A Study on the Influence of International Freight Forwarders’ Service Quality and Price Competitiveness on Customer Loyalty: the Case of South Korea

Kijae Song*· Gitae Yeo**

Ph.D., Graduate School of Logistics, Incheon National University* Professor, Graduate School of Logistics, Incheon National University**

I. Introduction

The freight forwarder (or simply "forwarder") means in South Korea the international freight forwarder. According to the FIATA (International Federation of Freight Forwarders Associations), freight forwarding services means services of any kind relating to the carriage, consolidation, storage, handling, packing or distribution of the goods as well as ancillary

Abstract

There are very few studies on the causal relationship of international freight forwarders’ service quality, dealing with service value together. The purpose of this study is to find out which of service quality and price competitiveness has a greater effect on customer loyalty, and how different effect service quality factors have on customer loyalty. The measures of various variables have been selected through literature review. Korean importing and exporting companies were requested for online and phone survey and 200 companies responded. The collected data has been analyzed using the AMOS 18.0. The key findings of this study are: (1) international freight forwarders’ service quality and price competitiveness influence on customer loyalty positively with service value and customer satisfaction as mediating variables; (2) the service quality influences on customer loyalty more than the price competitiveness does; and (3) the customer orientation as a service quality factor influences on customer loyalty more than the operation characteristics factor does. The implications of this study are: (1) international freight forwarders need to have more competitive advantage in service quality than in price competitiveness, especially in the customer orientation factor in order to obtain customer loyalty; and (2) they need to invest in their resources, especially in IT resources and human resources as a way to gain such competitive advantages.

Keywords: International freight forwarder, Service quality, Price competitiveness, Service value, Customer satisfaction, Customer loyalty, Operation characteristics, Customer orientation

Received: 2017. 10. 03
Accepted: 2017. 12. 07
* Author: kijaesong@hanafos.com
** Corresponding author: ktyeo@inu.ac.kr
and advisory services in connection therewith, including but not limited to customs and fiscal matters, and logistical services with modern information and communication technology in connection with the carriage, handling or storage of the goods, and de facto total supply chain management. And therefore the freight forwarder is the provider of the freight forwarding services.

The FIATA has called the freight forwarder “The Architect of Transport” since 1975 (Schramm 2012) by emphasizing the role of organizing the transport in international transport. However, nowadays it is also called “FLP: freight logistics provider” (Baluch 2005) as its service scope has expanded and become diversified as a logistics service provider also managing the global SCM to meet cargo owners’ demand of the third party logistics service.

The freight forwarders in South Korea are experiencing excessive competition because there are too many freight forwarders, and most of them are small enterprises. According to the data from the Logistics Policy Division of the Ministry of Land, Infrastructure and Transport of South Korea, the number of the international freight forwarders registered in the cities and provinces of the country as of the end of 2015 is 3,875. Since the registration of the forwarders started in 1992, 2,319 forwarders including 16 on temporary closure are in Seoul Metropolitan City as of December in 2015 (Cargo News 2016. 9. 8) and the remaining 1,556 forwarders are registered in other cities and provinces as of December in 2015. Meanwhile, the no. of the foreign freight forwarders registered in Seoul Metropolitan City whose head offices are located in overseas is 77 (including 5 transferred to other cities and provinces) from 19 countries as of July 2016 (Cargo News 2016. 9. 8), and the no. of the foreign freight forwarders registered in South Korea is estimated to be around 80.

As the international freight forwarders in South Korea currently have fierce competition, it is important to know what should be competitive advantage elements for their sustainable business. Customer loyalty influences business performance strongly (Heskett et al. 1994). Therefore it will be very helpful for that purpose to find out the causal relationship of service quality and price competitiveness on customer loyalty in the freight forwarding industry. However, globally there are still few studies not only on the freight forwarding industry as a key subject, but also on the causal relationship of service quality in the freight forwarding industry. The purpose of this study is to find out which of service quality and price competitiveness has a greater effect on customer loyalty, and how different effect service quality factors have on customer loyalty. Importers and exporters in South Korea are surveyed and the collected data is analyzed by Confirmatory Factor Analysis, Structural Equation Modeling, Mediator Effect Analysis, Bootstrapping, etc using the statistical analysis program AMOS 18.0.

II. Literature review

2.1 Precedent studies on the causal relationship of service quality

The causal relationship of service quality can be found out by investigating the relationship of service quality with its antecedent variables and consequent variables. The antecedent variables