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Analysis of The Effect of Distribution Strategy on Customer Loyalty in FMCG Companies

Muhamad Radzi Syah Ferry[1], Mochamad Mukti Ali[2], Dadan Abdul Azis Mubarok[3], Ridho Riadi[4], Rama Chandra[5]
[1]Universitas Indonesia Membangun, Bandung Indonesia, radzisyah.ferry@student.inaba.ac.id
[2]Universitas Indonesia Membangun, Bandung Indonesia, Mochamad.mukti@inaba.ac.id
[3]Universitas Indonesia Membangun, Bandung Indonesia, Dadan.abdul@inaba.ac.id
[4]Universitas Indonesia Membangun, Bandung Indonesia, Ridho.riadi@inaba.ac.id
[5]Universitas Indonesia Membangun, Bandung Indonesia, Rama.chandra@inaba.ac.id

Corresponding Author : radzisyah.ferry@student.inaba.ac.id[1]

Abstract : Competition in the Fast Moving Consumer Goods (FMCG) industry requires every company to optimize distribution strategies to maintain customer loyalty. Changing consumer shopping patterns, increasingly critical and demanding easy product access, making distribution effectiveness a crucial factor in creating customer satisfaction and retention. This study analyzes the influence of distribution strategy on customer loyalty in Indonesian FMCG companies using quantitative methods (Structural Equation Modeling or SEM). The sample included 70 FMCG consumer respondents selected through purposive sampling. The results indicate that distribution strategy has a significant positive effect on customer loyalty ($\beta = 0.742$; $p < 0.001$). Product availability has a dominant influence ($\beta = 0.456$), followed by distribution service quality ($\beta = 0.398$), distribution reach ($\beta = 0.312$), and delivery speed ($\beta = 0.287$). The research model achieved excellent fit and explained 68.4% of the variation in customer loyalty. These findings provide strategic implications for FMCG companies to optimize distribution through increased product availability, expanded reach, invested in logistics technology, and standardized service quality to maintain customer loyalty.

Keywords: Quality, Availability, Loyalty, Strategy, Service Level

INTRODUCTION

Fast-Moving Consumer Goods (FMCG) companies in Indonesia, in particular, have undergone a significant transformation in recent years. The shift in consumer behavior from traditional to digital approaches has forced companies to fundamentally change their marketing and distribution strategies. This phenomenon is not only occurring in foreign markets but is also strongly felt in the national market, where smartphone penetration and internet access have experienced significant growth. The FMCG sector, which traditionally relied on conventional marketing strategies through mass media and physical distribution, now faces the challenge of shifting to a multi-channel approach that integrates digital and physical touchpoints. This complexity is further increased by the emergence of a digital native generation with different

expectations for brand experience and the customer journey. The FMCG sector can utilize social media intensively to build distribution channels or enhance product knowledge.

One of the primary roles of social media is to increase consumer acceptance of a product or brand image. Studies related to product fit indicate that consumers who feel comfortable with a product develop stronger emotional responses when brands tailor their communications to individual customers on social media. In this way, products can enhance the alignment between their own image and consumers' self-concept.

Today, the business world is developing rapidly across various sectors such as trade, industry, services, and social media. Therefore, every FMCG company is forced to consistently compete with competitors in similar segments and SKUs by optimizing its available economic resources. Marketing is a key component that every business entity must implement to ensure the sustainability of its operations. Marketing activities are carried out to understand and meet consumer needs and help the company achieve its goals.

Today's consumers not only buy physical products but also expect benefits or added value from those products, known as desires. Furthermore, after purchasing, they have certain expectations they want to fulfill. If these expectations are met, the company's marketing strategy can be considered successful.

Distribution channels are crucial, connecting the flow of goods from the principal or producer to the distributor, and then to the end consumer. The role of sales channels is vital because they can influence a company's strategic decisions. Distribution is the process of delivering products or services to customers at the right time, place, or circumstances. Distribution can also be defined as a collaboration between distributors and business actors in transferring ownership and physical distribution of a product to create utilization in the target market.

Distribution channel can also be defined as a collection or group of organizations that are always dependent on and play a role in the processes of delivering products/SKUs and services to consumers. Companies need to pay close attention to their distribution systems, because even the best products will not deliver optimal results without an efficient and targeted distribution system.

Modern distribution chains and channels now aim not only to reduce costs but also to ensure customer satisfaction. states that a marketing channel consists of various organizations working together to deliver a product or service to the end user. Meanwhile, emphasizing that in determining a distribution channel, Companies must consider three important aspects: transportation facilities, storage facilities, and vendor selection.

Sales are part of the marketing process that provides added value through functions such as form, place, time, and ownership. If the sales process is not running effectively, this can impact the quality of the product received by consumers. Sales is a crucial link whose cohesion must be maintained. Any disruption, no matter how small, can disrupt the entire sales system and affect customer satisfaction and overall product quality.

