A CRITICAL REVIEW OF LITERATURE
ON
CUSTOMER SERVICE LOYALTY

BY
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AN INDEPENDENT CONCEPTUAL STUDY PAPER SUBMITTED AS PART OF THE COURSE WORK IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF DOCTOR OF PHILOSOPHY SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI

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DECLARATION

This Management Independent Conceptual Study Paper is my original work and has not been submitted for another degree qualification of this or any other University or institution of learning for examination.

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DEDICATION

I dedicate this Independent Conceptual Study Paper to my loving family for inspiring and supporting me to complete it.
ACKNOWLEDGEMENT

The work of this Independent Conceptual Study Paper represents the concerted efforts of many individuals. One of the features of the Independent Conceptual Study Paper is collaboration and certainly, it required many acts of collaboration by quite a few people in order to come to fruition.

I would like to extend my appreciation and gratitude to all those that contributed tremendous inputs towards completion of this Independent Conceptual Study Paper.

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Secondly, I owe a debt of gratitude to my family who sacrificed time so that I could climb my own personal Mount Everest. A special thank to my loving wife Jacinta Giathi who especially was supportive in listening to my ideas and helping me work out logistical details throughout this long process.

Thirdly, I am grateful to my PhD colleagues in University of Nairobi whose assistance to this Independent Conceptual Study Paper cannot be overlooked: Hon. Moses Akaranga, Mr. Ndung’u Kabarage, Ms. Cecilia Wacuka, Ms. Wanjiku Ng’ang’a, and Ms. Winnie Njeru for their inspirations, encouragements, guidance and helpful recommendations concerning the procedures through academic discussions.

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ABSTRACT

Service organizations are continually looking for ways to increase customer loyalty. Although loyalty to tangible goods (brand loyalty) has been studied extensively by marketing scholars, relatively little theoretical or empirical research has examined loyalty to service organizations (service loyalty).

This independent conceptual study paper presents a critical review of literature pertaining to previous loyalty research studies by examining service loyalty and factors expected to influence its development. In particular, a literature review is combined with analysis of qualitative data from interviews to develop a model of customer service loyalty that includes six antecedents’ customer satisfaction, customer service, price, service quality value-added-services and switching (barriers) costs.

From the literature review and on the basis of the relationships depicted in the proposed conceptual model, the following hypotheses will be used to guide the study and have been formulated for testing: $H_1$ Customer satisfaction has an influence on the relationship between customer service and customer service loyalty. $H_2$ Customer satisfaction has an influence on the relationship between price and customer service loyalty. $H_3$ Customer satisfaction has an influence on the relationship between service quality and customer service loyalty. $H_4$ Customer satisfaction has an influence on the relationship between value-added-services and customer service loyalty. $H_5$ Customer satisfaction has an influence on the relationship between switching costs and customer service loyalty. $H_6$ Customer satisfaction has an influence on the joint effect of customer service, price, service quality, value-added-services and switching costs on customer service loyalty.
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CHAPTER ONE: INTRODUCTION

1.1 Background

Customer loyalty is so valuable because it has a huge impact on market share of a firm. It is undeniable that each customer who switches or churn from Brand A to Brand B raises Brand B's market share and lowers Brand A's market share. In most markets there is a fairly high degree of this brand switching or "churn". Churn is a pool of potential customers that smart competitors pursue. Established repeat customers may often generate superior profit margins (Gerson, 1995).

Globally, firms have witnessed unprecedented emergency of various forces that have posed serious challenges to the traditional premises and practices of marketing. Capron and Hullen (1999) identified these forces as including competition, globalization of the products, deregulations, increasing convergence of consumer preferences, dumping, and explosion of Information Communication Technology (ICT) a desire to access a portfolio of international brands. These forces have led to intense competition by firms in the market forcing them to adopt strategies which aim at improving their competitive position in the market, preserving their market share and improving return on investment. Many firms have adopted generic strategies by managing costs, focusing on particular market segments and differentiating their products.

Kibera and Waruingi (1998) contend that firms are critically evaluating the internal and external environment with the development of more effective and competitive strategies. There is no industry that has been spared by the stiff competition and firms have therefore come up with ways to combat competition. It becomes a high concern for the companies to stay alive and win the market share by making the customers more loyal to their firms. As competition increases, customers bargaining power gets stronger while building trust and image becomes more important and companies should put more focus on factors affecting loyalty among consumers.
1.2 Significance of customer loyalty to firms

Academicians and practitioners agree that customer loyalty is considered the back-bone and an integral part of business. Few, if any, businesses can survive without establishing a loyal customer. Surprisingly, however, in spite of its obvious importance to all businesses, relatively little is known about customer loyalty. Scholars and marketers have defined precisely what being a loyal customer means, and meager progress has been made in determining the factors that lead to customer loyalty (Gerson, 1995).

Managers whose primary “product” is a service find that their offering is particularly troublesome for customers to evaluate. Customers frequently have a difficult time evaluating something intangible, such as a visit to the doctor, a tuneup on an automobile, or the purchase of life insurance. And, even if the provider does satisfactorily meet a customer’s needs during one encounter, ensuring the identical service will be provided in the next purchase, particularly for services heavily dependent upon the performance of people (e.g., hair stylists, financial advisors, or dental hygienists), may be very difficult. In deciding whether to become a loyal patron, customers must often rely on intangible cues. Yet, little is known as to what factors are important to customers in making such a decision. Thus, a better understanding of customer loyalty, especially to service businesses, is sorely in need (Gerson, 1995).

1.3 The current trends of loyalty

Gerson (1995) argues that for each complains your company receives, there are 26 other customers with unknown complain or non-solved problems – and 6 of them have serious problems. They are people you will probably never hear about. But they are also people who can tell you how to improve your business. Most of the customers who complain (54 to 70 %) will do business with you again if you solve their problem. If they feel you react quickly and to their satisfaction, 95 % of them will do business with you and there is a great deal of chances they will talk about you in a positive way around them.
One unsatisfied customer will communicate his feelings to approximately 10 persons around him. These 10 persons will then talk to another 5 people. Happy customers, for whom you have found a solution to their complaints, will talk to 3 to 5 people about their positive experience. You will need 5 to 6 times more time to acquire a new customer than to retain old ones. Customer loyalty and his long life value can be 10 times greater than the price paid for a single purchase (Reichheld, 1993).

In most business, 60-80% of customer defectors said they were 'satisfied' or 'very satisfied' on the last satisfaction survey prior to their defection! In the interim, anything can happen, and often does. It has been found that a decrease of 5% in defection rates can increase profits by 25 to 100% (Reichheld, 1993). Disloyalty at current rates stunts corporate performance by 25 to 50%, sometimes more (Reichheld, 1996). Unless you have 100% customers’ satisfaction – and I don’t mean that they are just satisfied, I mean that they are excited about what you’re doing – you have to improve. And if you have 100% customer satisfaction, you have to make sure that you listen just in case they change...so you can change with them (Jones & Sasser Jr., 1995).

