Chapter 3

Importance of Customer Satisfaction
&
The Impact of BPR
Satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance in relation to his or her expectation. If the performance falls short of expectation, the customer is dissatisfied. If the performance matches the expectation, the customer is satisfied. If the performance exceeds expectation the customer is highly satisfied or delighted. Therefore, it can be presented as:

\[ S = P - E \]

Here \( S \), stands for the satisfaction level of the customer,

\( P \) stands for the performance level of the company as perceived by the customer while consuming the product,

\( E \) stands for the performance of the company as already expected by the customer while purchasing the product.

We can expect the following three situations:

If \( P < E \) i.e., performance is below expectation, there will be customer dissatisfaction.

If \( P = E \) i.e., customer satisfaction results, if performance matches expectation.

If \( P > E \) i.e., customer is delighted if performance exceeds expectation.

We can give an example. Suppose, a family with small children is travelling by car on an expressway and after quite sometime the children feel very hungry. In the absence of a good roadside restaurant the family may decide to eat in a very small roadside Dhaba, as this was the only available one within a reasonable distance. Nevertheless, they may come out quite satisfied if the quality of food and service was reasonably good since their expectation level was very low. The same family in another situation, let us say, having dinner in a luxury five star hotel may feel highly dissatisfied even if they find any minor drawback in the quality of food and service as the expectation level was very high in this case.

There are levels of customer satisfaction or customer satisfaction can also be indexed (Customer Satisfaction Index). At low satisfaction level, customers are likely to switch brands or abandon the company. At an average satisfaction level they can also switch if better offer comes. Only at
a very high satisfaction level (customer delight), an emotional bond is created with the brand and the customer will become a loyal customer.

If the marketers raise customer expectation too high, the buyer is likely to be disappointed, but a low expectation level generated by the company won't attract enough buyers, since a threshold level expectation is required in order to motivate a customer to act. So, today's most successful companies are raising expectations and delivering performances to match. These companies are aiming for TCS - Total Customer Satisfaction.

3.2 THE PHILOSOPHY OF PLEASING

The orientation to customer satisfaction is no recent phenomenon. Many successful business people over the years have identified the importance of focusing on customer satisfaction. The British car manufacturer, Sir Henry Royce, whose name is synonymous with quality, laid down the primary principle of customer satisfaction in 1906 when he declared, “our interest in Rolls-Royce cars does not end at the moment when the owner pays for and takes the delivery of the car. Our interest in the car never wanes. Our ambition is that every purchaser of a Rolls-Royce car shall continue to be more than satisfied.”

A similar appreciation (for customer satisfaction) is echoed by today's Toyota Motor Sales organisation:

"Total customer satisfaction is the cornerstone of Toyota's business plan in the United states. It is our fundamental corporate philosophy and part of everything we do."

The Connecticut dairy store magnate, Stew Leonard (showcased for American Business by Tom Peters), has built on Selfridge's philosophy. He reminds retailers throughout the US of the importance of customer satisfaction with the often-quoted rules of his dairy superstores:

Rule #1: the customer is always right.
Rule #2: if the customer is ever wrong, reread rule #1!

Mail cataloguer, L.L. Bean, has typified the trend of American business to recognise the importance of satisfied customers with its guarantee:
"Our products are guaranteed to give 100% satisfaction in every way. Return anything purchased from us at anytime if it proves otherwise. We will replace it, refund your purchase price or credit your credit card as you wish. We do not want you to have anything form L.L. Bean that is not completely satisfactory."

Also for example:

"We'll never be 100% satisfied, until you are too", advertises Cigna.

"One reason our customers are so satisfied is that we aren't", advertises Honda.

3.3 THE DEVELOPMENT OF SATISFACTION THEORY

From marketing theorists and consumer researchers, two perspectives of studying satisfaction appear identifiable: approaching the study of satisfaction through product performance, and the study of satisfaction as its own construct.

Cardozo

Cardozo (1965) was one of the first marketing academics to investigate customer satisfaction. Cardozo's treatise borrowed heavily from social psychology. To help understand the impact of satisfaction on future buying behaviour, Cardozo suggested the rather novel joint application of both Helson's "contrast effect" as well as Festinger's cognitive dissonance theory.

Cardozo speculated that dissonance would prevail in purchase of high involvement and substantial expanded effort. This meant if customer had invested themselves in a product or service (either through their involvement with the product or by expanding considerable effort to buy it or by paying a substantial price) they would actively work to reduce any difference between their actual experience with a product or service and their prior expectations. This suggests generally more favourable outcome for the manufacturer, since the customer would conceivably increase his/her evaluation of experience or decrease his/her expectation (after the fact) to reduce the experienced dissonance between high expectation and low experience.

In purchases commanding little involvement and requiring scant expanded effort, Cardozo posited that contrast theory would operate, suggesting customers would be intolerant of much...
deviations of experienced satisfaction from their prior expectation. This situation is far less forgiving for the manufacturer.

**Howard and Sheth**

The work of John Howard and Jagadish Sheth (1969) in their model of consumer behaviour laid important foundations for the process model of satisfaction, which was developing in parallel with their work on consumers' pre-purchase and post-purchase reconciliation of information and feedback. Satisfaction was a variable included in their earliest models.

**Oliver**

Some of the most frequently-cited, early satisfaction pieces are the work of Richard Oliver (1977, 1980, 1981). Oliver initiated a focus on the antecedents of satisfaction, particularly the expectancy-disconfirmation sequence. Oliver used Helson's adoption theory to suggest that expectation fixes a standard of performance providing a frame of reference for customers' evaluative judgment. Satisfaction was then viewed as a function of the baseline effect of expectation, modified by perceived disconfirmation.

Oliver established a process to describe how satisfaction is produced in this expectation-disconfirmation framework. Prior to purchase, buyers form expectation of the product or service. Consumption of the product or service prevails at a level of perceived quality (which can be influenced itself, by expectation). The perceived quality either positively confirms expectation or negatively disconfirms it. Expectations serve, in Oliver's model, as an anchor or baseline for satisfaction, the positive confirmation or negative disconfirmation either increasing or decreasing the customer's resulting satisfaction.

### 3.4 A MODEL OF SATISFACTION

Satisfaction has been broadly defined a satisfactory post-purchase experience with a product or service given an existing pre-purchase expectation. To extend our understanding of the exact relationship preceding and following the formation of satisfaction, a model of satisfaction can be extremely helpful. Considering this value, it is surprising to find that few books on customer satisfaction actually present such a model! There is certainly no lack of models available for
adoption. The theoretical literature offers a plentiful array. Perhaps other texts have been reluctant to present a satisfaction model that the later may be supplanted by an improved version or may fall into disfavour.