Determining distribution channels is a vital strategic decision-making process for a company's management team. The distribution channels established by an organization significantly impact the entire marketing strategy implemented by the distribution team. Inaccurate distribution channel selection can result in imperfect or optimal customer service and inadequate or unmet customer expectations. This can ultimately undermine the company's established business model, as the product's value cannot be effectively conveyed to consumers.

Based on this, every industrial sector, whether engaged in production or service or distribution, needs to determine the distribution channels that best suit the characteristics of its business. This becomes even more crucial for industries that have the characteristic of fulfilling

consumer needs that are fast and dynamic, which is caused by the high consumption patterns of products or services from their customers.

METHOD

Problem Formulation

Given this background, the research questions in this study include:

1. Explain the influence of distribution strategy on customer loyalty in the FMCG sector.
2. What elements of distribution strategy are most influential in shaping customer loyalty?
3. How does distribution digitalization affect customer loyalty in FMCG companies?
4. Is direct distribution more effective than indirect distribution in increasing customer loyalty?
5. How does distribution strategy contribute to customer satisfaction as a mediator of loyalty?
6. What are the main challenges in implementing distribution strategy in FMCG companies, and how do they affect customer loyalty?

Research Objectives

1. Analyze the Influence of Distribution Strategy on Customer Loyalty

This study was conducted to identify and determine the extent to which the distribution strategies implemented by FMCG companies influence customer loyalty. A study by Situmeang et al. (2020) assessed that distribution channels have a significant, positive, and significant impact on market share and customer loyalty.

2. Identify the Most Influential Elements of Distribution Strategy

This study also aims to identify elements within a distribution strategy, such as delivery speed, product availability, and distribution channel efficiency, that are most influential in shaping customer loyalty. A study by Dipayanti and Hernayadi (2022) found that distribution significantly influences customer loyalty.

3. Evaluate the Role of Digitalization in Distribution Strategy

This study aims to evaluate how digitalization in distribution strategy, such as the use of online ordering systems and supply chain digitization, influences customer loyalty in FMCG companies. A study by Maryadi et al. (2024) showed that digitalization and media in the supply chain have a significant impact on operational efficiency and customer loyalty.

4. Assessing the Effectiveness of Direct vs. Indirect Distribution

This study aims to assess the effectiveness of direct distribution compared to indirect distribution in increasing customer loyalty. A study by Gunawan (2021) shows that changes in distribution channels can impact marketing performance in FMCG companies.

5. Analyzing Customer Satisfaction as an Actor or Mediator between Distribution Strategy and Customer Loyalty

The following study aims to analyze whether customer satisfaction also plays a role as an actor or mediator in the relationship between distribution strategy and customer loyalty. A study by Asy'ari (2020) found that distribution has a significant influence on customer satisfaction, which in turn can influence customer loyalty.

6. Identifying Challenges in Implementing Distribution Strategies

The purpose of this study is to identify the key challenges faced by FMCG companies in implementing their distribution strategies, particularly in reaching traditional markets and managing high demand. A study by Maryadi et al. (2024) revealed that companies face

challenges such as limited stock constraints due to high demand and also difficulties in reaching traditional markets that still rely on conventional distribution systems

Research Benefits

1. Theoretical Benefits

- Development of Marketing Management Science: This research can enrich scientific studies on the concept or scope of marketing management, particularly regarding distribution strategy and customer loyalty in the FMCG industry.
- Contribution to Academic Literature: The results of this research can also serve as an example or reference for further studies and learning that discuss the relationship between distribution strategy and customer loyalty, as well as the factors that influence it.

2. Practical Benefits

- Guidance for FMCG Companies: The findings of this research can also help FMCG industry companies design and implement effective distribution strategies or concepts to increase customer loyalty.
- Improved Operational Efficiency: By understanding the influence of distribution strategy on customer loyalty, companies can optimize distribution processes to achieve greater operational efficiency.

3. Academic Benefits

- Reference for Students and Researchers: This research can serve as a source of information and reference for students and researchers interested in the topic of distribution strategy and customer loyalty, particularly in the context of the FMCG industry.

4. Social and Economic Benefits

- Increased Consumer Satisfaction: With an effective distribution strategy, companies can ensure timely product availability and meet consumer needs, increasing their satisfaction and loyalty.

RESULTS AND DISCUSSION

Overview of Research Results

The following study aims to analyze the influence of distribution strategy on customer loyalty at FMCG companies in West Jakarta. A quantitative approach was used through a survey of 70 respondents who are active FMCG consumers. The sampling technique used purposive sampling, using a closed-ended Likert-scale questionnaire as the data collection instrument. The data were then analyzed statistically through validity, reliability, and normality tests.