1.4 Purpose of conceptual paper
Earlier studies suggest that customer loyalty provides the foundation of a company’s sustained competitive edge, and that developing and increasing customer loyalty is a crucial factor in companies’ growth and performance (Lee & Cunningham, 2001; Reichheld, 1996).

The purpose of this independent conceptual study paper is to extend the frontiers of knowledge by examining customer service to service organizations and analyse factors that influence such loyalty. The focus is on developing a model of customer service loyalty, based upon both qualitative research and a review of both theoretical and empirical literature that may subsequently be used in managerial actions and follow-up studies of customer service loyalty.
Given the current knowledge of customer service loyalty, a gap exists in the marketing literature in explaining what leads customers to become loyal to service organizations. Customer satisfaction is thought to be an important factor, but its relationship with loyalty is inconsistent. This independent conceptual study paper identifies the role of the following factors; efficient customer service, affordable price, quality service, unique value-added services and high switching costs play in the development of customer service loyalty.
CHAPTER TWO: THE DEVELOPMENTS OF LOYALTY AND CONTENT MODELS

2.1 Introduction
This chapter involves review of contextual issues related to customer loyalty concept, the concept of customer service loyalty, dimensions of service loyalty, definition of customer service loyalty in theory and practice.

2.2 Concept of Loyalty and Basic Business Model
Customer loyalty research has mainly centered on the loyalty consumers display towards tangible products and is often termed brand loyalty. In the 1960s and 1970s, considerable research was conducted on brand loyalty and tended to focus on definitional and measurement issues (Jacoby and Chestnut, 1978). Customer loyalty has been largely treated by researchers as either repurchase behaviour or repurchases behaviour combined with an attitudinal component. While the first of these two approaches remains popular with services researchers, other researchers have recognized the problems associated with treating loyalty as repurchase behaviour exclusively because measures do not distinguish spuriously loyal customers (Moulson, 1965). By focusing on purchase, shoppers who are retained customers by default are aggregated with truly loyal customers who shop as a positive choice (Denison and Knox, 1995).
The assumption of all the basic loyalty business models is that keeping existing customers is less expensive than acquiring new ones. It is claimed by Reichheld and Sasser (1990) that a 5% improvement in customer retention can cause an increase in profitability between 25% and 85% (in terms of net present value) depending upon the industry. However, Carrol and Reichheld (1992) dispute these calculations, claiming that they result from faulty cross-sectional analysis.

Barlow (1992) argues that the development of consumer loyalty is a strategy which identifies, maintains, increase the output of the best customers through a value-added services, interactive and long term focused relation. The procedure is thus selective and requires information on the actual or potential value of the customer. The interactivity is also interesting by taking account of the possible in implicit or explicit way emitted feedbacks.
Finally Barlow (1992) insists on the long-term duration and relation. The development of consumer loyalty consists thus in the development of strategies and more or less general or selective actions likely to increase the fidelity of the customers. The concept of retention is more attached to the not-departure of the customer materialized by the continuation of the repeat purchases.

A first remark on the relation question is of static nature: the central point of customer relationship management is that fidelity and repeat purchase cannot be reached only by brand preference nor even by product satisfaction. It is therefore the interactive and long term focused added value relation which becomes a choice factor at least in an emotional dimension. Trust, commitment and attachment, contribute to reinforce the relationship (Morgan and Hunt, 1994). These three factors reinforce the customer’s functional dependence to the firm and can increase the switching costs. That is why heavy purchasers with high attitudinal loyalty are the real loyal and less vulnerable to competitors’ actions in the context of a mutual relationship. On the other side heavy purchasers with low attitudinal loyalty are very vulnerable to competitor’s actions because they are perhaps “locked” to the company for particular reasons (i.e. monopolistic situation, particular advantages). These “prisoners” may switch to competitors once the exit barriers will fall down (Jones and Sasser, 1995).

Day (1969) argues that for a customer to be loyal, he or she must hold a favorable attitude towards the brand, in addition to purchasing repeatedly. A major strategy in business has been to enhance brand loyalty. This has become critical since retaining the current customers is a more efficient strategy than attracting new customers. Fast moving consumer goods firms that sell products with short sales cycles can use short-term promotional techniques to stimulate loyalty and repeat purchases. Achieving customers loyalty is a challenge facing managers and is everyone responsibility (Rosenberg, 1983).

Aaker (1991) agree that loyalty is a manifestation through commitments in a high level of interaction and communication. Customers would like to talk about the brand to others and actually recommends it. He also argues that brand loyalty is a measure of the attachments that a customer has to a brand. It reflects how a customer is less likely to switch from one to another brand and especially due to brand change in price and/or product features.
Assael (1998) argues that brand loyalty represent a favorable attitude towards a brand as a result of consistent purchases of a brand over time. A market can be segmented by consumer's loyalty patterns. Consumers can be loyal to brand, stores and other activities. Customer loyalty is one of the most important issues facing businesses in the 21st century. Companies must retain the loyalty of their customers to ensure repeated business since the future is uncertain (Kotler, 1998 and Oliver, 1999) agree that brand loyalty is a deeply held commitments to re-buy or repatronize a preferred products or services consistently in the future, thereby causing repetitive purchases, despite situational influences and marketing efforts having the potential for one to switch.

Day (1969) and Assael (1998) agree that a loyal customer must hold a favorable attitude towards the brand as a result of consistent purchases of a brand over time. Both Aaker (1991) and Oliver (1999) agree that for a customer to make a repeated purchase for goods and services, he or she must be deeply committed to the brand. Only Aaker (1991) and Oliver (1999) were able to point out that loyal customers are less likely to switch from one brand to another.

### 2.3 Service Loyalty

Service loyalty, with its final effect on repurchasing by customers, is perhaps one of the most important constructs in services marketing. Indeed, loyal customers that indulge in repeat purchases are the bedrock of any business. One of the more obvious questions relates to the demographic characteristics of loyal customers, whether any such variables are more salient than others and how these can be used for segmentation purposes (Frank, 1967).
Service loyalty is the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises. Therefore, service loyalty is a matter of degree, ranging from the completely loyal customer to one who will never consider using a provider in the future. According to this definition, an extremely loyal customer is one who: regularly uses a service provider, really likes the organization and thinks very highly of it and does not ever consider using another service provider for this service. Conversely, an extremely non-loyal person; will never use the provider again, have negative feelings toward the organization, and welcomes suggestions about other providers and is willing to any provider (Zeithaml, 1996).
This three dimensional is consistent with Berry and Parasuraman's (1996) operationalization of the loyalty to company in their behavioural-intensions battery. The five items they use to measure loyalty include: saying positive things about the company, recommending the company to someone who seeks advice, encouraging friends and relatives to do business with the company, considering the company the first choice to buy services, and doing more business with the company in the next few years. Thus, in effect, their measure includes items from all three dimensions of the proposed service loyalty definition listed above.