Despite the risk, the advantages of offering a model appear to outweigh the disadvantages, a model in an ideal situation to identify the constructs of satisfaction and to speculate on the interrelationship of the constructs measured. Further, without a model, data collection can be incomplete and analysis is directed more by intuition than driven by hypothesised relationships. Consequently, this study offers the satisfaction model depicted in the following figure. A majority of the satisfaction models have Oliver's 1980 model as their primary influence (Oliver 1980). Our model also follows Oliver's. It utilises the familiar “disconfirmation paradigm” established by Oliver (1980) and further advanced by Churchill and Suprenant (1982), which has become core of so many later models.

Our model is divided into three stages: antecedents, the satisfaction-formation process, and consequences. In both the antecedents and consequences stages certain mediators are also identified. While these may be implicit in other models, it is believed that explicitly recognising them has special value for the practical assessment and interpretation of satisfaction score. Specifically their existence should help to identify other measures of information, which should be collected during the measurement of satisfaction.

### 3.4.1 Antecedents

Prior experience is the most important antecedent of satisfaction. It serves as a “memory bank” of all of the previous experiences with a product or service. It is unlikely this experience is isolated from the experiences with comparable products or services. On the contrary, it is probably highly comparative, most likely storing information in a comparative manner. It is reasonable to identify a number of mediators that may temper or enhance prior experience. These influences, described in the box to the left of prior experience are divided into personal mediators and situational mediators. The personal mediators have to do with the characteristics of customers, most notably demographics (age, income, education and so on) and with personal expertise or competency. (These mediators suggest the value of segmenting customers at some
time during the evaluation of ratings since customers of similar demographics may be inclined to rate organisation in a similar fashion.) Reinforcement or contradiction from peers (word of mouth) is also advanced as personal mediators, capable of modifying prior experience. We often muse over differences for which personal mediators may be responsible. Rarely do we have substantial data to confirm our speculations.

A special tabulation of the ACSI database has just produced a fascinating insight into the existence of some of these demographic mediators and the size of their impact (Bryant and Cha 1996). Significant differences were documented for gender, age, socioeconomic status and area of residence (metro, non-metro). Table 3.1 shows how gender and age combined to produce even greater difference in satisfaction ratings than either one individually. Young men tend to be the most difficult to satisfy, while women over 55 years are the easiest. Socioeconomic status and industrial sector also interact dramatically. In Table 3.2 it can be seen while manufacturing non-durables achieve the highest overall satisfaction ratings, high socio-economic customers are less satisfied as they are across all sectors.
Situational mediators include the evolution of technology in the category, the intensity and nature of competition in the category and advertising and public relations activity. Each of these mediators it is believed will similarly enhance or diminish a customer’s prior experience.

Table 3.1: Satisfaction Ratings by Age and Gender

<table>
<thead>
<tr>
<th>Age group</th>
<th>Female</th>
<th>Male</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-34</td>
<td>77</td>
<td>73</td>
</tr>
<tr>
<td>35-54</td>
<td>78</td>
<td>74</td>
</tr>
<tr>
<td>55 and over</td>
<td>84</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: A special tabulation of ACSI data reported in Bryant, Barbara Everitt, and Cha, Jaesung “Crossing the threshold: Some customers are Harder to please Than Others, So Analyse Satisfaction Scores carefully”, Marketing Research (Winter 1996), 1996, pp. 21-28.

Table 3.2: Satisfaction Ratings by Sector and Socioeconomic Status

<table>
<thead>
<tr>
<th>Industrial Sectors</th>
<th>Socioeconomic Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACSI National Average</td>
<td>Lower</td>
</tr>
<tr>
<td>Manufacturing-non durables</td>
<td>86</td>
</tr>
<tr>
<td>Manufacturing-durables</td>
<td>84</td>
</tr>
<tr>
<td>Transportation / communications / utilities</td>
<td>83</td>
</tr>
<tr>
<td>Retail</td>
<td>79</td>
</tr>
<tr>
<td>Finance / Insurance</td>
<td>82</td>
</tr>
<tr>
<td>Services</td>
<td>80</td>
</tr>
<tr>
<td>Government / Public Administration</td>
<td>67</td>
</tr>
</tbody>
</table>

Source: A special tabulation of ACSI data reported in Bryant, Barbara Everitt, and Cha, Jaesung “Crossing the threshold: Some customers are Harder to please Than Others, So Analyse Satisfaction Scores carefully”, Marketing Research (Winter 1996), 1996, pp. 21-28.

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3.4.2 The Satisfaction Process

As was suggested at the beginning of this section the process of formulating satisfaction encapsulated a comparison of expectation with perceived performance.

Expectations

Olson and Dover (1979) define expectations as

Beliefs about a product or services attributes or preference at some time in the future.

Yi (1991) identifies two basic conceptualisations of expectations. One version, a more global perspective, has to do with an institutional perspective,

Preconsumption beliefs about the overall performance of the product / service created by: previous experience; the organisation’s claim; product information; or word of mouth.

The other major view of expectation has more to do with a process internal to the customer and is more “componential”. Here, expectations are defined as the sum of beliefs about the level of attributes possessed or offered by the product or service. Oliver and Bearden (1983) have observed, however, that there are likely two components of expectations: the level of performance expected, and the certainty of receiving that level of performance. Oliver and Bearden proposed operationalising these components in a fashion similar to the “value-expectancy attitude model” of Fishbein (1975).
Expectations are influenced by prior experience. It is believed that, as prior experience becomes more and more satisfying, expectation or future performance as adjusted becomes ever higher. This is frequently referred to as “raising hurdle” and is paradoxical while satisfying customers never becomes easier.

It is interesting to note how few satisfaction surveys actually avail themselves of a measure of expectations. Of 40 customers satisfaction surveys collected and published by the Society of Consumer Affairs Professional (1996), only two contains questions or tasks to assess expectations or link satisfaction appraisal to expectations.

Differences between Expectations and Desires

Oliver’s “componential definition” of expectations was described as:

*Expectations have two components: a probability of occurrence (for example the likelihood that a clerk will be available to wait on customers) and an evaluation of the occurrence (for example the degree to which the clerk’s attention is desirable or undesirable, good or bad, and so on). Both are necessary because it is not at all clear that some attributes (attentive clerks, in our example) are desired by all shoppers.*

Spreng et al. (1996) question the co-operative value of this definition observing that it can confound a customer’s valuation of an event with his judgment of the likelihood of the event occurring. Thus two customers of a store with identical judgments of the availability of the sales clerk to assist shoppers, might produce different expectation scores, because one customer desired a sales clerk to approach him immediately upon entering the store while the other customer preferred to be left alone until he requested for help.

Spreng et al. suggest decomposing the traditional expectation measure into two measures: (1) predictive expectations: beliefs about the likelihood that attributes, benefits or outcomes are associated with a product or service, and (2) desires: evaluation of the desirability of an attribute, benefit or outcome, that is the extent to which the attribute, benefit or outcome leads to the attainment of the customer’s values.

