Is Customer Satisfaction an Indicator of Customer Loyalty?

Rahim Ajao Ganiyu (Corresponding author)
Department of Business Administration
University of Lagos, Nigeria.
abdirrahimajao@yahoo.com

Ignatius Ikechukwu Uche
Department of Business Administration
University of Lagos, Nigeria.
godnear2000@yahoo.com

Adeoti Olusola Elizabeth
Department of Business Administration
University of Lagos, Nigeria.
shladeoti@yahoo.com

ABSTRACT

Customer satisfaction and loyalty is a well known and established concept in several areas like marketing, consumer research, economic psychology, welfare-economics, and economics. And has long been a topic of high interest in both academia and practice. The aim of the study was to investigate whether customer satisfaction is an indicator of customer loyalty. The findings of the study supported the contention that strong relationship exist between customer satisfaction and loyalty. However, customer satisfaction alone cannot achieve the objective of creating a loyal customer base. Some researchers also argued that customer satisfaction and loyalty are not directly correlated, particularly in competitive business environments because there is a big difference between satisfaction, which is a passive customer condition, and loyalty, which is an active or proactive relationship with the organization.

Keywords: Customer satisfaction, customer loyalty, switching cost, loyalty programme, consumption experience, word-of-mouth, customer value

1. INTRODUCTION

Customer loyalty has long been a topic of high interest in both academia and practice, and a loyal customer base has been found to be beneficial to the firm. Most companies strive for customer loyalty as the competition in most sectors grows tighter, both the importance of, and the challenge in, keeping customer loyalty increases. Indeed, customer satisfaction has for many years been considered as key factor in determining why customers leave or stay with an organization. Therefore, organizations need to know how to keep their customers, even if they appear satisfied. Every organization has come to realize that in order for it to survive, let alone grow, it has to acquire and then retain profitable customers. And it is loyal customers that generate increasing profits for each additional year they are retained. Customer satisfaction is not a guarantee of repeat patronage. Satisfied customers jump ship every day, and the reasons are not always due to customer dissatisfaction, some customers are lost due to indifference which arises from pure neglect (Michael et al., 2008).

Customer satisfaction is the heart of marketing. The ability of an organization to satisfy customers is vital for a number of reasons. For example, it has been shown that dissatisfied customers tend to complain to the company and in some cases seek redress from them more often to relieve cognitive dissonance and bad consumption experiences (Olive, 1987; Nyer, 1999). If service providers fail to properly address such behavior, it can have serious adverse effect. In extreme cases of dissatisfaction, customers may resort to negative word-of-mouth as a means of getting back to the company. Reichheld (1996) posits that unsatisfied customers may choose not to defect, because they do not expect to receive better service elsewhere or if the switching cost is high. Additionally, satisfied customers may seek for competitors because they believe they might receive better service elsewhere.

Customer retention is a function of other factors other than customer satisfaction. These include a wider variety of product choices, greater convenience, better prices, and enhanced income (Storbacka et al., 1994).
Therefore, many researchers consider customer satisfaction to be the best indicator of a company’s future profit and competitiveness. The outcomes of customer satisfaction include customer loyalty (Beı and Chiao, 2001). In the consumer marketing community, customer loyalty has long been regarded as an important goal of any corporate entity (Reichheld and Schefter, 2000). And as such both marketing academics and professionals have attempted to uncover the most prominent antecedents of customer loyalty.

Researchers have found a strong relationship between customer satisfaction and loyalty. For instance, Szymanski and Henard (2001), in their meta-analysis study, indicate 15 positive and significant correlations between the two constructs. Bearden and Teel (1983) have also shown a relationship between satisfaction and loyalty. In fact Jones et al., (1995) argued that this relationship is not a simple linear one; the resulting behaviors may depend on consumer attributions, (i.e. their belief in the causes of the customer satisfaction and dissatisfaction assessment).