The concept of customer loyalty also extends to service organizations which typically provide somewhat more intangible products. Yet, scholars contend the construct of service loyalty differs from brand loyalty in that service providers have the ability to create stronger loyalty bonds with their clients than do suppliers of more tangible goods (Czepiel and Gilmore, 1987; Zeithaml, 1981), loyalty is greater or more prevalent among service consumers than among goods consumers (Snyder 1986; Zeithaml, 1981) and services provide more opportunities for person-to-person interactions (Czepiel and Gilmore, 1987) which in turn often provide opportunities for loyalty to develop (Parasuraman, Zeithaml, and Berry, 1985; Surprenant and Solomon, 1987); furthermore, perceived risk is often greater when purchasing services than goods (Murray, 1991), providing an atmosphere more likely to lead to customer loyalty since loyalty is often used as a risk reducing device and with some services, switching between providers may involve certain barriers not present with brand switching for goods (Zeithaml, 1981).

A review of the literature suggests the service loyalty construct consists of three separate dimensions: behavioral loyalty, attitudinal loyalty, and cognitive loyalty. Early definitions of loyalty focused almost exclusively on its behavioral dimension (Jacoby and Chestnut, 1978; Pritchard, 1991). In particular, loyalty was interpreted as a form of customer behavior (such as repeat purchasing) directed toward a particular brand over time (Sheth, 1968 and Tucker, 1964). Although current thought infers that loyalty includes more than just a behavioral dimension, some researchers continue to measure loyalty exclusively on the behavioral dimension.
Day (1969) criticize behavioral conceptualizations of loyalty and argues that brand loyalty develops as a result of a conscious effort to evaluate competing brands. Others have suggested this attitudinal dimension includes consumers' preferences or intentions (Jarvis and Wilcox, 1976; Pritchard, 1991). After Day (1969) criticism, attitude gained increasing attention as an important dimension of loyalty (Jain, Pinson, and Malhotra, 1987; Monroe and Guiltinan, 1975). Over time, scholars began to consider customer loyalty as having two dimensions: behavioral and attitudinal (Day 1969; Dick and Basu, 1994; Snyder, 1986).

With substantial empirical support, the four loyalty groups; Hard-core or loyal, latent or soft-core or split loyal, spurious or shifter loyal and switchers or non-loyal are shown to have different reactions to the moderating variables. Loyalty is influenced by both situation and image variables, while non-loyal are affected by image variables. And spurious loyal are affected by situation variables while latent loyal are affected by image variables. It appears that image variables are more prominent than situation variables in effecting distinction between spurious loyal and latent loyal (Dick and Basu, 2008).

**Figure 2.3 Dick and Basu (1994) Customer Loyalty Model**

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<tr>
<td>High</td>
<td>Hue Loyal (Hardcore)</td>
</tr>
<tr>
<td>Low</td>
<td>Spurious Loyalty (shifter)</td>
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A widely cited model of customer loyalty is the typology proposed by Dick and Basu (1994) that depicts loyalty as a two-dimensional construct involving relative attitude and repeat patronage. However, while Dick and Basu conceptualize the loyalty construct, they did not operationalize it or provide empirical evidence of its predictive ability. Nevertheless, the findings suggest that Dick and Basu’s model may have some validity in subscription-type markets, like banking, where brand portfolios tend to be small and customer churn rates are relatively low. Implicit in the Dick and Basu (1994) model is the assumption that classification of customers into four loyalty groups on the basis of relative attitude and repeat patronage should then allow the prediction of other loyalty measures such as retention and defection.

However, as East et al. (2000), Bennett and Bove (2001), and Bove and Johnson (2002) point out, few attempts have been made to test this predictive ability. Nevertheless, one study that did attempt to do this was conducted by East et al. in 2000.

In additional to the behavioral and attitudinal dimensions, a few scholars include a cognitive form of loyalty (Lee and Zeiss, 1980). Some studies suggest that loyalty to a brand or store means it comes up first in a consumer’s mind when the need for making a decision as to what to buy or where to go arises (Bellenger et al., 1976; Newman and Werbel, 1973), while other operationalize loyalty as a customer’s first choice among alternatives (Ostrowski, O’Brien, and Gordon, 1993).

Similarly, Dwyer, Schurr, and Oh (1987) argue that being committed to a relational exchange virtually precludes considering other exchange partners) such customers “have not ceased attending to alternatives, but maintain their awareness of alternatives without ‘constant and frenetic testing’.” This suggests alternative organizations are not seriously considered by truly loyal customers when subsequent purchases are made) a viewpoint supported by other scholars (Dick and Basu, 1994; Reynolds, Darden, and Martin, 1975). That is, a customer who is considered extremely loyal does not actively seek out or consider other firms from which to purchase.
Blodgett et al. (1997) distinguish loyalty as a psychological outcome and repurchase intentions as a behavioural outcome. It means that a psychologically loyal customer may not intend to purchase from a service provider because their circumstance prevent them (Barnes, 1997). Czepiel (1990) and Kingstrom (1983) support this paradigm and argue that for loyalty to be treated as a psychological construct. Oliver (1999) extends the notion of incorporating repeat purchase with loyalty by suggesting that psychological strategies are needed to achieve ultimate loyalty.

The relationship building between customers and service provider produces a sense of ownership over the service with customers referring to service providers as; my accountant, my hairdresser, or my mechanic (Grabbott and Hogg, 1994). Bhattacharya et al. (1995) found that when service providers introduces membership to an organization that creates a sense of belongingness to loyal customers. Both Oliver (1999) and Crosby and Taylor (1983) stated that identification is linked to the customer’s resistance to change. Crosby and Taylor (1983) argue that resistance is maximized when the customer identifies strongly with the service provider and that these values are important to the customer.

According to Oliver (1999), loyalty is an attained state of enduring preference. This key role of preference is also supported by social identity theory which indicates that group membership leads to consistent in-group favouritism because it boosts self-esteem (Lippa, 1990). When the customer identifies with the service provider’s values, involvement or ego defence will maintain consistent in-group favouritism (Crosby and Taylor, 1983). Loyal customers need to be seen as acting out of volition (Barnes, 1997) in making their preferred choice.

Loyalty, with its high repeat patronage and high relative attitude, would obviously be the ultimate goal for marketers. Raj (1985) found that firms with large market shares also have larger groups of loyal consumers. Loyal customers are less motivated to search for alternatives, they are more resistant to counter-persuasion from other brands, and are more likely to pass along positive word-of-mouth communication about the service to other consumers (Dick and Basu, 1994).
Marketers with loyal consumers can expect repeat patronage to remain high until competitors find a way to close the gap in attitude among brands. Competition can close the gap in three main ways (Dick and Basu, 1994). They can try to reduce the differential advantage of the leading brand, increase the differentiation of their own brand, or encourage spurious loyalty from consumers.

