



FACTORS INFLUENCING CUSTOMERS' SWITCHING  
BEHAVIOUR DURING OUT-OF-STOCK SITUATIONS  
IN MALAYSIAN RETAIL STORES

BY

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## **ABSTRACT**

The persistent and increasing occurrence of out-of-stock products has cost the retailing industry a significant loss in profits. It is understandable that consumers practice switching behaviour when a certain product offered by a particular retailer is out-of-stock. Running out-of-stock is caused by many factors and the retailer inventory management system to address this problem partially depends on the consistency of upward suppliers. This means that retailers cannot entirely control when they run out-of-stock. In this study, the theory of planned behaviour (TPB) is used to explore the change in customers' switching behaviour during out-of-stock situations. On top of the TPB constructs, customer loyalty was utilised to strengthen the model proposed in this study. The data was collected by self-administrated questionnaires distributed to 264 respondents in Klang Valley, Selangor. The constructs attitude, subjective norms, perceived behavioural control and customer loyalty were determinants of customers' switching behaviour during out-of-stock situations. Subsequently, factor analysis was conducted to ensure the validity of the instrument. Afterward, a multiple regression analysis was used to test the study's hypotheses. The findings demonstrated that the proposed framework is appropriate in exploring customers' switching behaviour during out-of-stock situations. Three out of four proposed factors showed a significant effect, namely subjective norms, perceived behavioural control and customer loyalty. However, attitude did not have a significant effect on customers' switching behaviour. The findings enrich our understanding of the out-of-stock phenomenon and provide valuable insight to managers and marketers in the retailing industry to control some of adverse outcomes of out-of-stock products in Malaysia.

## خلاصة البحث

يؤدّي استمرار وتزايد حدوث المنتجات غير المخزونة إلى تكبد صناعة التجزئة خسارة كبرى في الأرباح. ومن المفهوم أنّ المستهلكين يمارسون سلوك التحويل عندما يعرض بائع التجزئة منتجًا معيّنًا خارج المخزون، ويتسبب نفاذ المخزون في عديد من العوامل، ويعتمد نظام إدارة المخزون بالتجزئة لمعالجة هذه المشكلة جزئيًا على اتساق الموردين التصاعدي. وهذا يعني أنّ تجار التجزئة لا يستطيعون السيطرة الكاملة عند نفاذ المخزون. في هذه الدراسة، يتم استخدام نظرية السلوك المخطط (TPB) لاستكشاف التغيير في تبديل سلوك العملاء خلال حالات خارج المخزون. وعلى رأس نظرية السلوك المخطط تم استخدام ولاء العملاء لتعزيز الأنموذج المقترح في هذه الدراسة. تم جمع البيانات من خلال الاستبيانات التي تدار ذاتيًا، والتي وزعت على 264 مستجيبًا في منطقة كلانج فالي، سيلانغور. وموقف البناء، والمعايير الذاتية، والسيطرة السلوكية المتصورة لولاء العملاء كانت محددات سلوك تبديل العملاء خلال حالات خارج المخزون. وفي وقت لاحق، أجري تحليل العوامل لضمان صحة الصك. بعد ذلك، تم استخدام تحليل الانحدار المتعدد لاختبار فرضيات الدراسة. وأظهرت النتائج أن الإطار المقترح مناسب لاستكشاف سلوكيات تبديل العملاء خلال المواقف خارج المخزون. وأظهرت النتائج أن الإطار المقترح مناسب لاستكشاف سلوكيات تبديل العملاء خلال المواقف خارج المخزون. كما أظهرت ثلاثة عوامل من أصل أربعة عوامل تأثيرًا كبيرًا، وهي المعايير الذاتية، والسيطرة السلوكية المتصورة لولاء العملاء. ومع ذلك، لم يكن للموقف تأثير كبير في تحول سلوك العملاء. نتائج البحث تثري فهمنا لظاهرة خارج المخزون وتوفير رؤية ثاقبة للمديرين والمسوقين في صناعة تجارة التجزئة للسيطرة على بعض النتائج السلبية للمنتجات خارج المخزون في ماليزيا.