In this view, expectations are future-oriented and are considered malleable. In contrast, desires are described present-oriented and relatively stable. In a test of these constructs, Spreng et al.
found them to be empirically distinct. Secondly, they were found to have different effect on satisfaction: expectations had both positive and negative effects while desires had only negative effect. In our model, we adopt the concept of desires as an influence on the formation of expectation.

**Performance**

The other component of confirmation / disconfirmation comparison involves the performance of the product or service. There are two types of performance: objective and perceived. Objective performance, conformance to the specification of design, is not easily operationalised because perception of performance undoubtedly varies across customers. Perceived performance on the other hand (the customer's recognition of performance) is the most-easily measured.

Performance is also conditioned by prior experience. It may be that prior experience helps to make more salient certain aspects of a product's or service's performance. Impinging on judgments of performance is the ease of evaluating the actual performance of the product or service.

**Ease of Evaluation**

Anderson and Sullivann (1993) advance the ease of evaluating performance as a major influence in the determination of satisfaction. When performance of a product or service is more difficult for the customers to evaluate, they suggest perceived performance will be assimilated towards expectations. In situations in which performance is more easily judged, they suggest that perceived performance may be contrasted against expectations. More should be said about this hypothesis, but for the moment suffice the observation that not all products and services performances are evaluated with equal ease.

**Importance**

One surprise to many satisfaction professionals should be the absence of any measure of importance in the former satisfaction model. While importance is obtained as an unchallenged component of many satisfaction surveys, we have no theoretical foundation for being included in the process.
The institution of importance undoubtedly has its roots in marketing research discipline. Characteristically marketing research would derive some prioritisation of the performance attributes in identifying which ones should be attended first. As such, the importance measure becomes a useful way of acting on the results of a satisfaction survey, but it does not substantively contribute to the formulation of satisfaction.

**Confirmation / Affirmation / Disconfirmation**

The heart of the satisfaction process is the comparison of what was expected with the product or services performance. This process has traditionally been described as the "confirmation / disconfirmation process". Oliver (1980) was the first to suggest that expectations serve as a baseline or frame of reference against which customers' experiences are measured. Oliver described a three-step process. First, customers would form expectation prior to purchasing a product or service. Second, consumption of or experience with the product or service produces a level of perceived quality that is influenced by expectation. If perceived performance is only slightly less than the expected performance, assimilation will occur. Perceived performance will be adjusted upward to equal expectations. If perceived performance lags expectations substantially, contrast will occur, and the shortfall in the perceived performance will be exaggerated.

Perceived performance may reinforce, exceed, or fall short of expectations. If expectations are in any way not met, rendered satisfaction decreases from the baseline level established by expectations. If, on the other hand, expectations are met or exceeded, satisfaction increases and expectations in future purchases/ uses may be adjusted upward.

In describing the confirmation / disconfirmation process "disconfirmation" has been used to describe both cases in which performance exceeds expectations as well as those in which performance falls short of expectations. This unfortunate use of the term "positive disconfirmation" to describe the situation in which experiences actually exceed expectations, seems, at best, confusing and may even create a misunderstanding of the working of the model. We will adopt the logic of "affirmed", "confirmed" and "disconfirmed". The implicit logic is that satisfaction is related to the size and directionality of the "disconfirmation" of experience, that is:

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Expectations will be considered as confirmed when perceived performance meets them.

- Expectations will be considered affirmed (reinforced by positive disconfirmation) when perceived performance exceeds them.
- Expectations will be considered disconfirmed (failed by negative disconfirmation) when perceived performance falls short of them.

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**Fig 3.2: The Satisfaction Function**


The confirmation / disconfirmation process feeds back both to expectations and perceived performance (indicated by dashed lines in the above figure). The effect of expectation is to raise or lower future expectations. The effect on perceived performance may be qualitative. Affirmation or disconfirmation may selectively direct the customer to focus on certain elements or aspects of the products or services in judging future performance.

**The Satisfaction Function**

The behaviour of satisfaction as a phenomenon can be better understood if it is visualised as a function. Anderson and Sullivan (1993)\textsuperscript{12} plot satisfaction’s response to the difference between perceived quality and expectation as a response function. The above figure depicts the
satisfaction function. As perceived performance exceeds expectation, satisfaction increases, but at a decreasing rate. As perceived performance falls short of expectation, Anderson and Sullivan utilise an asymmetric loss function to show that satisfaction will be more responsive to disconfirmation (negative disconfirmation) than to affirmation (positive disconfirmation).

The shape of the resulting satisfaction function is substantiated by much empirical evidence; for example, the nature of word-of-mouth dissatisfaction produces far more negative word-of-mouth activity than satisfaction produces in positive word-of-mouth activity (TARP various). The shape of the curve also makes clear the value to organisations in preventing dissatisfaction among their customers.

3.4.3 Consequences

Satisfaction is an intermediate construct perhaps instituted by TQM community as a certain measure of their desire to create, manufacture, and deliver those products and services which produce a maximum amount of satisfaction for target customers. But satisfaction is temporal and imperfect measure. Organisations today are interested in maximising customer retention and loyalty. But not all those who are satisfied, or those who repurchase will be loyal. The consequences of satisfaction are indeterminate. There is ample proof that satisfied customers are not always the most loyal customers (and vice versa). The behavioural consequences of customer retention are at best an intermediate sign that a customer has not immediately alienated.

In our model between satisfaction and repurchase, we have identified an additional set of mediators composed of structural mediators and procedural mediators. Structural mediators include the industry life cycle, the nature of competition, and the channel structure. Each of these structural forces is posited to mediate the level of satisfaction. For example, a customer may be quite unhappy with a product or service experience, but if there are few or no competitors in the category, the customer is likely to be “retained” (that is, he/she will continue to conduct the business with the organisation until a reasonable alternate source of supply becomes available). Similarly, a very satisfied customer will continue to buy even though the channel member supplying him/her is quite inefficient and unpleasant to do business with.
Young industries, no doubt, are more effective at retaining even moderately dissatisfied customers simply because of the early dependence established between producers and customers in new categories. All of these situations are frequently referred to as the "customer as hostage" scenario.

Procedural mediators deal less with structure (hardware) and more with the "software" of industry business. A customer who is only moderately satisfied may repurchase in short-run because of a very talented marketing manager (or intermediary) who has established and continues to maintain a good relationship with the customer. Conversely, a satisfied customer may be dislodged because of a poor complaint management process.

3.5 FREQUENTLY INVOKED THEORIES

As research into customer satisfaction has involved, several different psychological theories have been applied to the relationship between expectation, perceived performance, confirmation / disconfirmation, and resulting satisfaction. Five theories from Social Psychology have been most frequently used. These theories' consequences for satisfaction are summarised in the following table.

