres & Paparoidamis, 2007; Mosahab, Mahamad, & Ramayah, 2010; Zolkiewski, Lewis, Yuan, & Yuan, 2007). Customer satisfaction with the relationship eventually will lead to improving the firm's financial performance.