## APPROVAL PAGE

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

Retailing comprises business activities that involve the sale of goods and services to customers (Adusei & Awunyo-Vitor, 2014). The modern retail market has grown significantly globally. Hypermarkets have emerged offering products ranging from fresh form to processed food and the complete range of home products. They are convenient centres for the everyday needs of the majority of people (Market Analysis Report, 2011).

Foreign retailers are gaining presence in most Asian countries including Malaysia giving customers a broader range of consumer options. During times of economic crisis, customers tend to be more prudent in their spending (Wel, Hussin, Omar & Nor, 2012). Nevertheless, despite the economic downturn in 2008, many retailers have continued their expansion plans albeit with greater precautionary measures in place.

Retailing has been classified into grocery and non-grocery. In 2010, grocery retailing witnessed a dramatic increase in the value and prestige to their customers leading grocery retailers, especially hypermarkets, to begin offering non-grocery products, such as home appliances and other domestic products. This has created competition with non-grocery retailers (Euromonitor International, 2011).

Table 1.1 A Comparison of Sales Timeline for Different Categories of FMCG Retailers from 2006-2011

Category	2006	2007	2008	2009	2010	2011
Modern grocery retailers	9401.0	10,805.2	13,088.8	14,302.5	15,687.2	17,185.9
Convenience stores	698.8	938.8	1199.3	1324.0	1473.6	1591.5
Discounters	-	-	-	-	-	-
Forecourt retailers	754.9	844.4	954.2	1047.7	1100.1	1144.1
Hypermarkets	5931.7	6990.8	8566.5	9431.8	10,457.0	11,634.5
Supermarkets	2015.6	2096.3	2368.8	2499.1	2656.5	2815.9
Traditional grocery retailers	17,211.5	17,063.4	16,828.4	16,781.6	16,410.6	16,277.0
Food/drink/tobacco specialists	1257.4	1320.3	1359.9	1421.1	1449.5	1471.3
Independent small grocers	15,513.3	15,358.2	15,127.8	15,052.2	14,675.9	14,529.1
Other grocery retailers	440.8	384.9	340.7	308.3	285.2	276.6
Grocery retailers	26,612.5	27,868.6	29,917.2	31,084.1	32,097.8	33,462.9

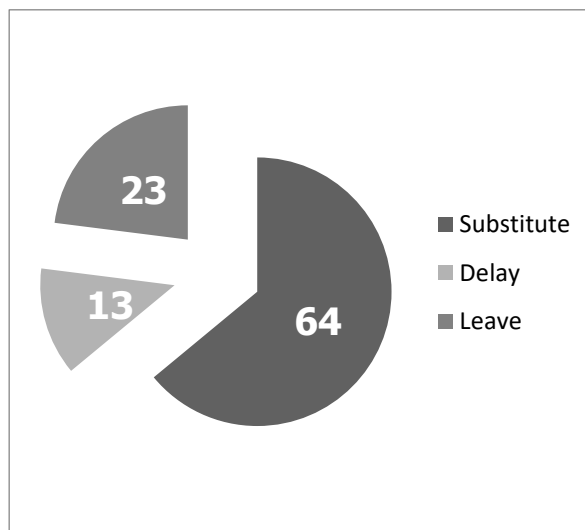
Source: (Euromonitor International, 2012).

Malaysian retail started with traditional neighbourhood grocery stores, mini markets, and *pasar malam* (night market) and wet markets. These are still practised, particularly in rural areas, but overall the sector has shifted gradually to drugstores, departmental stores and supermarkets, then to shopping malls and hypermarkets. When the market expands, the settings for retail businesses also change (Wel et al., 2012).