Quite understandably, marketing practitioners have often lay claim with customer satisfaction, using slogans such as “Our focus is customer satisfaction”, or “The customer is a king” “Customer is our reason for being in business.” etc. The importance of customer satisfaction inform the study carried out by the University of Michigan which tracks customers across 200 firms representing all major economic sectors to produce the American Customer Satisfaction Index (ACSI). Each company receives an ACSI score computed from its customers’ perceptions of quality, value, satisfaction, expectations, complaints, and future loyalty (Fornell et al., 1996). According to Boselie, et al., (2002) satisfaction is a positive, affective state that results from the appraisal of a working relationship between parties. Customer satisfaction is defined by Oliver’s (1997) as the consumer’s fulfillment response. It is a judgment/assessment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption related fulfillment. In other words, it is the overall level of contentment with a service/product experience. Bitner and Zeithaml (2003) opined that satisfaction is the customers’ evaluation of a product or service in terms of whether that product or service has met their needs and expectations.

Customer loyalty can seem elusive and magical to those trying to obtain it. However, there are a lot of good reasons for businesses to pursue customer loyalty as a strategic objective. Customers are expensive to acquire; keeping them loyal allows you to amortize acquisition costs. Loyal customers are often willing to pay premium prices. For example, some of the important attitudes and behaviors expected of a loyal customer include:

- Likelihood to recommend company products and services to others.
- Likelihood to continue purchasing the company products and services, at minimum, at the same level.
- Likelihood of purchasing other products and services the company offer.
- Believing company products and services are superior to competitors.
- Not actively seeking alternative service providers.
- Providing the company with opportunities to correct problems and not using these as a basis for compromising the relationship.

Numerous studies have pointed out that two of the most effective means of generating customer loyalty are to delight customers (Oliver, 1999; Lee, et al., 2001) and to deliver superior customer value derived from excellent services and quality products (Parasuraman and Grewal, 2000). In addition, some scholars argue that switching costs, is a key moderating variable, and can significantly influence customer loyalty through such determinants as customer satisfaction (Fornell, 1992; Oliver, 1999; Lee et al., 2001) and perceived value (Woodruff, 1997; Neal, 1999).

Customer loyalty can be defined as the adherence of customers to a company. Even if businesses make mistakes, loyal customers will not leave. Kincaid (2003, p.10) defines customer loyalty “as a consumer behavior, built on positive experience and value, which leads to buying products, even when that may not appear to be the most rational decision” . Furthermore, the concept was later divided in to behavioural and non-behaviouristic dimensions where the latter is more focused on the underlying causes of customer loyalty and attitudes of consumers (Peppers and Rogers, 2004). So, in the investigation of customer loyalty, it is valid to explore two fields: the behavior of consumers and their intentions (Schweizer, 2008).

Stone et al., (2000) posits that customer loyalty is also dependent on a number of customer related factors, i.e. how customers perceive the business rather than what the business really does. Given all these benefits, it’s only natural that businesses should turn to a diverse range of tools to develop customer loyalty. And every company seems to have a different formula for making that loyalty happen. Such initiatives include creation of valuable customer experiences, creation of resonant brand, proactive marketing initiatives, quality control processes, and customer relationship management.
The common thread here is that the experience the customer ultimately has with the business, if it is positive creates the emotional bond that leads to customer loyalty. But something is missing from this assertion. What about the product itself? What role does it play in creating customer loyalty? Of all the touch points customers have with the company, company’s product is the one touch point with which they are likely to spend the most time. The product is also the touch point likely to create the strongest emotional reaction, because it is the customer experience with product that customers use to portray the company brand and image.

Although, it is widely acknowledged that customer satisfaction is a driver of customer loyalty. However, a number of contributions to the services marketing literatures over the past decade have called this into question and empirical studies have begun to demonstrate service contexts in which customer satisfaction and loyalty do not always correlate positively (Silvestro and Cross, 2000; Kamakura, 2002; Pritchard and Silvestro, 2005). However, most of these empirical studies have been based on business to consumer (B2C) contexts, and on latitudinal rather than longitudinal data.

The term customer loyalty was widely researched in 1990’s but considerably fewer investigations were conducted in later periods (see for example, Heskett et al., 1994, Rucci and Kirn, 1998; Reichheld and Markey, 2000; Vandermerwe, 2000; Frederickks, 2001; Reichheld, 2004). Also, moderate amount of empirical research has been conducted to examine the relationships among customer loyalty, satisfaction, switching costs, and customer value. And to date very few empirical studies has investigated these constructs in a single framework. And the complicated interrelationships among these constructs have not been fully uncovered and understood (Reichheld and Sasser, 1990; Jones and Sasser, 1995).