Assimilation-Contrast Theory
In logic related to Sherif's Law of Social Judgment, there would supposedly exist "latitudes" (ranges) of acceptable performance, performance to which one might be "indifferent" and performance that would be rejected as unacceptable; all these ranges arrayed around the customer's actual level of expectation. These latitudes vary in width depending upon the individual customer's involvement with the product and product category. Assimilation-Contrast Theory suggests that if performance is within a customer's latitude (range) of acceptance, even though it may fall short of expectation, the discrepancy will be disregarded, assimilation will operate and the performance will be deemed as acceptable. If performance falls within the latitude of rejection (no matter how close to expectation), contrast will prevail and the difference will be exaggerated, the product will be deemed as unacceptable.

Contrast Theory
This is a black or white view of the world. According to the contrast theory, any discrepancy of experience from expectations will be exaggerated in the direction of the discrepancy. If a manufacturer raises expectations in his/her advertising for a product and then a customer's experience is only slightly less than that promised, the product would be rejected as totally unsatisfactory. Conversely, under promising in advertising and over delivering will cause the positive disconfirmation also to be exaggerated.

**Dissonance Theory**

A decidedly different outcome is offered by applying Festinger's Theory of Cognitive Dissonance. Applying Festinger's ideas to affirmation and disconfirmation of expectation in satisfaction work, one concludes that customers might try to eliminate any dissonant experience (situations in which they have committed to an apparently inferior product or service) (Festinger 1957). Dissonance theory would predict that a customer experiencing lower performance than expected, if psychologically invested in the product or service, would mentally work to minimise the discrepancy. This may be done either by lowering expectations (after the fact) or, in the case of subjective disconfirmation, positively increasing the perception of performance.

**Negativity Theory**

This theory developed by Carlsmith and Aronson (1963) suggests that any discrepancy of performance from expectation will disrupt the individual, producing “negative energy”. Affective feelings toward a product or service will be inversely related to the magnitude of the discrepancy.

**Hypothesis Testing Theory**

Deighton (1983) suggested a two-step model for satisfaction generation. First, Deighton hypothesises; pre-purchase information (largely advertising) plays a substantial role in creating expectations about the products customers will acquire and use. Customers use their experience with products (the product's performance) to test their expectations. Secondly, Deighton believes, customers will tend to attempt for confirming (rather than disconfirming) their expectations. This theory suggests that customers are biased to positively confirm their product
experiences. This is an admittedly optimistic view of customers, but it makes the management of evidence of an extremely important marketing tool.

### Table 3.3: Theories of Expectation-Disconfirmation in Customer Satisfaction

<table>
<thead>
<tr>
<th>Theory</th>
<th>Product/service experience</th>
<th>Effect on perceived product/service performance</th>
<th>Moderating Conditions</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contrast</td>
<td>Positive confirmation</td>
<td>Perceived performance enhanced</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Negative disconfirmation</td>
<td>Perceived performance lowered</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assimilation/contrast</td>
<td>Small confirmation or</td>
<td>Perceived performance assimilated towards</td>
<td>Purchase is</td>
<td>Performance</td>
</tr>
<tr>
<td></td>
<td>disconfirmation</td>
<td>expectations</td>
<td>ego-involved</td>
<td>differences</td>
</tr>
<tr>
<td></td>
<td>Large confirmation or</td>
<td>Perceived performance contrasted against</td>
<td></td>
<td>exaggerated</td>
</tr>
<tr>
<td></td>
<td>disconfirmation</td>
<td>expectations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dissonance</td>
<td>Negative disconfirmation</td>
<td>Perceived performance modified to fit with</td>
<td>Purchase is</td>
<td>Less</td>
</tr>
<tr>
<td></td>
<td></td>
<td>expectations</td>
<td>conditions of</td>
<td>modification</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>ambiguity</td>
<td></td>
</tr>
<tr>
<td>Generalised</td>
<td>Either confirmation or</td>
<td>Perceived product performance lowered</td>
<td>Purchase is</td>
<td>More</td>
</tr>
<tr>
<td>negativity</td>
<td>disconfirmation</td>
<td></td>
<td>ego-involved</td>
<td>modification</td>
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<td></td>
<td></td>
<td></td>
<td>High commitment and</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td>interest</td>
<td></td>
</tr>
<tr>
<td>Hypothesis testing</td>
<td>Either confirmation or</td>
<td>Perceived performance modified to fit expectations</td>
<td>Purchase made under</td>
<td>More</td>
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<td></td>
<td>disconfirmation</td>
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<td>modification</td>
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<td></td>
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<td>ambiguity</td>
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</tbody>
</table>


### 3.6 Measurement of Customer Satisfaction

#### 3.6.1 The American Satisfaction Index

**Genesis**

The American Customer Satisfaction Index roughly emulates a national measure conducted in Sweden, the Swedish Customer Satisfaction Barometer. The Swedish index was first reported in 1989.
Professor Claes Fornell of the University of Michigan and architect of the Swedish programme developed the American index as a joint project between the National Quality Research Centre of the University of Michigan School of Business and the American Society for Quality Control. Work was initiated in 1990 with a pilot project appraising 60 different approaches. Ultimately the survey procedure and the analytical process developed in Sweden were adapted to the American market.

Fornell’s model expresses satisfaction as the result of three elements: perceived (experienced) quality; expectations and perceived value. Fornell further postulates that satisfaction subsequently influences complaining (or complementing) behaviour as well as customer loyalty. In the model he has operationally defined each construct. Furthermore, confirmatory factor analysis and linear equation modeling have been conducted to validate the relationships depicted in the model and the overall framework.

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Fig 3.3: The ACSI Model of Satisfaction
Source: American Society for Quality Control and the National Quality Research Center, University of Michigan Business School, The American Customer Satisfaction Index

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The Survey
The ASCI survey gathers information on 203 specific companies (which account for 40 percent of all consumer expenditures) and seven governmental agencies, both serving consumer
households. Numerous smaller companies are also included and aggregated with the 40 industries monitored, which collapse into seven economic productivity sectors.

Yearly results are based on interviews with approximately 30,000 consumers. Participants are "self-identified" purchasers of products from one or more of the 40 industries. Each consumer's satisfaction scores are allocated to the brand he/she identifies as having produced the last product purchased in the industry.

The survey's goal is to provide an understanding of the impact of quality to GNP, national competitiveness and to the U.S. standard of living. Fornell argues that economic factors have heretofore been reacted to in isolation from consumer's reactions. For example, if prices increase, one is likely to blame inflation rather than recognising production costs have simply increased to make a superior product. If consumers attribute the product with an increased cost added satisfaction then economically the increase is justified. On the other hand, if productivity increases, but quality lessens, then this change in productivity will not likely be met with customer approval.