Table 1.1 describes and compares between the categories of FMCG retailers in Malaysia from 2006 to 2011. As seen in the table, the sales of traditional grocery retailers declined progressively from 2006 to 2011. Comparatively, the modern grocery retailers showed tremendous growth in sales during the same period. This demonstrates the takeover of the modern grocery retailers. Furthermore, according to RGM (Retail

Group Malaysia), which is the leading retailing consulting firm in Malaysia, the total sale turnover for 2015 was RM 96.7 billion.

With the growth in the retail industry, challenges have also emerged. One such problem is running out-of-stock. In 1963, Peckham conducted the very first research on the out-of-stock situation which highlighted to producers and distributors the potential losses that result from being out-of-stock. Later, Progressive Grocer analysed the impact of out-of-stock in hypermarkets in 1968. It highlighted the ways in which hypermarkets and consumers responded to out-of-stock situations. This led to identifying a set of attitudes termed SDL behaviour (Substitute, Delay and Leave) of customer responses to the out-of-stock situation as illustrated in Figure 1.1. Nagare & Dutta (1989) found that 64% of customers opted for product substitution, 23% preferred to leave the store and 13% decided to delay the purchase of the product.



Source: Nagare & Dutta (1989)

Figure 1.1 Customer's Response to Out-of-Stock Situation (SDL Behaviour)

In 2015, a recent report from the IHL group (which is a global research and advisory firm for retailing industries) stated that retailers worldwide lose an estimated about USD 1.75 trillion annually due to the cost of overstocking, out-of-stock and sales returns. Although this phenomenon affects manufacturers and customers, the brunt of the impact is borne by retailing industries. The out-of-stock (OOS) situation is a major supply chain management problem involving manufacturers, customers and most importantly retailers or distributors. A product is out-of-stock when a customer is unable to find it on the store shelf. The likely rate of out-of-stock is commonly between 5% and 10%. However, for fast-moving products, which is the product category of the present study, the out-of-stock rate is estimated to be higher due to the intense consumption of fast-moving customer goods. The quick recognition of the out-of-stock situation creates the opportunity to improve business performance.

In light of the previous studies, the out-of-stock phenomenon can be seen from the demand/market and supply perspectives. The demand perspective focused on customers reaction to the out-of-stock situation (Gavranovic, 2012). The second stream deals with the supply side of the issue and underlines the logistics and management related causes of an out-of-stock situation. This study focuses on the demand side of out-of-stock which entails the customer behavioural studies on the phenomenon.

Customers differ in their purchase behaviour. They also differ in terms of demographic variables such as income level, lifestyle, education level and gender. Most customers prefer to buy their products in a shopping mall by simply walking in and finding their preferred product which may or may not be available (Sloot, Verhoef & Franses, 2005). The out-of-stock situation of these products has a high probability of being a major source of disappointment and dissatisfaction among customers (Gruen & Corsten, 2007; Helm & Hegenbert, 2011).



The out-of-stock of a product or its unavailability could be temporary or permanent which may drive customers to select a different retailer, product, or brand. Gruen & Corsten (2007). This phenomenon has attracted the attention of many researchers. A number of researches showed that customers react to out-of-stock in several undesirable ways which affect the manufacturer, distributor and customer.

This study explores the behavioural aspects of customers or the demand side of out-of-stock situations. Several studies have addressed the out-of-stock situation. The demand side studies examine the antecedents of customers' reactions or responses to an out-of-stock situation along with the consequences. The supply side studies have sought to identify the root causes leading to out-of-stock situations. Various studies have examined the causes for out-of-stock situations such as logistics problems and inefficient distribution and retail management, among others (Gruen et al., 2002). The percentage of the product normal service level from suppliers to the warehouse and from warehouse to stores outlets varies from 97% to 99%. This indicates that the availability of products in-store is about 92% to 93% (ECR Europe, 2003). It indicates further that a major cause for out-of-stock situations are problems in in-store operations (ECR Europe, 2003; McKinnon, Mendes & Nabateh 2007). In addition, nearly 20% of out-of-stock situations were false alarms as the products were available in-store but not on the shelf (Aastrup & Kotzab, 2010).