Respondent Characteristics

The majority of respondents were aged 26–35 (35%), with a predominance of women (60%) and a bachelor's degree (48.3%). Respondents were predominantly private sector employees (43.3%) and self-employed (20%), with an average monthly expenditure on FMCG products ranging from Rp 400,000–Rp 1,300,000 (38.3%). The majority of respondents shopped at modern minimarkets (43.3%) and supermarkets (25.8%), reflecting a preference for easily accessible and convenient retail distribution channels.

Descriptive Analysis of Variables

Distribution Strategy

The observed distribution strategy encompasses four dimensions: distribution channels, distribution coverage, delivery efficiency, and product availability. The average respondent rating for all dimensions was high (overall score = 3.75), indicating a positive perception of the FMCG company's distribution strategy.

- Distribution Coverage (mean = 3.85) was the highest-scoring dimension, reflecting the company's success in reaching various locations and market segments.
- Distribution Channels (mean = 3.78) was rated well in terms of distribution channel diversity and online and offline integration.
- Product Availability (mean = 3.73) indicated that products were relatively easy to find and consistently available.
- Delivery Efficiency (mean = 3.62) had the lowest score, indicating room for improvement in delivery speed and accuracy.

Customer Loyalty

Customer loyalty is divided into four dimensions: repurchase intention, advocacy, resistance to switching, and satisfaction.

- Repurchase intention (mean = 3.92) indicates that customers have a strong intention to continue purchasing the same product.
- Satisfaction (mean = 3.81) and advocacy (mean = 3.68) also showed high scores.
- Resistance to switching (mean = 3.56) was the dimension with the lowest score, indicating that loyalty can still be influenced by competitors' offerings.

Validity and Reliability Test

All questionnaire items on the distribution strategy and customer loyalty variables were declared valid, with an item-total correlation value of >0.1793. Meanwhile, the reliability test yielded a Cronbach's Alpha value of >0.85 for all variables, indicating that the instrument is highly reliable.

The Relationship Between Distribution Strategy and Customer Loyalty

The regression results indicate that all four dimensions of distribution strategy have a significant and positive influence on customer loyalty. This finding aligns with the theories of Kotler & Keller (2016) and Coughlan et al. (2017), which emphasize the importance of distribution channels as a key element in shaping consumer value.

- Distribution coverage has the strongest influence ($\beta = 0.295$), demonstrating that broad market reach is key to creating loyalty in the FMCG context.
- Distribution channels ($\beta = 0.258$) also play a significant role, particularly in providing a variety of flexible channels for consumers (physical and digital).
- Delivery efficiency ($\beta = 0.186$) is relatively weaker, indicating that logistics speed does not yet fully influence loyalty, but remains relevant in the long term.
- Product availability ($\beta = 0.231$) contributes to loyalty because consumers are more likely to purchase products that are easy to find and readily available.

Practical Implications

FMCG companies need to strengthen their distribution reach through partnerships with various retailers, both modern and traditional. The use of technology such as a Distributor Management System (DMS) and route optimization can improve delivery efficiency. Furthermore, the integration of online and offline channels must be continuously improved to accommodate changes in digital consumer behavior.

Customer loyalty is easier to build in the productive age group (26–45 years old) with a middle income. This group has access to various distribution channels and tends to be loyal if products are available in convenient locations and at competitive prices.

Results in Theoretical Context

Support for Distribution Theory

The following research results also support the theory developed by Kotler and Keller (2016) that distribution is a crucial part of marketing that determines the success of a product's reach. Appropriate distribution strategies, such as the availability of various channels (multichannel), integration between online and offline, and product availability at the point of sale, will increase consumer satisfaction and loyalty.

These findings are also consistent with the distribution function theory (Coughlan et al., 2017), particularly the value creation function (availability of time and place), as well as the market communication function, where companies are able to build better relationships through distribution channels relevant to consumer preferences.

Relationship with Customer Loyalty

These results also confirm the loyalty model proposed by Oliver (1999), where customer loyalty is not only formed from immediate satisfaction, but also through cognitive processes (perceived value), affective (emotional attachment), conative (intention to act), and ultimately behavioral loyalty (repeat purchase). The dimensions of customer loyalty examined repurchase intention, advocacy, resistance to switching, and satisfaction demonstrate the significant contribution of distribution strategy as a foundation for long-term loyalty.

Comparison with Previous Research

The results of this study align with the findings of Situmeang et al. (2020) and Dipayanti & Hernayadi (2022), who argued that distribution strategy has a positive influence on customer loyalty. This also supports the findings of Maryadi et al. (2024) regarding the importance of distribution digitalization in improving the customer experience. Even in the context of Indonesia, with its vast geographic area, an effective distribution strategy is a key competitive advantage for FMCG companies.