<table>
<thead>
<tr>
<th>Product Category</th>
<th>1995 Score</th>
<th>1996 Score</th>
<th>% Change from '95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soft drinks</td>
<td>86</td>
<td>86</td>
<td>nc</td>
</tr>
<tr>
<td>Parcel Delivery - Express Mail</td>
<td>81</td>
<td>85</td>
<td>4.9</td>
</tr>
<tr>
<td>Food Processing</td>
<td>84</td>
<td>83</td>
<td>-1.2</td>
</tr>
<tr>
<td>Household Appliances</td>
<td>82</td>
<td>82</td>
<td>nc</td>
</tr>
<tr>
<td>Consumer Electronics - TV and VCR</td>
<td>81</td>
<td>81</td>
<td>nc</td>
</tr>
<tr>
<td>Communications - long distance telephone service</td>
<td>82</td>
<td>81</td>
<td>-1.2</td>
</tr>
<tr>
<td>Personal Care and Cleaning Products</td>
<td>84</td>
<td>80</td>
<td>-4.8</td>
</tr>
<tr>
<td>Beer</td>
<td>81</td>
<td>79</td>
<td>-2.5</td>
</tr>
<tr>
<td>Automobiles, Vans and Light trucks</td>
<td>80</td>
<td>79</td>
<td>-1.3</td>
</tr>
<tr>
<td>Apparel : sports ware / Under ware</td>
<td>81</td>
<td>78</td>
<td>-3.7</td>
</tr>
<tr>
<td>Gas Service stations</td>
<td>80</td>
<td>77</td>
<td>-3.8</td>
</tr>
<tr>
<td>Communications : Local Telephone Services</td>
<td>78</td>
<td>77</td>
<td>-1.3</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>82</td>
<td>77</td>
<td>-6.1</td>
</tr>
<tr>
<td>Athletics Shoes</td>
<td>79</td>
<td>77</td>
<td>-2.5</td>
</tr>
<tr>
<td>Solid Waste Disposal</td>
<td>77</td>
<td>76</td>
<td>-0.7</td>
</tr>
<tr>
<td>Utility-Electric Service</td>
<td>74</td>
<td>75</td>
<td>1.4</td>
</tr>
<tr>
<td>Supermarkets</td>
<td>74</td>
<td>75</td>
<td>1.4</td>
</tr>
<tr>
<td>Product Category</td>
<td>1995 Score</td>
<td>1996 Score</td>
<td>% Change from '95</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------</td>
<td>------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>Insurance / Auto/ Home/ Personal Property</td>
<td>76</td>
<td>75</td>
<td>-1.3</td>
</tr>
<tr>
<td>Discount Stores / Department Stores</td>
<td>74</td>
<td>75</td>
<td>1.4</td>
</tr>
<tr>
<td>Motion Pictures</td>
<td>77</td>
<td>74</td>
<td>-3.9</td>
</tr>
<tr>
<td>U.S Postal Service : Mail Delivery and Delivery Service</td>
<td>69</td>
<td>74</td>
<td>7.2</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>75</td>
<td>74</td>
<td>-1.3</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>74</td>
<td>74</td>
<td>nc</td>
</tr>
<tr>
<td>Personal Computers</td>
<td>75</td>
<td>73</td>
<td>-2.7</td>
</tr>
<tr>
<td>Hotels</td>
<td>73</td>
<td>72</td>
<td>-1.4</td>
</tr>
<tr>
<td>Hospitals</td>
<td>74</td>
<td>71</td>
<td>-4.1</td>
</tr>
<tr>
<td>Restaurants - Fast Food- Pizza- Carry Out</td>
<td>70</td>
<td>70</td>
<td>nc</td>
</tr>
<tr>
<td>Broadcasting - TV (Network News)</td>
<td>76</td>
<td>70</td>
<td>-7.9</td>
</tr>
<tr>
<td>Newspapers</td>
<td>68</td>
<td>69</td>
<td>1.5</td>
</tr>
<tr>
<td>Airlines</td>
<td>69</td>
<td>69</td>
<td>nc</td>
</tr>
<tr>
<td>Local Police</td>
<td>63</td>
<td>61</td>
<td>-2.4</td>
</tr>
<tr>
<td>Internal Revenue Service</td>
<td>54</td>
<td>50</td>
<td>-7.4</td>
</tr>
<tr>
<td>National Average</td>
<td>74</td>
<td>72.2</td>
<td>-2%</td>
</tr>
</tbody>
</table>

nc = No Change

Source: American Society for Quality Control and the National Quality Research Center, University of Michigan Business School, The American Customer Satisfaction Index

Based on the 1996 year-end results of the ASCI, the 31 industries can be arrayed according to their success in satisfying the American consumer. Table 1.3 presents these industry rankings. The soft drink, food processing, and personal care and cleaning industries topped the list, while restaurants, airlines and newspapers were the lowest rated industries. Comparing 1996 scores to those of 1995, personal property insurance, newspapers and department stores exhibited the greatest decrease in scores. While 16 of the 31 industries tracked decline from 1995, only three showed improvement; restaurants, gas stations, and cigarettes (the remaining 12 industries lacked 1995 scores with which to form a change score).

3.6.2 J.D. Power & Associates

One of the pioneers of the CSI (Customer Satisfaction Indexing) is another American firm, J. D Power & Associates. They have first done it for the automobile sector. According to them — "automobile is the king of customer assets; nothing else comes closer or receives more attention
from both customer as well as enthusiasts. Every facet of its performance is thoroughly and comprehensively tested and compared to its competitors in order to provide a detailed picture.” It is for the reason that Motorists globally - especially in America, place their trust in the exhaustive survey conducted by J.D. Power & Associates, which reveals initial quality, customer satisfaction and appeal of a vehicle / manufacturer.

Since last several years, the Indian motorists too have been blessed with and enlightened by J.D. Power’s reports on automobile industry. The 1997 & 1998 Indian Initial Quality Study (IIQS) and Customer Satisfaction Indexing (CSI) revealed, for the first time a clear picture of the post-purchase performance of India - made vehicles to the industry and public alike.

This CSI can be true for any consumer / engineering/ automobile / electronic product, and also for banking products and services. J.D. Power Associates has carried out CSI study for “auto loan” services for Indian banks providing good results.

CSI is a customer driven measure of overall satisfaction that summarises data collected through the survey. It gauges relative levels of customer satisfaction based on purchase experience.

Studies done as per J.D. Powers with internationally tested, tried and fine-tuned question banks that provide a volume of unbiased data to measure the CSI, lead to answer in the following way.