Even though many studies have identified the root causes of out-of-stock situations and the retailers have initiated preventive measures, the problem persists. This means that the underlying causes have either not been exhausted or are not fully controllable. Given that the phenomena persists, the factors that shape customers responses such as attitude, subjective norms, perceived behavioural control and loyalty

need to be analysed in order for retailers to comprehend, limit, control and prevent customers' switching behaviour.

Given that the occurrence of out-of-stock situations cannot be stopped completely, efforts have focused on controlling it to manageable proportions. To this end, it is assumed that the control mechanism retailers use mostly are the factor analysis of costumers' switching behaviour during the out-of-stock situation.

The main customer response to out-of-stock situations as listed by some previous researchers is switching to another product within the same category, postponing the purchase, purchasing from another store, or cancelling their purchase entirely. Any of these reactions can contribute to substantial revenue loss among retailers and manufacturers. This makes it a relevant area for further study.

Despite previous academic and professional researches and supply chain integration using information technology to improve inventory management, the out-of-stock situation seems to be a phenomenon that is frequent and constant in the retail industry. The rate of out-of-stock has changed little since the first study on the phenomenon which is estimated to be around 10% (Anonymous, 2004). Although this is an unfavourable situation to the distributors, producers and customers, there has been little investigation of the phenomenon. The studies that do exist list different customer behaviours as reactions to product out-of-stock. Further, despite differences in their research methodologies, their results have been strikingly similar.

As mentioned, the predominant responses are to switch products, switch stores, defer the purchase, or to cancel. Previous studies concluded similar results (Campo et al., 2000; Gruen et al., 2002; Sloot, Verhoef and Franses, 2005; Bayle, Laurent & Macé, 2006; Calderón-Cortés & Morales-Arroyo, 2015). However, regarding the factors influencing customers' responses to the out-of-stock situation, the conclusions vary.

This research supports retailers who seek to understand the reactions of customers when products are out-of-stock. When the customer faces an out-of-stock situation, he/she must decide on an alternative and spontaneous choice. This choice is influenced by a number of factors. It is assumed that each out-of-stock situation is associated with a set of factors that makes it a unique occurrence along with the associated behavioural response. Hence, this dissertation identifies the factors that lead customers to adopt a particular behaviour when facing an out-of-stock situation.

To conclude, in addition to some of the root causes of out-of-stock situations, the contribution of this study, in relation to the previous studies, is to explore whether the constructs of the theory of planned behaviour can be determining factors of out-of-stock responses. The previous literature studied the impact of factors on three behavioural responses (Zinn and Liu, 2001). This study does not use those same three behavioural responses, nor the same factors used by Campo and Al (2000). Rather, it tests a new model for out-of-stock situations. The theory of planned behaviour will be tested to determine if the attitude, subjective norm and perceived behavioural control can influence the customers' switching behaviour during out-of-stock situations. On top of the variables of the theory of planned behaviour, an additional variable is used which is customer loyalty.

## **1.2 STATEMENT OF THE PROBLEM**

The suitable availability levels of a product have a positive impact on customer loyalty (Beneke, 2012). However, customer demand for a particular product cannot be met if there are insufficient product stocks. Previous research shows that out-of-stock situation represents one of the most common problems encountered by customers (Roland Berger Consultants, 2003; Supermarket Customer Panel, 2011). Furthermore,

