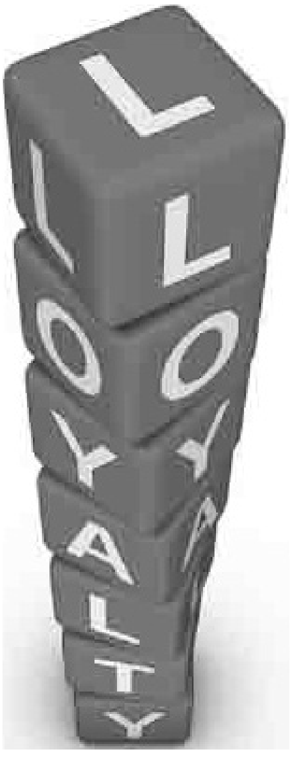
CHAPTER 2



2. Determitants of Customer Loyalty

A number of researchers have investigated the relationships between service quality, service value, customer satisfaction and customer retention/customer loyalty in various sectors.

A group of these researchers in various sectors such as the banking sector[9, 62], the health sector[63], and the mobile telephony sector[64], supported that customer loyalty is influenced by customer satisfaction.

Another group of researchers again in various sectors including the health sector[39, 65], the service industry[66], a pictorial directory[34], claimed that customer loyalty is influenced by customer satisfaction which is then influenced by service quality. Thus, the relationship is from service quality to customer satisfaction to purchase intentions and service quality is an antecedent of customer satisfaction and higher levels of perceived service quality result in an increased consumer satisfaction. However, other researchers who examined travel services, supported that the direction of the relationship is from customer satisfaction to service quality[67].

Thus, it can be seen from the literature, that while recognising service quality and consumer satisfaction as essential factors in determining customer loyalty there is inconsistency concerning their interrelation.

Another group of researchers included the concept of perceived value in the chain of these relationships and supported that the relationship is from perceived quality, to perceived value to customer satisfaction to behavioural intentions[41, 46, 128]. Other researchers asserted that the relationship is from customer satisfaction to service quality to service value to purchase intention[127]. In addition, other researchers found that the impact of quality on overall satisfaction was greater than the impact of value in all the sectors they examined[69]. Thus, there are conflicting views also here. Furthermore, other researchers supported that there are also direct links between value and purchase intention[35, 70].

A fourth group of models supported that there is direct link between service quality and purchase intention. These researchers investigated the relationship between service quality and behavioural intentions and supported that there is a direct link between service quality and purchase intention[17, 25, 65, 71, 72, 83].

From those four groups of models, it can be seen that the main factors influencing customer purchase intention are service quality, service value and customer satisfaction. However there is a lot of conflict in the literature concerning their interrelation and their order in influencing purchase intentions.

Thus, companies in order to improve customer loyalty should adopt the appropriate strategies to improve, service quality, value and customer satisfaction.

2.1. Service Quality Improvements to Enhance Customer Loyalty

As it has been mentioned service quality is essential to keep customers and although perfection in service may be unattainable, companies recognise that a culture based on an acceptable rate of failure will fail. Thus, Total Quality Management (TQM) emerged. Total Quality Management, defines quality in terms of customer needs, wants and expectations and it recognises the tie between quality and profitability. TQM, whose procedures, processes and methods were once confined to manufacturing settings, has made its way into almost every functional area[73]. In addition, TQM implies satisfying customers by identifying customer needs, expressed in the customers own words. Quality Function Deployment (QFD), which shows how products/services can be designed in such a way that customer needs are explicitly considered and linked to specific design decisions, may be used to relate design quality to customer needs and form the basis of TQM[74].

2.1.1. Financial Assessment of Service Quality Improvements

Many researchers addressed the issue of the costs versus benefits of quality improvement since the revenues of service quality improvement do not always exceed the costs.

All quality initiatives should be able to justify their existence on financial grounds. For example if a store is losing customers because of long lines it can estimate what percentage of defectors it would save by buying new cash registers and then, it can compare the cost of the new equipment with the benefit of keeping customers[75].

Thus, a company should be able to specify the return on investment of its quality improvements. In the case this is not possible, these quality efforts cannot compete with other investments of the company and are inevitably considered discretionary costs, which can then be cut when times are tough[33]. For example, Florida Power & Light Company in US spent millions to compete for Japan's prestigious Deming Prize and in attention to rising costs caused a backlash by rate payers, resulting in its quality programme being dismantled[76]. In addition, Wallace Company in the US won the Malcolm Baldrige National Quality Award in 1990. However, the high levels of spending on quality that enabled the company to win the Baldrige also produced unsustainable losses and within two years they were bankrupt[77].

In addition, companies should not raise prices to cover the costs of quality improvement. Companies wishing to improve service beyond the desired service level should do so cautiously because recouping the added expense by charging price premiums may not be a viable option[17].