Therefore, the current study seeks to address some of these gaps and offers further theoretical insight and contribution into the contention that customer satisfaction is an indicator of customer loyalty.

2. CONCEPTUAL BACKGROUND

Customer loyalty has been studied since the 1950s (see Jacoby and Chestnut 1978 for a review). Customer satisfaction remains a worthy pursuit among the consumer marketing community (Oliver, 1999). Certainly, customer satisfaction is a critical focus for effective marketing programs. According to Yi (1991) customer satisfaction is a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product or service. Customer satisfaction is regarded as how customers can get more benefits than their cost (Liu and Yen, 2010). Customer satisfaction plays the most important role in total quality management. And in comparison with other traditional performance measures, customer satisfaction is probably less sensitive to seasonal fluctuations, changes in costs, or changes in accounting principles and practices (Kotler, 2006).

Some researchers (Parasuraman, et al., 1988; Cronin and Taylor, 1992) consider overall satisfaction to be the primary function of perceived service quality. Among the more popular measures of customer satisfaction, two widely employed approaches are transaction-specific and cumulative or overall satisfaction. The transaction-specific approach defines customer satisfaction as an emotional response by the consumer to the most recent transactional experience with an organization (Oliver, 1993). The associated response occurs within the time frame of consumption, after the choice process has been completed. The affective response on the other hand varies in intensity depending upon the situational variables that are present. Compared to transactional-specific satisfaction, overall satisfaction reflects customers’ cumulative impression of a firm’s service performance.

On the other hand, the overall satisfaction perspective views customer satisfaction in a cumulative evaluation fashion that requires summing the satisfaction associated with specific products and various facets of the firm. Satisfied customers tend to have a higher usage level of a service than those who are not satisfied (Ram and Jung, 1991; Bolton and Lemon, 1999). They are more likely to possess a stronger repurchase intention and to recommend the product/service to their acquaintances (Zeithaml et al., 1996). Numerous studies have also revealed that customer satisfaction positively affects loyalty (Zeithaml et al., 1996; Bloemer et al., 1999; Oliver, 1999).

As identified by the researchers that customer loyalty as a construct is comprised of both customers’ attitudes and behaviors. Customers’ attitudinal component represents notions like: repurchase intention or purchasing additional products or services from the same company, willingness of recommending the company to others, demonstration of such commitment to the company by exhibiting a resistance to switching to another competitor (Cronin and Taylor, 1992; Prus and Brandt, 1995; Narayandas, 1996), and willingness to pay a price premium (Zeithaml et al., 1996). On the other hand, the behavioral aspect of customer loyalty represents- actual repeat
The purchase of products or services that includes purchasing more and different products or services from the same company, recommending the company to others, and reflecting a long-term choice probability for the brand (Feick, et al., 2001).

The behavioral typology to customer loyalty is primarily concerned with measures of repeat purchase, proportion of purchases etc. Although, this is considered to be a relevant measure, the main criticism of this typology is that it does not include the customer’s motives for their behavior. Therefore attitudinal approaches to loyalty have been developed. While a behavioral approach to loyalty is still valid as a component of loyalty, it is argued that attitudinal approaches to loyalty should supplement the behavioral approach (Samuelson and Sandvik, 1997). The attitudinal typology includes, for example, measures of commitment and trust.

3. METHODOLOGY AND METHOD

3.1 Corelational Research Method

To achieve the study objective, the researchers adopted corelational research method, using qualitative research approach. The study explored and established the existence of relationship/interdependence between customer satisfaction and customer loyalty. Previous published studies, articles, books etc on the subject matter was thoroughly reviewed to gain a deeper understanding and insight in what earlier researchers have said, done and come up with. The major advantage of using secondary information is that much of the background work needed has already been carried out and have been already used and established by other researchers for a similar or different researcher purposes (Harris, 2001).

4. DISCUSSIONS AND CONCLUSION

Customer satisfaction is a popular concept in several areas like marketing, consumer research, economic psychology, welfare-economics, and economics. The most common interpretations obtained from various authors reflect the notion that satisfaction is a feeling which results from evaluation process of what has been received against what was expected, including the purchase decision itself and the needs and wants associated with the purchase (Armstrong and Kotler, 1996).

