

EFFECTIVE FACTORS ON CONSUMER LOYALTY AND SATISFACTION

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Abstract

All managers are aware of the importance of keeping customers. As we know, keeping previous customers is four to six times less expensive than attracting new customer (Moon and Minor; 2007). Recently, companies increasingly have been concentrated on customer loyalty and keeping them. According to many researchers, one of most important factors to make customers loyal is their satisfaction. So that, many people believe satisfaction is equal to loyalty. Several years ago, this great mistake (i.e. equating customer satisfaction and loyalty) led to General Motors bankruptcy. The purpose of this paper is investigating various aspects of the relationship between satisfaction and loyalty; as well as determining and evaluating effective factors on this relationship; so that provide strategies which through them managers take advantages, efficiently, from customer satisfaction, to keep them and make them loyal.

Keywords: Satisfaction; Loyalty; Switching Costs; Overall Satisfaction; Compatibility Effect; Satisfaction Trap

1- Introduction:

Consumers, before acquiring something, pass through a decision making process. The stages that consumers paying attention them through decision making process, includes five following items:

- 1) Identifying problem,
- 2) Searching,
- 3) Evaluating alternatives,
- 4) Selecting,
- 5) Post-acquisition evaluation (Moon and minor; 2007).

Post-acquisition process includes five following steps:

- 1) Product consumption or application,
- 2) Consumer satisfaction and dissatisfaction,
- 3) Customer complaints behavior,
- 4) Withdrawal of goods,
- 5) The formation of brand loyalty (ibid).

Experts believe that there is an irregular and unknown relationship between customer loyalty and satisfaction. Although most of loyal customers are satisfied, satisfaction will not always result in loyalty (Oliver; 1999). According to one of new attitudes, satisfaction, does not necessarily lead to loyalty. In fact, the findings of "Fredrick Reichheld" are consistent with the term of *Satisfaction Trap*. He, by using Consulting Group & Bain data, found that, approximately 65-85 percent of consumers who claim that are satisfied or are very satisfied about a product / service, will change them as one of their options (Moon and minor; 2007). Reichheld in his article entitled by "*The loyalty effect*" expresses that companies' paying high attention to customer satisfaction will lead to ignoring their loyalty. He also will argue that customer satisfaction, necessarily will not result in their loyalty (Reichheld; 1996)

2- Satisfaction and Loyalty:

Satisfaction is a pleasant mood, which is generated by knowledge to a comfortable status, in which usually, is associated with satisfying some special interests. If individuals come to their desired

goals, and as a result being satisfied they felt a pleasant mood, which can be called satisfaction (Payandani; 2007).

According to “Richard Oliver” et al, loyalty is a deep and continuous commitment to repurchase desired product / service in future. As a result will lead to repeated purchasing of similar brand, or a set of similar brands, according to situational factors and effective marketing efforts and on changing behavior (Davis-Sramek, et al; 2007).

In early 1960, aspects of loyalty, including behavioral and attitudinal concepts have been defined. On basis of behavioral research, we will focus on observable actions of customer loyalty (Repurchase behavior), and by attitudinal research we will investigate commitment and rebuying willingness (Russell – Benet et al; 2007).

3- Different Aspects of the Relationship between Satisfaction and Loyalty:

According to “Henning-Thurgau and Klee”, performed studies on satisfaction and loyalty can be divided to three categories. The first category has been adapted from service management literature, and studies about relationship between satisfaction and loyalty are generalized and at the level of company. According to their studies, satisfaction is prerequisite of and affects firm’s profitability. The second category has focused on individual level, and has studied keeping customer based on her/his repurchase intention. These factors, due to differences between individual’s intention and his/her behavior, have an important deficiency. The second category, believes that loyalty is affected by satisfaction, even if the type of their relationship is not logical. The third group, which consists of a few numbers, has been focused on relationship between satisfaction and loyalty at the individual level, based on actual purchase data. Their findings indicate a weak or an insignificant relationship between satisfactions and rebuying behavior (loyalty) (Bodet; 2008).

“Davis-Sramek”, et al has suggested that relationship between satisfaction and behavioral loyalty is not linear, and has two critical threshold levels. Figure 1 illustrates that when satisfaction reaches to highest certain threshold levels (trust zone) buying behavior will quickly increase. When satisfaction is reduced to a lower threshold level (defection zone) buying behavior will quickly decrease. Buying behavior, between thresholds levels is constant (consideration zone). They believe that satisfaction should be high enough to motivate behavioral loyalty or it should be low enough to reduce it.