The satisfaction levels can be:
1. Highly satisfied
2. Satisfied
3. Neither satisfied nor dissatisfied
4. Dissatisfied
5. Highly dissatisfied

Basically the 'CSI' is an Overall Index of the manufacturer / service-provider. As the name suggests, it is an indexed value. The indices appearing in the CSI will be calculated with the help of what is called 'Factor Analysis'. Variables with a high degree of statistical correlation are grouped together to form the factors, which are assigned proportional weight as regards their impact on the Overall satisfaction as perceived by the respondents.
3.6.3 Multiple Roles of CSM

Information
The primary intention for measuring customer satisfaction is to collect information regarding either what customer's report needs to be changed (in a product, service, or delivery system) or to assess how well an organisation is currently delivering on its understanding of these needs. This is an informational role. As such, marketing research and psychological measurement have much relevance.

The disciplines of marketing research and psychological measurement have been most responsible for much of the progress in CSM made to date. But their perspective is also responsible for some shortcomings as well. Information collection is generally based on the cost-efficient methods of sampling the general base of customers. Findings from a statistically derived sample are then projected to the entire customer base. The information collected is statistically representative, the technique is very cost efficient. It does, however, overlook the possible marketing benefits one might derive from a survey of a broader base of customers.

In general, the research procedures often required to structure and field appropriately designed CSM studies, may also serve as impediments to a survey that not only collects useful information, but also tells customers the organisation's care and appreciate their advice.

Communication
It can be effectively argued that the very act of surveying customers conveys a positive message: the organisation is interested in its customers' well being, needs, pleasures and displeasures. While this is admittedly a "marketing message" in which there is nothing wrong, the author would suggest, in allowing a survey to serve both the informational and communication roles. The consequence of addressing the communication benefits is to require a substantially enlarged sample, may be to conduct a census! For some organisations with customer bases exceeding one million customers, this will become exponentially more costly. But, despite the increased expense the hundreds of millions of dollars 'gambled' in advertising each year, dwarf the expense of surveying the satisfaction of valued, current customer is. To control costs one would segment (stratify) one's customer base to identify "heavy users" or one's most profitable
customers. If not all customers are shown the respect of a satisfaction survey; hopefully at least the most valuable customers (the heavy users) would be included. The expense of measuring heavy users’ satisfaction would be entirely justified by these users higher than average purchase-volumes.

3.7 WHY TRY FOR CUSTOMER SATISFACTION?

A Win-win Situation

The satisfied customers not only improve company’s profitability by means of continued support in terms of regular purchases but also leave a deep-rooted positive effect on the performance of the company over a period of time. Higher the profit generated by the company, non improvement is seen in employees’ level of satisfaction in terms of their own performance as well as increased reward received from the company as a result of generation of higher surplus. This will lead to lower employee turnover and the customers will again receive better service from more experienced and expert team of employees who have enhanced their customer knowledge, product knowledge and service skill over longer period of stay with the company.

Thus customer satisfaction has long-reaching impact on the current and perhaps future viability of an organisation. Schlesinger and Heskitt (1991)\(^\text{16}\) demonstrate the relationship between satisfied customers and satisfied employees with their cycle of good service (see figure below).

![Fig 3.4: The Cycle of Good Service](image)


The cycle suggests that satisfied customers tolerate higher margins that can be used to better pay the employees in a better way. This boosts employee morale, reducing employee turnover which in turn helps producing more satisfied customers, and so on.
A good many companies and organisations (particularly in the US) have understood this process and have distinguished themselves by instituting exemplary customer satisfaction programme. CIO Magazine (1995) recognised ten such firms as “best in class” in customer satisfaction measurement in 1995. The table below list the companies recognised:

<table>
<thead>
<tr>
<th>Company</th>
<th>Revenue</th>
<th>Employees</th>
<th>Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.L Bean Freeport, Maine</td>
<td>$ 974M</td>
<td>3,500</td>
<td>Outdoor and casual clothing and equipment</td>
</tr>
<tr>
<td>Land’s End Dodgeville, Wis</td>
<td>$ 992M</td>
<td>7,500</td>
<td>Direct merchant</td>
</tr>
<tr>
<td>Lexus Div., Toyota Motor Sales USA Torrance, Calif.</td>
<td>N/A</td>
<td>325</td>
<td>Distributors of luxury automobiles</td>
</tr>
<tr>
<td>Motorola Cellular Infra-structure Group Arlington Heights, Illinois</td>
<td>N/A</td>
<td>7,000</td>
<td>Cellular equipment and services</td>
</tr>
<tr>
<td>Nordstrom Seattle</td>
<td>$ 3.9B</td>
<td>33,000</td>
<td>Fashion specialty retailer</td>
</tr>
<tr>
<td>Richfood Richmond, Va.</td>
<td>$ 1.3B</td>
<td>1,800</td>
<td>Wholesale food distribution</td>
</tr>
<tr>
<td>Ritz-Carlton Hotel Company Atlanta</td>
<td>N/A</td>
<td>14,000</td>
<td>Hotel management</td>
</tr>
<tr>
<td>Solectom Corporation Milpitas, Calif.</td>
<td>$ 1.5B</td>
<td>8,000</td>
<td>Electronic manufacturing services</td>
</tr>
<tr>
<td>Southwest Airlines Dallas</td>
<td>$ 6.2B</td>
<td>17,200</td>
<td>Commercial air travel</td>
</tr>
<tr>
<td>United Services Automobile Assn. (USAA) San Antonio</td>
<td>$ 6.2B</td>
<td>16,500</td>
<td>Insurance, financial services</td>
</tr>
</tbody>
</table>


3.8 THE ECONOMICS OF CUSTOMER SATISFACTION

Competition with Quality-focused Economies

During the post World War II decade, Japanese companies were anxious to change their reputation in the United Sates where they have been perceived as a manufacturer of inferior quality merchandise. They evolved processes for measuring customer satisfaction and assessing the quality of competitive product offering. Information gathered on customer preferences was then incorporated in company decision-making. Japanese business leaders studied and learnt from American quality Gurus, W. E. Deming and Joseph Juran. Even though the quality of
goods was gradually improving year-after-year, the rate of improvement of Japanese quality of goods was much greater and they overtook US manufacturer in this aspect.

To compete with other quality-oriented economies today; it is absolutely necessary to collect the appropriate data to be attuned with the appropriate market indicator. Customer Satisfaction in a world oriented to quality improvement is the appropriate indicator.

Improved Competitive Posture within One’s Economy and Industry
Satisfaction is quickly becoming the key to competitive posture within a category or industry. Products or services initially secure life in the market by fulfilling a basic need but they get nothing more than a commodity status. To ensure long-term market success, business has created brands by differentiating one another’s product in the eyes of customers. Today most companies are leveraging branding to its maximum benefits. To further differentiate them, customer satisfaction is the next most likely strategy. Motorola and Xerox are two companies that have focused on customer satisfaction as a competitive strategy.