Many empirical studies have shown that customer satisfaction secures future revenues (Fornell, 1992; Bolton, 1998), reduces future transactions costs (Reichheld and Sasser, 1990), decreases price elasticity (Anderson, 1996), and minimizes the likelihood of customers defecting if quality falters (Anderson and Sullivan, 1993).

Customer loyalty is winning the confidence of the customer in favor of an organization such that the relationship becomes a win-win situation for both the organization as well as the customer. Customer loyalty is not a process that finishes with the customer joining the loyalty program but actually a process that starts with the customer joining the same. Customer loyalty is something more of what an enterprise must get from the customer. As opposed to what the name suggests, it is not just something that the customer has to build towards the enterprise.

Customer loyalty will be hard to get in times of a recession. At least harder than it was when the consumer had enough to spend. Small reasons will be enough for customers to turn away from putting money into a business. Customers will not put loyalty first but the price will be a major driving force. For now - the consumer confidence is so low – and will be influenced by immediate benefits. As such customer loyalty programs will need to adapt to quicker and possibly immediate awards to the customer. Lower prices as part of the loyalty program will definitely boost membership to the loyalty programs but this must be carefully communicated to the customer, to avoid perceiving company’s product as inferior compare to competitors offering. Therefore, discounts to customers must be treated separate from the benefits of lower price to loyal customers. Loyal customers must be given a feeling that they are being treated specially, particularly with the ongoing economic recession. That is the key to keeping the customers with the business in these hard times. Customers need to be better informed now of the benefits that they are getting by belonging to loyalty program.

The power of customer loyalty is clear and compelling: It leads to more profitable growth. Loyal customers stay longer with companies that treat them well. They buy more of their products, and they cost less to serve. They recommend the companies to their friends and colleagues, becoming, in effect, a highly credible volunteer sales force. Investing in loyalty can generate more attractive returns than rolling out an ambitious new marketing plan or expanding line of company’s business. Loyalty can be of substantial value to both customers and the firm. Customers are willing to invest their loyalty in business that can deliver superior value relative to competitors (Reichheld, 1996). When they are loyal to a firm, consumers may minimize time expended in searching and in locating and evaluating purchase alternatives. Also, customers can avoid the learning process that may consume
the time and effort needed to become accustomed to a new vendor. Customer loyalty is one major driver of success in e-commerce (Reichheld and Schefter, 2000).

It is a fallacy to assume that a customer is loyal just because he/she continue to buy from the company’s. There are many reasons why a customer repeats purchasing which have little to do with being really loyal. Moreover, loyalty means hanging in there even when there may be a problem because the organization has been good to customers in the past and addresses issues when they arise. It means that they do not seek out competitors and, when approached by competitors, are not interested. It also means being willing to spend the time and effort to communicate with the organization so as to build on past successes and overcome any weaknesses.

Customer satisfaction alone cannot achieve the objective of creating a loyal customer base. In theory and practice trust has come out to be an important antecedent of customer loyalty. While determining the imperatives of ‘how to win customers’ trust’ the service provider(s) must focus on both present and future time frame. The construct of trust contains belief in the brand or company, which provides the customers an assurance of positive outcomes not only for the present but also for the future.

It had been thought and research has found that by increasing loyalty as it is apparent that satisfied customer are likely to remain loyal to the service provider (Eriksson and Vaghult, 2000). However, research by Jones and Sasser (1995) has found that satisfaction and loyalty are not directly correlated, particularly in competitive environments. The findings shows that to achieve loyalty in competitive environments organizations need to ‘completely satisfy’ their customers (Jones and Sasser, 1995). Fredericks (2001) also points out that there is a big difference between satisfaction, which is a passive customer condition, and loyalty, which is an active or proactive relationship with the organization.

Furthermore, Coyles and Gokey (2002) found from their research that satisfaction alone does not make a customer loyal and that merely measuring satisfaction does not tell a company how susceptible its’ customers are to changing their spending patterns or jump ship to competitors with a better offering. They identify three basic customer attitudes, emotive, inertia and deliberative that underlies loyalty profiles. They have found that the emotive customers are the most loyal. Thus, it would seem that while satisfaction is an important component of loyalty the definition needs to incorporate more attitudinal and emotive components.

REFERENCES