Managers can determine where to spend on service quality by implementing the Return On Quality (ROQ) method. ROQ can help managers to decide how much to spend and the likely financial impact from service expenditures, in terms of revenues, profits and return on investments in quality improvement. It is characterised by the following assumptions: Quality is an investment, quality efforts must be financially accountable, it is possible to spend too much on quality and not all quality expenditures are equally valid[33].

Quality is considered an investment and expenditure on quality should not be unprofitable. If a company cannot specify the return on investment of its quality efforts, the quality efforts cannot be justified. Thus, it is important for companies to assess the profitability of expenditure on quality and improve service level cautiously so as not to raise prices.

2.2. Service Value Imprrovements to Enhance Customer Loyalty

It is important for companies to provide the best possible value to their customers, thus they should always try to increase the value provided to them either by providing more benefits and/or by reducing sacrifice.

Companies should take into consideration that value should be defined from the consumer's perspective[128, 78]. It is critical for them to understand how their customers view value, because what constitutes value differs significantly between consumers[79]. Thus, a company should identify what its customers value and why. In addition, a company needs to gain a thorough understanding of the customers' needs and the activities which constitute their value chain[80], so as to be able to deliver an offer that conforms with it[81]. Therefore, a company should map up the whole life cycle of a customers' interactions with the company. Major changes in the customer's private life, career moves, relocations, lifestyle changes, marriage, birth, divorce or death are often occasions for delivering additional value to the customer[20].

Companies can provide extra value to customers in various ways such as[81]: providing more benefits to the customers (adding something to the core product and/or adding supporting services) and reducing the customer-perceived sacrifice (e.g. lowering price, increasing the convenience of the purchase). In addition, price reductions could be considered as a way of increasing perceived value, however it should be taken into consideration that customers may become suspicious of quality when price is too low[82]. Furthermore, customer value can be in both the Product/Service Portfolio (P/S P) and the order cycle. In industries where most companies have adopted the most innovative technologies (e.g. the personal computer industry), there is more opportunity in the order cycle (sales customer service, manufacturing and/or operations finance and post sales) to generate customer value[78].

Companies should encourage customers' participation in the value creation process. The participation of customers can be an important contribution to value building[84]. As such value creation process is not only associated with the provider, but customers also might participate. It is therefore important to develop relationships where all involved actors are part of the value creation process[85].

Another important issue is that value creation should be appreciated over time[85]. Value is not a static concept and should not be perceived as such, because it comprises a time aspect[86].

Managers in order to provide value, should understand how their customers view value and what is valued by them and why, thus they should map up the whole life cycle of customers' interactions with the company. They can increase the value provided to customers either by providing more benefits to them or by reducing their sacrifice.

2.3. Customer Satisfaction Improvemens to Enhance Customer Loyalty

Customer repurchase intention/loyalty is influenced by customer satisfaction. Many researchers proposed models examining the formation and the antecedents of customer satisfaction.

Spreng, MacKenzie and Olshavsky (1996) proposed a model of customer satisfaction which posited that overall satisfaction is influenced by a consumers attribute satisfaction and with information satisfaction. Attribute satisfaction and information satisfaction were produced by desires congruency and expectations congruency.

Their findings indicated that expectations congruency and desires congruency mediated the impact of expectations, desires and performance on attribute, information and overall satisfaction. They concluded that when a product is new and the consumer has no expectations, desires congruency might be expected to dominate, but when a consumer has purchased and used a product many times then expectations congruency might be more important. In addition, high product/service attribute satisfaction may be more likely to result in repeat purchase than high information satisfaction[87].

Oliver (1981) developed a methodology to monitor the process of satisfaction within the retail store. According to this model one enters a retail outlet with attitude based expectations, in the case of prior patronage, or with expectation-based attitudes in the case of a new shopping experience. Depending on many store factors including ease of parking, lack of crowds, merchandise availability and so on, disconfirmation of expectations and overall satisfaction result[88].

Churchill and Surprenant (1982) investigated whether it is necessary to include disconfirmation as an intervening variable affecting satisfaction or whether the affect of disconfirmation is adequately captured by expectation and perceived performance. They modelled the process for two types of products: a durable (VDP) and a non-durable product (plant), because the impact of expectations, performance and disconfirmation on satisfaction may vary for different classes of products. Their results indicated that customer satisfaction was determined solely by performance of the VDP and for the plant it was a function of expectations, performance evaluations, and disconfirmation[89].

Tse and Wilton (1988) examined and extended the formation of satisfaction using the model proposed by Churchill and Surprenant (1982) and investigated the role of perceived performance as well as alternative comparison processes and disconfirmation models in satisfaction formation, in a test market trial of a land-held miniature record player. Their results showed that perceived performance exerted direct significant influence on satisfaction in addition to the in-