Improved Profitability
There is both an intuitive belief and mounting empirical evidence that improved customer satisfaction will increase organisational efficiency. Professor David Larcker of the Wharton Business School has determined that companies in the top quartile of customer satisfaction experience a higher appreciation in stock values. It has been investigated that there is a link among market share, servicing cost and customer satisfaction. Customer satisfaction is a threshold requirement "for achieving customer retention though additional consideration helped to improve retention”.

Improved Customer Retention
Satisfaction extends customer’s lifetime and hence increases customer lifetime value. In addition, focusing on satisfaction helps eliminating the negative word-of-mouth potential or dissatisfied customers. It has been found that more than 90% of dissatisfied customers will not exert their effort to contact a company to complain. They simply take their business to a competitor while voicing their dissatisfaction to other potential customers. One dissatisfied customer may speak to as many as nine others. Most consumers are trying to maximise their
satisfaction. If organisation takes the time and effort to assess their current customer satisfaction, they will move towards a customer-oriented organisation.

**Improved Market Share**

It has been found that it is five times as costly to attract a new customer than to retain an existing customer. Also retained customers exhibits the highest probability for additional business. Thus retention of marketing activities is known as “defensive” strategies (Day and Fornell)\textsuperscript{17} in which marketing expenses are more efficiently directed at retaining current customers than attempting to win new ones. This is expected to lead to higher market share for the organisation.

**3.9 DELIVERING CUSTOMER VALUE AND THE CONCEPT OF VALUE CHAIN**

**3.9.1 Customer Delivered Value**

Companies present value-proposition through their offerings to the consumers. This consists of a set of benefits they can offer through their products to satisfy some specific needs of their consumers. This proposition is a combination of tangible and intangible values. Product constitutes the tangible component whereas services, personnel and company image are part of the intangible value proposition. The offering would be successful if it delivers maximum value and satisfaction to the target buyers, since the customers will buy from the firm that they see as offering the highest perceived value. Customer Perceived Value (CPV) or the Customer Delivered Value is the difference between prospective customer’s evaluation of all the benefits and all the costs of an offering and the alternatives.
Customers' expectations are built on all the elements of Marketing Mix:

- Product
- Price
- Place
- Promotion

And particularly for Services:

- People
- Process
- Physical evidence

Hence, major drivers of satisfaction will be:

- Highly improved and augmented product
- A very low price structure including easy financing scheme
- Very convenient availability of the product
- Ease of comparability with other products through communication

The way to generate high customer loyalty is to deliver high customer value by designing a competitively superior value proposition aimed at a specific market segment backed by a superior value-delivery system. The value proposition consists of the whole cluster of benefits the company promises to deliver and basically is a statement about the resulting experience customers will gain from the company’ market offering. The brand must present a promise
which can only be kept depending on how the company can manage its value-delivery system. The value-delivery system includes all the experiences the customer will have on the way to obtaining and using the offering.

In a hyper-competitive economy company success depends on how they can create and deliver superior value. In order to do so the company must develop the following five capabilities.

- Understanding customer value
- Creating customer value
- Delivering customer value
- Capturing customer value
- Sustaining customer value

So, in order to succeed, the company needs to use the concept of a value and a value-delivery network.

3.9.2 Value Chain

The value chain is a tool developed by Michael Porter for identifying ways to create more customer value. The value chain considers nine strategically important activities among the various activities of a firm; they create value and cost in a specific business. These relevant activities are divided into primary and support activities.

![Value Chain Diagram](image)

**Fig 3.6**: The Generic Value Chain

*Source: Michael E. Porter*
The primary value activities represent the sequence of bringing materials into the business, converting them into final products, shipping out the final products, marketing them and servicing them. And support activities, such as procurement, technology development, human resource management and firm infrastructure are required for supporting the primary activities.

**Primary value activities**

- **Inbound logistics**: material handling and warehousing.
- **Operations**: transforming inputs into the final product.
- **Outbound logistics**: order processing and distribution.
- **Marketing and sales**: communication, pricing and channel management.
- **Service**: installation, repair and parts-supply.

The support activities are handled in certain specialised departments.

**Support activities**

- **Procurement**: procedures and information systems.
- **Technology development**: improving the product and process or system.
- **Human resource management**: hiring, training and compensation.
- **Firm infrastructure**: general management, finance, accounting, government relations and quality management.

### 3.10 CUSTOMER RETENTION - WHY?

A naïve view of business might suggest that profit is the appropriate goal of an organisation, but Ted Levitt\(^9\) (and others) have argued against this shortsighted view. Levitt says, from a practical viewpoint, the primary goal of an organisation has to be customer retention. Only with a steady base of customers can an organisation hope to make a profit. And only by first satisfying customers a business can ever hope to retain its current customers.

Also today’s customers are becoming harder to please and the challenge for the companies, according to Jeffrey Gitomor, is not to produce satisfied customers but delighted and loyal one. Companies seeking to expand their profit and sale have to spend considerable time and
resources searching for new customers. They do this by generating leads from new prospects and suspects, which they develop through media campaign. With persuasive and consistent selling effort, these lead maturity into customers and thus the process of attracting and getting customers is an expensive one.

At Digital Equipment, Robert Palmer, the CEO has placed the highest attention on customer satisfaction saying, “(To) ensure that the customer is a prime focus of everything we do, I pledge to focus on customer needs, listening to customer requirements. Digital strategy has one goal: rebuild shareholder value. That goal can be realised only by improving customer focus nor will we alter our belief that customer satisfaction is the surest path to lasting shareholder value and sustaining profits”.

3.10.1 Customer Lifetime Value

It is not enough for the companies skillfully attracting new customers. The company must keep them, as too many companies suffer from high customer churn – customer defection. If the company looses customer it looses the profit possibility.

Customer lifetime value (CLV) is a present value of the profit stream that the company would have realised if the customer has not defected prematurely.

For example,
A company has a present customer base of 1,00,000. Each customer’s average annual purchase is Rs.50,000.
If the customer defection rate is only 3% due to its poor service,
The annual loss in revenue = Rs.50,000 x (.03 x 1,00,000) = Rs, 15,00,00,000

If the company operates on a 8% gross margin basis
The company’s annual loss = .08 x Rs, 15,00,00,000 = Rs.1,20,00,000

If the average loyalty life of the customers can be taken as 5 years then
The company's annual loss in terms of customer lifetime value = 5 x Rs.1,20,00,000
= Rs.60,00,000

3.10.2 Economics of Customer Retention

Most marketers emphasise on attracting new customers rather than retaining the existing ones, as they traditionally believe in making sales rather than building relationships. A wise company regularly measures customer satisfaction because the key to customer retention is customer satisfaction.