The marketing literature lacks strong, organizing theoretical frameworks on loyalty, particularly in terms of factors leading to the development of customer loyalty (Czepiel, 1990; Jacoby and Chestnut, 1978). Based on the literature discussed below, this independent study paper attempts to create a framework for examining customer service loyalty by looking at some antecedents to customer service loyalty: satisfaction, switching costs, and interpersonal bonds.

Ruben and Nicholas (2007), investigated how customer satisfaction and the switching barrier influence customer loyalty. They found out that service quality, corporate image, and price are found to act on customer service loyalty via customer satisfaction. Price was found to be the most important input to customer satisfaction. It gives implications for differentiated marketing strategies according to the perceived value and type of customer loyalty and summative overview topics for further study.

Some studies by Blodgett et al. (1995), Colgate et al. (1996), Hallowell (1996), Payne and Rickard (1997) and Rust et al. (1995) found that an increase in customer retention can have a positive effect on a company’s net operating cash flow and profit. To have a strong competitive position in the market, the managers should carefully consider these mentioned factors and also should dig out other important factors that make the customer loyal to particular company that ultimately lead to profitability and growth.

Sharyn, Dawes and Byron, (2005) carried empirical investigations of the relationship between the three types of loyalty; Attitudinal Loyalty (Attitudinal loyalty is conceptualized as customers’ attitudes towards the act of loyal/dis-loyal type behaviors towards the brand), Share Loyalty (Share loyalty is conceptualized as the degree to which a customer favors a particular brand with their custom) and Differentiation Loyalty.
The concept of differentiation loyalty is directly related to the economic and strategy concept of differentiation. It captures the idea of varying sensitivities between a brand’s customers, to competing offers: A brand’s differentiation loyalty increases when its customers become more insensitive (immune) to the offers of competing brands.

Sharyn, Dawes and Byron, (2005) found out that, a positive relationship between the three concepts of customer loyalty need not always exist. Consider a subscription market with 100% repeat purchase loyalty that introduces a loyalty program offer. It may have an increase in differentiation loyalty, while repeat purchase loyalty remains constant. An alternate example would be when Brand A halves its price, it would be expected that both repeat-purchase and attitudinal loyalty would increase (as market share increased) while differentiation loyalty would probably remain constant as Brand A’s customers will still remain as sensitive toward future price changes of the competing offerings (Sharp et al., 1997). Bloemer & Kasper (1995) and Oliver (1999) found out that it is possible for a customer to be loyal without being satisfied (e.g. when there are few other choices) and to be satisfied but not yet to be loyal. Retailer need to gain a better understanding of the relationship between satisfaction and loyalty to allocate their marketing efforts between satisfaction initiatives and loyalty programs.

2.4 Service type

All services possess search, experience, and credence attributes (Krishnan and Hartline, 2001). Search attributes include service characteristics that customers can determine and evaluate prior to purchase (Krishnan and Hartline, 2001). Experience attributes are service characteristics that can be discerned and evaluated only after purchase (Krishnan and Hartline, 2001). Credence attributes include any service characteristics that customers cannot determine or evaluate even after purchase (Krishnan and Hartline, 2001). According to Ford et al. (1990) and Mitra et al. (1999), perceived risk increases along the continuum from search to experience to credence attribute services. Indeed, service characteristics influence customer perceptions along the continuum of information asymmetry in different ways (Hsieh et al., 2005).
Generally, customers are able to interpret inferences regarding the search attributes before actually purchasing the services, and customers exhibit the least skepticism toward claims (Ford et al., 1990). Hence, customers are most likely to rely on their cognitive framework to evaluate search attribute services. In contrast, Darby and Karni (1973) stressed customer relationships as an important source of information in credence attribute services where post-purchase inferences are difficult to interpret.

Consistent with Lovelock's (2001) typology of the service type, in this study, consumer electronics retailers are chosen as search attribute services, hairdressing and beauty salons are chosen as experience attribute services, and financial investment services are chosen as credence attribute services. Generally, the locational convenience of consumer electronics retailers can be evaluated prior to purchase. Hairdressing and beauty salons services are high in experience attributes (Patterson and Smith, 2003); therefore, the behavior of the service personnel (i.e. hairstylist) is especially important for customer understanding of the services and their mitigation of perceived risk (Ennew and Binks, 1999). Typically, customers form interpersonal relationships with service personnel because they desire certain benefits, the greatest of which are related to experience attributes and customized personal services (Patterson and Smith, 2003). Credence attribute services, such as financial investments, cannot be determined even after repeated use of the service (Bell and Eisingerich, 2007). Thus, these services can be characterized as high-risk purchases. In such cases, a relationship approach (i.e. commitment) is central to service delivery (Ennew and Binks, 1999).
CHAPTER THREE: CONCEPTUAL ISSUES AND PROCESS MODELS

3.1 Introduction
This chapter provides a review of conceptual issues and process models, how the constructs of satisfaction relates with loyalty and how quality, price, customer service and switching costs relates with satisfaction.

3.2 Satisfaction, Loyalty and Apostle Model
One commonly assumed pre-requisite for customer loyalty is customer satisfaction. Much of the marketing literature gives the impression that, satisfied customers automatically are loyal customers. The thinking is a satisfied as a result of his or her satisfaction will naturally become loyal customer and satisfaction is the only catalyst necessary for developing such loyalty. That is, satisfaction is the necessary and sufficient condition for developing customer service loyalty. Achieving customer satisfaction has long been identified as the key to customer loyalty (Szymanski and Henard, 2001). Service providers seek to manage and increase satisfaction (Ranaweera and Prabhu, 2003); however, satisfaction does not always result in customer loyalty, and dissatisfaction does not necessarily result in switching (Egan, 2004). The exact effect of satisfaction on customer loyalty has been questioned (Verhoef et al., 2002). Empirical studies often indicate that this relationship is indirect and complex (Mittal et al., 1998).

Customer satisfaction generally means customer reaction to the state of fulfilment, and customer judgment of the fulfilled state (Oliver, 1997. There are many benefits for a company from a high customer satisfaction level. It heightens customer loyalty and prevents customer churn, lowers customers’ price sensitivity, reduces the costs of failed marketing and of new customer creation, reduces operating costs due to customer number increases, improves the effectiveness of advertising, and enhances business reputation (Fornell, 1992).
Customer satisfaction and customer loyalty are becoming an increasingly important factor in modern market which is characterized by slow growth and intense competition. The extant literature has found the satisfaction-loyalty link by moderating variables. A study by Bloemer and Kasper (1995) went beyond this simple main effect between satisfaction and loyalty. They found that the relationship between customer satisfaction and loyalty was moderated by respondents on the evaluation of the brand choice. Mittal and Kamakura (2001) also address the link between satisfactions and repurchase behavior. Their major findings indicate that despite identical ratings on satisfaction, due to respondent characteristics such as age, education, marital status, sex, and area of residence, significant difference was observed in repurchase behavior.