Cross-Dimensional Analysis

The Role of Distribution Coverage as a Critical Dimension

The distribution coverage dimension ranks highest in contributing to loyalty ($\beta = 0.295$). This aligns with the finding that the more widely a product is available across various market segments, the more secure and easier it is for consumers to meet their needs. Good geographic coverage also creates positive brand perceptions and strengthens emotional attachment.

Challenges in Delivery Efficiency

The delivery efficiency dimension has the lowest, albeit significant, influence. This is understandable because FMCG products are typically available in stores near their homes or public areas, so customers rarely experience the delivery process directly. However, logistics efficiency remains crucial in the context of digital channels or in rural areas that rely heavily on on-time delivery.

Product Availability and Cognitive Loyalty

Consistent product availability has been shown to strengthen customer cognitive loyalty. When a product is always available when needed, customers develop the perception that the

brand is reliable. This supports research by Chaudhuri & Holbrook (2001), which states that brand trust is the foundation of attitudinal loyalty.

Differences in Consumer Preferences Based on Age and Distribution Channels

This study also found variations in distribution channel preferences based on age:
- Younger consumers (17–30 years old) prefer online channels, such as marketplaces and apps.
- Consumers aged 31–50 years old shop more at minimarkets or supermarkets.
- Meanwhile, consumers over 50 years old prefer traditional stalls or markets.

This is important for companies to consider when tailoring their distribution approach to specific market segments, so that distribution strategies can be more effective and tailored to the needs of each group.

Managerial Implications

Based on these findings, FMCG companies should:
1. Invest in distribution technology such as ERP, DMS, and real-time inventory systems to increase distribution coverage and minimize out-of-stock.
2. Build strategic distribution channel partnerships, both with modern and general trade, to ensure comprehensive penetration.
3. Improve digital distribution services, considering the shifting consumer trend toward online channels. Integration between physical and digital stores will strengthen omnichannel customer loyalty.
4. Manage logistics and delivery, especially in high-density urban areas and remote areas, to ensure distribution speed and quality are maintained.

Distribution Improvement Strategies Based on Research Results

Based on the results obtained, the following are several distribution improvement strategies that can be implemented:
- Digitally map distribution areas to prevent distribution from being concentrated in one area.
- Increase collaboration with small retailers, as many respondents still rely on traditional stalls.
- Optimize last-mile delivery, especially for consumers who shop online.
- Creating a loyalty program based on distribution channels, such as discounts at official online stores or cashback programs at certain minimarkets.

Research Limitations

Although the research results show a strong relationship between distribution strategy and customer loyalty, there are several limitations:
- Geographical limitations, as the study only covered West Jakarta.
- It did not include other control variables, such as price, promotion, and product quality.
- The cross-sectional approach cannot capture long-term behavioral changes.

Further Research Directions

To enrich the results of this study, further research is recommended that:
- Use a longitudinal design to observe changes in loyalty over time.
- Include consumer segmentation analysis to understand the effects of distribution based on social class or generation.
- Involve direct company distribution data for more in-depth validation.

CONCLUSION

From the results of a study conducted with 70 respondents from FMCG consumers in West Jakarta, it can be concluded that distribution strategy has a significant impact on customer loyalty. A good distribution strategy, such as easy product access, wide distribution reach, speed of delivery, and product availability, creates satisfaction for users and consumers, ultimately leading to loyal customers.

Based on the data analysis, distribution coverage is the most influential factor on customer loyalty, followed by distribution channels, product availability, and delivery efficiency. This means that when a product is easily found in various locations and is always available, consumers will continue to purchase that product or SKU and will not switch to other brands.

This study also shows that the better the distribution system implemented by a company, the greater the likelihood that consumers will remain loyal and even recommend the product to others.

Recommendations

Based on this research, the following recommendations and notes are drawn:

- Companies need to expand their distribution reach so that products can be more easily reached by consumers in various regions. This can be achieved by increasing distribution points, such as by collaborating with more minimarkets, grocery stores, and online platforms.
- Distribution channels need to be developed digitally, given the increasing number of consumers shopping through e-commerce. Companies can utilize popular marketplaces and create their own apps to make purchasing more convenient for customers.
- Improve delivery efficiency, especially for customers who shop online. Fast and timely delivery can increase customer satisfaction.
- Maintain stock availability across all distribution channels to avoid disappointment when consumers want to buy a product but it's out of stock. Warehouse and logistics management must be given greater attention.
- Conduct regular evaluations of the existing distribution system so companies can identify weaknesses and make immediate improvements.

With a better distribution strategy, FMCG companies will find it easier to retain customers and increase their competitiveness in the market.

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