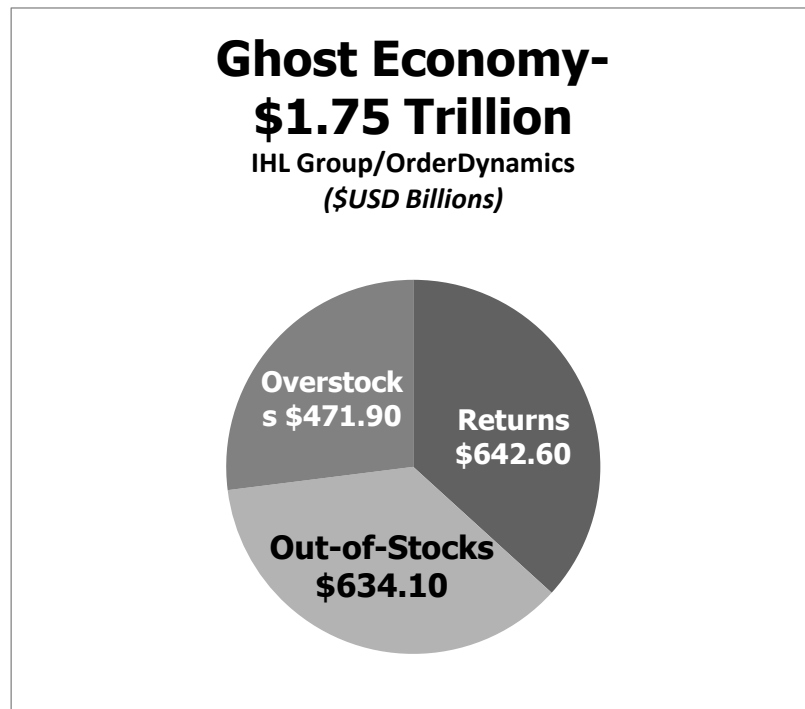
according to Olofsson (2006), the attitudes of customers toward out-of-stock vary by person and place. In his research, four different countries show different percentage levels of frustration. In addition, a study by Corsten and Gruen (2004) on 71,000 customers worldwide shows that customers have little patience for out-of-stock situations.

In out-of-stock cases, the customer is exposed to various costs such as transaction and substitution costs as opportunity costs for opting for alternative solutions (Campo et al., 2000). On average, customers lose 21% of their time searching for their desired product as every thirteenth product from their shopping list is not located on the designated or labelled position on the store shelf (Gruen, 2007).

In the case of Malaysia, the authorities provide limited reporting on insufficient stock levels for FMCG in micro and small enterprises due to the insignificance of the issue. People do not realise that retailers as SMEs are the major drivers of the economy in developing nations.

On top of customers' dissatisfaction and frustration, retailers' performance is adversely affected by out-of-stock products (Grewal and Levy, 2007). Among the reasons given, the most emphasised impacts are a direct decrease in sale and change of mind among customers leading to the loss of a sale and decreased customer loyalty, product substitution, outlet change and brand switching (Ehrental and Stölzle, 2013). Further, the loss in direct sales adversely affects marketing efforts by raising such costs (Ehrental et al., 2014).

According to the 2015 annual report by the IHL group, retailers worldwide lost USD 1.75 trillion annually in overstock, returned goods and out-of-stock. The total loss from the out-of-stock alone was USD 634.1 billion.



Source: <http://www.ihlservices.com/newsletter/may-22-2015>

Figure 1.2: 2015 Annual Loss of the Retailers due to Overstock, Returned Goods and Out-of-Stock

Furthermore, direct sales loss due to the out-of-stock situation also increases the overall costs of the relationship between retailers and manufacturers due to their imprecise distribution and inventory information. Banting, Blenkhorn & Dion (2015) listed the out-of-stock consequences between suppliers and retailers may lead one-quarter of the retailers to abandon their supplier. Moreover, frequent out-of-stock situations endanger the brand, store and customer loyalty (Goldfarb, 2006; Musalem et al., 2010).