Research, however, provides mixed results in analyzing the relationship between satisfaction and loyalty. Several studies have indeed found satisfaction to be a leading factor in determining loyalty (Anderson and Fornell, 1994; Oliver and Linda, 1981; Pritchard, 1991). Other studies, however, suggest satisfied customers may not be sufficient to create loyal customers (Cronin and Taylor 1992; Fornell 1992; Oliva, Oliver, and MacMillan, 1992). These studies tend to support Reichheld’s (1993) in the argument that customer satisfaction is not a surrogate for customer retention or customer loyalty, and thus increasing customer satisfaction does not necessarily lead to increased customer loyalty to an organization. The main factor determining customer satisfaction is the customers’ own perceptions of service quality (Zeithamal & Bitner, 1996). The service quality is the customers’ satisfaction or dissatisfaction formed by their experience of purchase and use of the service (Parasuraman, Zeithamal, & Berry, 1988).

### 3.2.1 The Apostle Model

The notion that customer satisfaction directly affects customer loyalty is an old one. As late as 1994, the American Customer Satisfaction Index models customer loyalty as being directly determined by customer satisfaction and complaint behavior (how organizations react to complaints). By contrasting customer satisfaction and customer loyalty, Jones and Sasser pioneered what has come to be known as the "Apostle Model", named after one of its customer types can be graphically represented as follows:

The customer typology is defined as:

- **Loyalist/Apostle** - high loyalty, high satisfaction - "staying and supportive"
- **Mercenary** - low to medium loyalty, high satisfaction - "coming and going; low commitment"
- **Defector/Terrorist** - low to medium loyalty, low to medium satisfaction - "leaving or having left and unhappy"
- **Hostage** - high loyalty, low to medium satisfaction - "unable to switch; trapped"

You may be able to think of examples of products or product categories for which you fit each of these categories. For myself:

- **Loyalist/Apostle** - I've subscribed to Inc. magazine since working for an Inc. 500 company in 1988; subscriptions to many other magazines have come and gone since then.
- **Mercenary** - I'm typically satisfied with the car I drive, but I'm not loyal. Each of my last four cars has been a different brand.
- **Defector/Terrorist** - I'm typically unsatisfied with my current PDA/smart phone, and therefore not loyal, and I've switched brands each of my last three purchases.
- **Hostage** - I'm not satisfied with my home Internet access, but since the alternative providers are even worse, I've stayed with the same vendor for years.
3.2.2 Expanded Apostle Model

First, the Apostle Model doesn't really measure Word of Mouth, yet it is known as the Apostle Model. Apostles go out and evangelize your customers: not only are they highly satisfied and highly loyal but they are highly communicative, creating widespread word of mouth for your brand.

**Figure 3.2**: The Revised Apostle Model has communicativeness as a third dimension.

High /Low Communicativeness

<table>
<thead>
<tr>
<th>Loyalty</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hostage/Prisoners</td>
<td>Apostle/ Loyalist</td>
</tr>
<tr>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Terrorist/Defectors</td>
<td>Mercenary/Miser</td>
</tr>
<tr>
<td>Satisfaction:</td>
<td>Low</td>
</tr>
</tbody>
</table>

This expands the segmentation from four groups to eight:

- Apostle - high loyalty, high satisfaction, high communicativeness - evangelizing others
- Hostage - high loyalty, low to medium satisfaction, high communicativeness - "unable to switch; trapped"
- Mercenary - low to medium loyalty, high satisfaction, high communicativeness - available to another brand if the price is right; will let others know they've switched
- Terrorist - low to medium loyalty, low to medium satisfaction, high communicativeness - spreading misery
- Loyalist - high loyalty, high satisfaction, low to medium communicativeness - "staying and supportive"
• Prisoner - high loyalty, low to medium satisfaction, low to medium communicativeness - "unable to switch; trapped"
• Miser - low to medium loyalty, high satisfaction, low to medium communicativeness - switch to another brand if the price is right
• Defector - low to medium loyalty, low to medium satisfaction, low to medium communicativeness - "leaving or having left and unhappy"

What's interesting about this expanded segmentation is that it provides a richer set of word-of-mouth behavior, and indicates how many negative opportunities there are for word of mouth:

• The Apostle loves your brand and is eager to convince others to buy from you.
• The Mercenary is great when they switch to your brand, as they will tell others about what a good value you are. But they will do the same thing when they switch to a cheaper brand in the future.
• The Hostage is miserable as your customer and wants everyone to know it. The fact that they can't switch, or feel they can't switch, only makes them that much more talkative. You're stuck with them and their viral negativity.
• The Terrorist hates your brand, is leaving it or has left it, and wants the world to know.

3.3 Service Quality
Customers' perceived quality of or satisfaction with the product, researchers who have studied tangible goods have had little success in identifying factors antecedent to brand loyalty. However, with services there are other aspects of the “product” offering consumers might consider in their evaluation and decision to become a loyal customer. The literature provides a strong case for the argument that services have unique characteristics that distinguish them from goods. Thus, it is quite possible customer loyalty to a service provider may be based on service-related factors, factors not typically included in brand loyalty research.
To gain further insight into the development of customer loyalty toward service providers, this study also looks at two factors particularly salient to service customers: switching costs and customer-service provider relationship issues (Lee, & Freick, 2001). In studies on mobile telecommunication services, service quality is measured by call quality, pricing structure, mobile devices, value-added services, convenience in procedures, and customer support (e.g., Kim, 2000; Gerpott et al., 2001; Lee, Lee, & Freick, 2001).

In many service situations the service personnel’s interaction with the customer has been recognized as a critical determinant of satisfaction (Surprenant & Soloman, 1987) and, in many cases, this person essentially epitomizes the service to the customer (Booms & Nyquist, 1981; Lewis & Entwistle, 1990).

3.3.1 The GAP model

The figure below shows the "GAP" model of service quality from Parasuraman et al. (Zeithaml & Bitner 1996). This model offers an integrated view of the consumer-company relationship. It is based on substantial research amongst a number of service providers. In common with the Grönroos model it shows the perception gap (Gap 5) and outlines contributory factors. In this case expected service is a function of word of mouth communication, personal need and past experience, and perceived service is a product of service delivery and external communications to consumers.
Parasuraman et al. GAP model (Zeithaml 1996)

However the GAP model goes further in its analysis of these key contributory factors. It not only provides a more rigorous description of the contributory Gaps, it lists key drivers for each gap and generic breakdown of each of these drivers. These are illustrated below in summary form below.
Gap 1
Inadequate market research orientation
Lack of upward communication
Insufficient relationship focus

Gap 2
Absence of customer driven standards
Inadequate service leadership
Poor service design

Gap 3
Deficiencies of human resource policies
Failure to match supply and demand
Customers not fulfilling roles

Gap 4
Ineffective management of customer expectations
Overpromising
Inadequate horizontal communications

This level of detail allows powerful analysis of the contributory factors to a perception gap at a practical level. The model shows the importance of marketing, business leadership quality and HR systems in the management of the expectation.
3.3.2 SERVQUAL Model

SERVQUAL or RATER is a service quality framework. SERVQUAL was developed in the mid eighties by Zeithaml, Parasuraman & Berry.