A highly satisfied customer (a delighted one) stays loyal longer, buys more of company's new products and upgraded products, talks favourably about the company and its product, pays less attention to competing brands and is less sensitive to price and a highly satisfied customer costs less to serve than new customers because transactions are routine. Satisfied customers constitute the company's relationship capital. Some interesting facts on customer retention are given below:

- Acquiring new customers can cost 5 times more than the cost involved in satisfying and retaining the current customer.
- The average company looses 10% of its customers each year.
- A 5% reduction in the customer defection rate can increase profit by 25 to 85 percent, depending on the industry.
- The customer profit rate tends to increase over the life of the retained customer.

New Customer Acquisition Cost
Cost of an average sales call (including salary, commission, benefits and expenses) = Rs.200
Average number of sales calls to convert an average prospect into a customer = 4
Therefore, cost of getting a new customer = 4 x Rs. 200
= Rs. 800

If the new customer purchases on the average Rs. 5000 worth of company's products and the company operates on a 8% gross margin basis,
The average profit the company gets from per purchase per customer = Rs. 400
In order to recover the cost of getting a new customer, the customer should be encouraged to make at least two purchases from the company. Any purchase by the customer beyond the first two purchases will contribute to the profit of the company.

Now, it is clear, unless the company can sign up customer with fewer sales calls and retain customers longer, it will be in financial trouble.

There are two ways to strengthen customer retention:

i. High switching barriers

ii. Delivering high customer satisfaction

3.11 CUSTOMER RELATIONSHIP MANAGEMENT

The task of creating strong customer loyalty is called Customer Relationship Management (CRM), the aim of which is to produce high customer equity. Customer Equity is the total of discounted lifetime value of all of the firm’s customers. Three drivers of customer equity are:

Value equity: It is the customer’s objective assessment of the utility of an offering based on perception of his benefits relating to its cost.

Brand equity: It is the customer’s subjective and intangible assessment of the brand above and beyond its objectively perceived value.

Relationship equity: It is the customer’s tendency to stick with the brand, above and beyond objective and subjective assessment of its worth.

There are five different levels of investment in customer-relationship building:

Basic Marketing: When the sales person only sells the product and does not do any post-selling activity.

Reactive Marketing: When the sales person encourages the customer to call if he or she has questions, comments or complaints against the product purchased.

Accountable Marketing: Here the sales person takes feedback from the customer a short time after the sale to check whether the product is meeting expectation.

Proactive Marketing: When the company sales team interacts with the customer regularly for suggestions on new product and improvement on existing products.

Partnership Marketing: The company and the customer work together as partners to discover better ways of customer satisfaction.
An Ideal Customer Development Process

It is very clear that success of a company depends not only how successful it is in attracting new customers but how the company can convert the customers as promoters or advocates of their products. The most successful process of developing customers will start from getting first time customers from the list of prospective customers and slowly converting them into repeat customers, clients, members and finally to the advocates and partners of the company's prosperity. This can be represented with the help of the figure given below:

![Diagram of Customer Development Process](image)

**Fig 3.7 : The Customer-Development Process**  
*Source: Jill Griffin*
Ultimately marketing is the art of attracting and keeping profitable customers. A **profitable customer** is a person, household or company that overtime yields a revenue stream that exceeds by an acceptable amount over the company's cost stream of attracting, selling and servicing that customer. The company has to emphasise on lifetime stream of revenue and cost, not on the profit from a particular transaction.

In order to be successful, excellent companies try to create high customer value relative to competitors at a sufficiently low cost. Thus, a company's competitive advantage lies in its ability to perform in one or more ways so that competitors cannot or will not match. The customers also expect a superior quality product along with excellent service quality. This leads the company to adopt **Total Quality Management (TQM)** by continuously improving the quality of all the organisational process, products and services.

- A necessary but not sufficient condition
- Some authors have recently criticised the apparent overemphasis on customer satisfaction by repeating statistics given as follows: 60 percent of all defecting customers were either extremely or very satisfied according to CSM data.

Several companies (Burke Customer Satisfaction Associates, Marketing Metrics, and so on) have spoken out on value of measuring other issues besides just satisfaction. Loyalty and advocacy are two dimensions frequently suggested as necessary complements to satisfaction if an organisation is to properly anticipate the dynamics of its customer base.

**A Hierarchy of Threshold**

American businesses have always used some elements of their product offering as their basic competitive tool. This element has, all too frequently, been price. But when strategists were thinking, other elements have been instituted.
Branding and Quality
As branding first became prevalent, brands served to guarantee customers, who traditionally had experienced a range of quality in commodity products, of uniform quality. Thus Globe Flour, one of the first branded packaged goods, guaranteed homemakers of a flour of uniform quality, package to package, shopping expedition to shopping expedition.

Satisfaction and Quality
As branding and brand imagery became the prevalent competitive tools, businesses began to adopt customer satisfaction as the new competitive tool. Demonstrating a focus on customer satisfaction to current customers and talking satisfaction to potential customers, it offers a new way to prove the quality of their product or service offerings.

Loyalty: The Next Competitive Element
In the market of the late 1990s, even satisfaction scores (in some industries) are reaching parity. It is believed that loyalty will be the next competitive tool. But, to achieve loyalty one must deliver at least parity quality (quality equal to that of competitors) and also offer at least as much satisfaction as one's competitors (parity satisfaction). Each of the previous stages are thresholds, once parity is achieved, the customer may seek out the organisation, product or brand offering loyalty, the next highest element.

3.13 THE IMPACT OF BPR ON CUSTOMER SATISFACTION

Considering the customer delivered value model of customer satisfaction BPR improves total customer benefits, i.e., Total Customer Value by improving

- Service value
- Personnel value

BPR also substantially reduces Total Customer Cost by decreasing:

- Time cost
- Energy cost
Hence, through BPR customer delivered value can be maximised which will lead to higher Customer Satisfaction. So, BPR can be considered as a major factor for Customer Satisfaction.

For banking industry:
- Products/services are practically uniform as guided by RBI
- Similarly, for price or cost of service
- For the marketing mix, place, i.e., availability of the product, there is huge scope of building expectations in the customers' mind as well as outperforming on those expectations.
- Similarly, for communication
- People make big difference in service industry in building expectations and delivering customer satisfaction
- Process is the most crucial factor in service industry. This also encompasses place, communication and people.

Business Process Re-engineering helps to improve significantly:
- Process
- Place
- Promotion
- People

Hence BPR can be considered as a major driver of Customer Satisfaction in Banking Industry.
Notes & References


5 Bryant, Barbara Everitt, Jaesung Cha. “Crossing The Threshold: Some Customers are Harder to Please Than Others, So Analyse Satisfaction Scores Carefully”. Marketing Research. (Winter 1996) 21-28

6 ibid


12 ibid