However, previous studies have stated that it is possible to reduce out-of-stock occurrence by increasing their level of customer service toward yielding maximum satisfaction such as increasing the level of inventories (Dana, Petruzzi, 2001; Dubelaar et al., 2001; Cachon, Terwiesch, 2006; Koschat, 2008; Balakrishnan, 2008). Other studies stipulated that the increase in the level of retailer inventories depend on the

efficiency of in-store performance (Gruen, Corsten, 2007; Ton, Raman, 2010; Waller et al., 2010; Eroglu et al., 2011).

It is obvious that customers behave differently toward out-of-stock situations which vary based on gender attitude and their loyalty to the product. This research contributes to the literature of out-of-stock behavioural studies from the customer perspective and tests a modified theory of planned behaviour (TPB).

### **1.3 OBJECTIVES OF THE STUDY**

#### **1.3.1 General objectives**

This study explores the customers' switching behaviour as a response to out-of-stock situations in the Malaysian retail sector. To this end, it focuses on achieving the following objectives.

Specific objectives:

1. To investigate the relationship between attitude and customers' switching behaviour during out-of-stock situations.
2. To explore the relationship between subjective norm and customers' switching behaviour during out-of-stock situations.
3. To determine the relationship between the perceived behavioural control and customers' switching behaviour during out-of-stock situations.
4. To examine whether there is a relationship between customer loyalty and customers' switching behaviour during out-of-stock situations.

## **1.4 RESEARCH QUESTIONS**

Questions were formulated to achieve the research objectives as follows.

1. What is the relationship between attitude and customers' switching behaviour during out-of-stock situations?
2. What is the relationship between subjective norm and customers' switching behaviour during out-of-stock situations?
3. What is the relationship between the perceived behavioural control and customers' switching behaviour during out-of-stock situations?
4. What is the relationship between customer loyalty and customers' switching behaviour during out-of-stock situations?

## **1.5 SIGNIFICANCE OF THE STUDY**

Out-of-stock situations have attracted the attention of academicians, policymakers, manufacturers, wholesalers as well as retailers. It is a relevant phenomenon to study due to the regularity of its occurrence and the financial losses incurred as a result. To start with, this research will help retailers recognise the different possibilities available to alleviate an out-of-stock situation. It will furthermore assist them in knowing the effect of these out-of-stock situations on their customers' demand and preferences.

Moreover, it is imperative for retailers to understand customers' purchasing behaviour, not only because of the increase of their initial sale volume but to help them maintain customer loyalty at all times due to the fact that an out-of-stock situation invariably influences the behaviour of customers toward a particular outlet and their loyalty to that brand or product (Meyer, 2008). Therefore, understanding customers' decision-making is very important for companies and marketers which can help them

develop appropriate marketing strategies to suit and meet the needs of their target groups.

Since the out-of-stock problem is persisting despite many previous studies on the phenomenon, this research will help understand customers' behavioural decision-making in out-of-stock situations which has become a crucial phenomenon for most distributors and retailer nowadays. This will serve as a fundamental marketing segmentation indicator for companies and traders in meeting the needs and satisfaction of their customers (Helm & Hegenbert, 2011).

Academic researchers in the field of economics and management will also get to know the differences and similarities in the behaviour of customers towards out-of-stock situations which will serve as one of many platforms for future research. It will also educate them on the impact of behaviours on the purchasing power of customers and the shopping behaviours toward out-of-stock of situations on fast-moving customer goods in Malaysia.

Finally, this study will educate the manufacturers or producers on how customers feel and react when facing an out-of-stock situation on a particular product and the impact on the market share of a manufacturer's product or brand name. This research will provide suggestions on the best ways to control the adverse outcomes of the out-of-stock situation through some selective factors analysis to determine customers' switching behaviour during an out-of-stock situation.

## **1.6 SCOPE OF THE STUDY**

This study focuses on exploring the factors that determine customers' reaction to the product out-of-stock situation. The primary limitation of this study resides in the fact that the previous studies used four categories of determining factors that influence