SERVQUAL was originally measured on 10 aspects of service quality: reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding the customer and tangibles. It measures the gap between customer expectations and experience.

By the early nineties the authors had refined the model to the useful acronym RATER: Reliability, Assurance, Tangibles, Empathy, and Responsiveness. SERVQUAL has its detractors and is considered overly complex, subjective and statistically unreliable. The simplified RATER model however is a simple and useful model for qualitatively exploring and assessing customers' service experiences and has been used widely by service delivery organizations. It is an efficient model in helping an organization shape up their efforts in bridging the gap between perceived and expected service.

The five gaps that organizations should measure manage and minimize:

**Gap 1** is the distance between what customers expect and what managers think they expect - Clearly survey research is a key way to narrow this gap.

**Gap 2** is between management perception and the actual specification of the customer experience - Managers need to make sure the organization is defining the level of service they believe is needed.

**Gap 3** is from the experience specification to the delivery of the experience - Managers need to audit the customer experience that their organization currently delivers in order to make sure it lives up to the expectations.
**Gap 4** is the gap between the delivery of the customer experience and what is communicated to customers - All too often organizations exaggerate what will be provided to customers, or discuss the best case rather than the likely case, raising customer expectations and harming customer perceptions.

**Gap 5** is the gap between a customer's perception of the experience and the customer's expectation of the service - Customers' expectations have been shaped by word of mouth, their personal needs and their own past experiences. Routine transactional surveys after delivering the customer experience are important for an organization to measure customer perceptions of service.

### 3.4 Switching costs

The switching barrier refers to the difficulty of switching to another provider that is encountered by a customer who is dissatisfied with the existing service, or to the financial, social and psychological burden felt by a customer when switching to a new carrier (Fornell, 1992). Therefore, the higher the switching barrier, the more a customer is forced to remain with his or her existing carrier. According to a previous study, the switching barrier is made up of switching cost, the attractiveness of alternatives, and interpersonal relationships.

Switching cost means the cost incurred when switching, including time, money and psychological cost (Dick & Basu, 1994), and is defined as perceived risk, insofar as there are potential losses perceived by customers when switching carriers, such as losses of a financial, performance-related, social, psychological, and safety-related nature (Murray, 1991).

For the purpose of this study, taking into account both findings from earlier studies, and specificities pertaining to mobile telecommunication services, we have defined switching cost as loss cost, adaptation cost, and move-in cost. Loss cost refers to the perception of loss in social status or performance, when cancelling a service contract with an existing carrier; adaptation cost refers to the perceived cost of adaptation, such as search cost and learning cost; and move-in cost refers to the economic cost involved in switching to a new carrier, such as the purchase of a new device and the subscriber fee.
Attractiveness of alternatives means the reputation, image and service quality of the replacing carrier, which are expected to be superior or more suitable than those of the existing carrier. Attractiveness of alternative carriers is intimately linked to service differentiation and industrial organization. If a company offers differentiated services that are difficult for a competitor to match or to provide with equivalents, or if few alternative competitors exist in the market, customers tend to remain with the existing company (Bendapudi and Berry, 1997).

Interpersonal relationship means a psychological and social relationship that manifests itself as care, trust, intimacy and communication (Gremler, 1995). The interpersonal relationship built through recurrent interactions between a carrier and a customer can strengthen the bond between them and finally lead to a long-term relationship. Companies are not alone in desiring a sustained relationship. Many customers wish to establish, develop and continue with a company an interpersonal relationship that provides value and convenience (Gwinner, Gremler, and Bitner, 1998). Therefore, relationship-specific investment helps increase customers’ dependence, and thus magnifies the switching barrier (Jones, Mothersbaugh and Betty, 2000).

One factor often influencing customer service loyalty is switching costs, those associated with changing from the use of one product or provider to another (Guiltinan, 1989; Klemperer, 1987; Zeithaml, 1981). Switching costs include investments of time, money, or effort, perceived by customers as factors that make it difficult to purchase from a different firm (Guiltinan 1989). Switching costs can affectively strengthen service loyalty by making it difficult for the customer to go to another provider. Scholars contend the costs of switching providers may be more critical to services than to goods (Zeithaml, 1981) and in relational exchanges (Guiltinan, 1989).

3.5 Customer Service

The relationship marketing literature implies that interpersonal relationships are particularly important in the development of loyalty to services (Berry, 1983; Crosby, et al. 1990; Czepiel, 1990). That is, with services an additional important component of the product offering can be the interpersonal interaction between employees and customers (Surprenant and Solomon, 1987).
Three characteristics of services intangibility, heterogeneity, and interaction intensity provide opportunities for person-to-person interactions (Czepiel and Gilmore, 1987). Unlike goods, many services are almost exclusively based upon person-to-person interactions (e.g., beauticians, interior decorators, Gynecologists).

### 3.6 Price

The marketing literature emphasizes price as an important factor of consumer satisfaction, because whenever consumers evaluate the value of an acquired product or service, they usually think of the price (Fornell, 1992; Cronin et al., 2000). As for the relationship of price to satisfaction, Zeithaml and Bitner (1996) indicated that the extent of satisfaction was subject to the factors of service quality, product quality, price, situation, and personal factors.

However, price has not been fully investigated in previous empirical studies (Bei and Chiao, 2001). According to Zeithaml (1988) price is something that must be sacrificed to obtain certain kinds of products or services from consumers' cognitive conception. In other words, the lower the perceived price there will be the lower the perceived sacrifice. In addition, a sense of price fairness should be generated. If customers view a firm's practices as unfair, negative consumer responses are likely to occur (Wirtz and Kimes, 2007). Immediate attitudinal and affective responses include dissatisfaction (Oliver and Swan, 1989) lower purchase intentions (Campbell, 1999) heightened price consciousness and focus on the monetary sacrifice of a purchase (Xia et al., 2004).

### 3.7 Customer satisfaction, the switching barrier and customer loyalty

As a general rule, customer satisfaction and customer loyalty are very closely related. Customer satisfaction functions as an antecedent of customer loyalty. It prevents customer churn and consolidates retention, thereby constituting an important cause of customer loyalty (Fornell, 1992; Reichheld, 1996).
Further, while affected by market structure, customer type and customers’ individual ways of solving problems, the connection between customer satisfaction and customer loyalty is not always a linear relation, although it constitutes a positive relationship (Fornell, 1992; Soderlund, 1998). And when customers switch the service provider, they tend to perceive the burden of risks which becomes the switching barrier that influence customer loyalty.
CHAPTER FOUR: RESEARCH GAPS AND CONCEPTUAL FRAMEWORK

4.1 Introduction

This chapter provides a review summary of empirical research studies gaps identified and the chapter closes with a proposed conceptual model and the corresponding hypotheses for testing for the future study.

4.2 Summary of Research Gaps

Achieving customer satisfaction has long been identified as the key to customer loyalty (Szymanski and Henard, 2001). Service providers seek to manage and increase satisfaction (Ranaweera and Prabhu, 2003); however, satisfaction does not always result in customer loyalty, and dissatisfaction does not necessarily result in switching (Egan, 2004). The exact effect of satisfaction on customer loyalty has been questioned (Verhoef et al., 2002). Empirical studies often indicate that this relationship is indirect and complex (Mittal et al., 1998). For example, the nonlinearity and asymmetry of the relationship between satisfaction and loyalty has been confirmed (Agustin and Singh, 2005). Mittal and Kamakura (2001) also found support for increasing and decreasing returns to scale in the effect of satisfaction on customer loyalty. In addition, several different moderating roles have been proposed between satisfaction and customer loyalty, such as relationship age (Cooil et al., 2007), category similarity (Bolton et al., 2004), sociodemographics (Cooil et al., 2007), switching barriers (Ranaweera and Prabhu, 2003), inertia (Anderson and Srinivasan, 2003), locational convenience (Jones et al., 2003), relational orientation (Garbarino and Johnson, 1999), perceived risk (Selnes, 1998), expertise (Cooil et al., 2007), and commitment (Brown et al., 2005).

Although satisfaction remains an important driver of customer loyalty for some types of services, a convenient location may serve as another factor in maintaining loyalty. Locational convenience may tie customers to service providers, even though satisfaction with the services may not be high (Jones et al., 2003). In addition, interpersonal relationships reduce the effect of dissatisfaction, encouraging customers to maintain the relationships (Jones et al., 2000).
Furthermore, committed customers are expected to rely on their affective and emotional experiences, rather than their current satisfaction levels, when making loyalty decisions. Services are specified on a continuum of search, experience, or credence attributes, based on different customers that evaluate each type in different ways (Ostrom and Iacobucci, 1995). Fornell (1992) noted that service types vary in how satisfaction affects customer loyalty, whereas Jones and Sasser (1995) revealed that the strength of the relationship between satisfaction and loyalty depends upon the competitive structure of the industry. Providers of more standardized service types often pay attention to locational convenience (Devlin, 1998).

For experience attribute services, the services must be delivered and customized to the customers (Hsieh et al., 2005), thereby making them feel that they are engaged in a comfortable and friendly relationship, and even leading them to enjoy the social interaction (Patterson and Smith, 2003). As a result, customers in such a service type have less opportunity to compare offerings based on location, and often focus more attention on factors relating to interpersonal relationships. Finally, commitment might be expected to be more important than locational convenience and interpersonal relationships for credence attribute services because these are closely associated with a high degree of variability and uncertainty. In such cases, only commitment can overcome the issue of short-term sacrifices and aid the long-term stability of the relationship (Anderson and Weitz, 1992).

A review of the literature indicates that much of the initial research emphasized the behavioural dimension of loyalty. This is epitomised by Tucker (1964) who holds that: No consideration should be given to what the subject thinks nor what goes on in his central nervous system, his behaviour is the full statement of what brand loyalty is. A review by Jacoby (1971) confirms that prior studies have focused entirely on behavioural outcomes and ignored consideration of what went on in customers’ minds. Brand loyalty was simply measured in terms of its outcome characteristics (Jacoby and Chestnut, 1978). This involved determining the sequence of purchase (Brown, 1952, 1953; Lawrence, 1969; McConnell, 1968; Tucker, 1964), proportion of purchase devoted to a given brand (Cunningham, 1956) and probability of purchase (Frank, 1962; Maffei, 1960).
Day (1969) argued that “there is more to brand loyalty than just consistent buying of the same brand, attitudes for instance”. Building on this work, Jacoby (1969, 1971) provided a conceptualization of brand loyalty that incorporated both a behavioural and an attitudinal component. The behavioural aspect of loyalty focuses on a measure of proportion of purchase of a specific brand, while attitude is measured by a single scale (Day, 1969) or multi-scale items (Selin et al., 1988). Day obtained a value for loyalty by dividing the ratio of purchase of a brand by the mean scores obtained for attitude. The behavioural and attitudinal aspects of loyalty are reflected in the conceptual definition of brand loyalty offered by Jacoby and Chestnut (1978). These authors hold that:

Brand loyalty is biased or non random, a behavioural response (purchase), expressed over time, by some decision making unit, and with respect to one or more brands out of a set of such brands, and is a function of psychological processes. Much of the work on loyalty in the 1970s and early 1980s has used this conceptualization (cf. Goldberg, 1981; Lutz and Winn, 1974; Snyder, 1986). More recently, Dick and Basu (1994) suggest an attitudinal theoretical framework that also envisages the loyalty construct as being composed of “relative attitude” and “patronage behavior”.

A further aspect of loyalty identified by other researchers in more recent years is cognitive loyalty. This is seen as a higher order dimension and involves the consumer’s conscious decision-making process in the evaluation of alternative brands before a purchase is affected. Gremler and Brown (1996) extend the concept of loyalty to intangible products, and their definition of service loyalty incorporates the three specific components of loyalty considered, namely: the purchase, attitude and cognition. Service loyalty is defined as: The degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists (Gremler and Brown, 1996).
There has been significant effort in the past to look at the area of service quality, customer satisfaction and, to a lesser extent, service loyalty. However, there is considerable confusion in the demarcation between service quality and customer satisfaction. Grönroos (1984, 1990) and Parasuraman et al. (1985, 1988, 1994), both argue that perceived service quality results from the comparison that customers make between expected quality and experienced or outcome quality. The expectancy/disconfirmation paradigm that ultimately results in satisfaction or dissatisfaction makes a similar point. Use is made of this paradigm in process theory to accommodate both the Grönroos and the gap model.

It is clear from Grönroos (1984) that the most important aspect to perceived service quality is the functional rather than the technical side of quality. The gap model and its resultant SERVQUAL measure primarily focus on what Grönroos (1984, 1990) terms the functional aspect of quality. It is suggested that these two models represent parallel concepts that can both be viewed as one type of confirmation/disconfirmation in satisfaction theory. It is for this reason that we adopt the suggestion by Rust et al. (1996) who argue that service quality is simply confirmation/disconfirmation and who advocate the direct measurement of the perception items in SERVQUAL in relation to respondents' expectations. On its own the gap model has no theoretical grounding and the use of difference score measures relative to ideal expectations is questionable. The approach being suggested has the advantage of providing a clearer theoretical underpinning to the constructs, data that are more statistically reliable while cutting the length of the questionnaire.

As a process in time, service quality takes place before, and leads to, overall customer satisfaction. Although Cronin and Taylor originally hypothesized that satisfaction is an antecedent of service quality, their research with a multi-industry sample showed, in a LISREL analysis, an opposite relationship. Service quality appears to be only one of the service factors contributing to customers' satisfaction judgements (Cronin and Taylor, 1992; Ruyter et al., 1997; Spreng and Mackoy, 1996).
There has been considerable research done linking customer satisfaction with loyalty, the researchers have used various models to analyze the customer loyalty in the service sector, they have found conflicting results on the customer loyalty in the service industry. This study seeks to fill the existing research gap by conceptualizing the interaction among customer service, price, service quality, value-added-services and switching costs (independent variable), customer satisfaction (mediating variable) and customer service loyalty (dependent variable). This will help in filling the existing research gaps.

4.3 Conceptual Framework

The conceptual model (Figure 4.1) is adapted and builds on previous loyalty studies by (Moon, Myeong and Dong, 2004) and Chong (2008) by including customer satisfaction (as a moderator of customer service, price, quality service, value-added-services and switching costs and loyalty. It presents the conceptualized interaction among customer service, price, service quality, value-added-services and switching costs (independent variable), customer satisfaction (mediating variable) and customer service loyalty (dependent variable).
The conceptual model (figure 4.1) also depicts the linkage between satisfaction and loyalty. The model also depicts that there is a combined relationship between satisfaction, customer service, service quality, price, value-added services, switching costs, and loyalty. The model further identifies key factors; switching costs, customer service, value-added services and price and clearly show how they are linked to satisfaction. It also shows that the satisfaction leads to firm loyalty and that the strength of the relationship between satisfaction and loyalty depends on government policy. This will lead to a better understanding of the processes through which loyalty is achieved in business firms.
4.4 Hypothesis

From the literature review and on the basis of the relationships depicted in the conceptual model presented in Figure 3.1, the following hypotheses will be used to guide the study and have been formulated for testing:

H₁: Customer satisfaction has an influence on the relationship between customer service and customer service loyalty.
H₂: Customer satisfaction has an influence on the relationship between price and customer service loyalty.
H₃: Customer satisfaction has an influence on the relationship between service quality and customer service loyalty.
H₄: Customer satisfaction has an influence on the relationship between value-added-services and customer service loyalty.
H₅: Customer satisfaction has an influence on the relationship between switching costs and customer service loyalty.
H₆: Customer satisfaction has an influence on the joint effect of customer service, price, service quality, value-added-services and switching costs on customer service loyalty.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

This independent conceptual study paper examines customer service loyalty and factors affecting its development. In so doing, the study extends previous loyalty research in several respects.

This study proposes a conceptual model of customer service loyalty that includes satisfaction, customer service, service quality, switching costs, value-added services and price. Few loyalty studies attempt to address factors leading to the development of customer service loyalty.

Unlike previous studies on customer loyalty, which have concentrated almost exclusively on tangible goods, this study focuses on products high in services characteristics. By examining loyalty in services contexts, this study expands knowledge of customer loyalty to a product by considering factors, namely switching costs, typically not thought to be as important in goods contexts.

Finally, the concept of this study, customer service loyalty, is very relevant to the current rethinking of what marketing really is. The discipline is in the midst of a paradigm shift that is now focusing on relationship issues like relationship marketing, relationship management, relationship quality.

In conclusion, service providers must, above all else, maximize customer satisfaction and the switching costs in order to enhance customer loyalty. In particular, service providers must focus on service quality and offer customer-oriented services to heighten customer satisfaction. At the same time, efforts to raise the switching barrier must build a long-term relationship with customers by further investing in customer relationship management.
Similarly, service providers must concentrate their efforts on developing value-added services to increase enjoyment and convenience. In the area of customer support, service firms must strive to minimize customers’ inconvenience by speedily processing customers’ complaints through a variety of systems and channels.

Again, the factor significant affecting the switching barrier appeared to be switching costs such as loss cost, move-in cost, and interpersonal relationships. Service providers must continuously develop customer reward programs that concretely compensate customers, such as mileage programs and price discounts, in order to increase loss cost and move-in cost. Further, interpersonal relationships between carrier and customer are factors that retain customers, even when competitors try to win them over with lower prices or offers of other conveniences.

Similarly, the switching barrier is revealed to have an adjustment effect on customer satisfaction and customer loyalty. In a mature market, building a switching barrier emerges as a necessary strategy to safeguard one’s market share. Hence, service providers must increase the cost of switching in order to increase customer lifetime value and customer retention, while developing and carrying out relationship-oriented marketing strategies to enhance interpersonal relationships with customers.

As well as customer satisfaction and the switching barrier, it is necessary to include customers’ demographic characteristics and their behavioural and psychological characteristics. These must be structurally analysed for their effects on customer loyalty. In particular, an important research task is to examine whether these factors function as adjusting variables in the existing interaction. In addition, in order to identify more methodically the factors influencing customer loyalty, service firms must be compared with other service firms in other industries.

The managerial implication for this conceptual literature review is that foremost, organizations that focus on the interpersonal relationship aspects of the exchange can keep customers in the relationship because they “want to.” The development of interpersonal bonds may be a way for a service organization to differentiate itself from others.
Thus, managers might consider ways they might facilitate the development of interpersonal bonds, including encouraging the development of friendships between customer-contact employees and customers, reducing employee turnover so that familiarity with customers can be developed, and (whenever practical) encouraging self-disclosure by both customers and employees. Selective employee recruitment and proper training of personnel may also help to strengthen the interpersonal relationships an organization can have with its customers.

Secondly, managers might also consider increasing the switching costs in changing to a new provider as a means to keeping customers loyal because they “have to.” This might include increasing the perceived effort required on the part of the customer to switch service providers, developing learning costs by “teaching” the customer a service routine, or creating special programs, rewards, or discounts (similar to some airlines’ frequent flier miles or some hotels’ frequent guest programs).

On the other hand, there are other factors influencing customer loyalty, apart from factors suggested in this independent conceptual study paper, such as the demographic characteristics of customers, their life cycles, and their usage pattern of services. There was no emphasis on the loyalty status groups namely: hardcore, Softcore, shifters and switchers.

It is important for companies to establish the characteristics and determines factors influencing the loyalty status for their customers. This will enable them to come up with unique promotion mix for each loyalty status group. This will enable the company to satisfy the needs of the customers while at the same time increases sales, market share and operate more profitably. In order to remedy these limitations, future studies could examine the characteristics of the loyalty status groups and some of those factors.
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