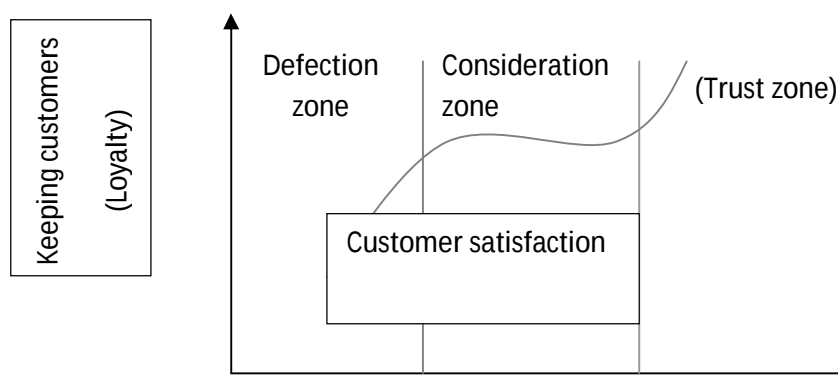


Figure 1- The Relationship between Satisfaction and Buying Behavior
(Davis-Sramek et al; 2007)

“Oliver” (1999) also has examined the relationship between satisfaction and loyalty in six aspects: The first one accepts this fundamental assumption, which satisfaction and loyalty are specific components of same concept; it means that both express a similar concept. The second aspect suggests that satisfaction is the conceptual core of loyalty, and there is no loyalty without it, and

satisfaction will strengthen loyalty. The third one reduces the critical role of satisfaction and suggests that it is a part of loyalty, and is just one of its components. Second and third aspects demonstrate that loyalty, in general, encompass satisfaction. The fourth aspect indicates the best role of ultimate loyalty in comparison with loyalty and satisfaction. The fifth one suggests that satisfaction and loyalty have some common grounds, and some parts of satisfaction can be seen in loyalty and these parts of satisfaction are some part of loyalty, but not as key and necessary elements of loyalty. The sixth aspect expresses, satisfaction is starting point of transition sequence to loyalty. It even suggests that loyalty can be apart from satisfaction (Oliver; 1999; 34).

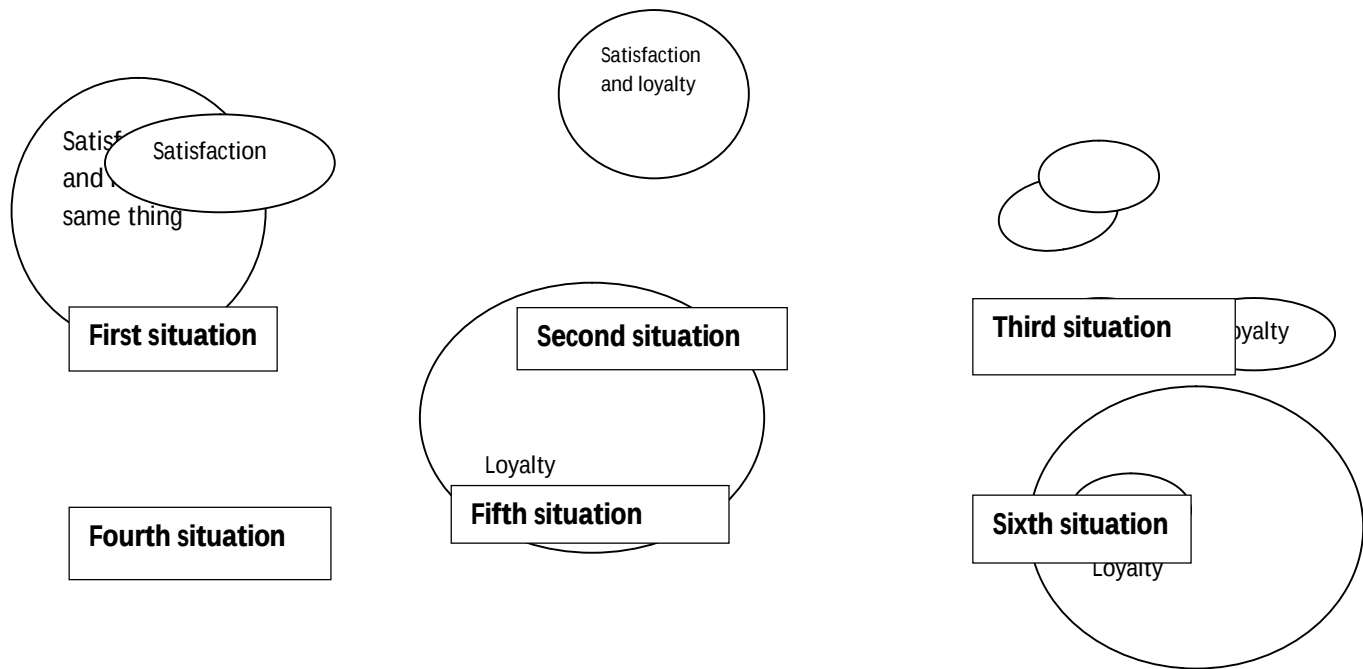


Figure 2- Six Aspect of Relationship between Satisfaction and Loyalty

Cutler” and “Armstrong”, also in their book have demonstrated the relationship between satisfaction and loyalty in a diagram: This diagram will pay attention two situation of noncompetitive and intense competitive in markets. In highly competitive markets, such as automobile and personal computers markets, there is a significant difference between loyalty of customers who are less satisfied and those who are only satisfied. However, there are significant difference between loyal customers and completely satisfied ones. As well as, following diagram will illustrate noncompetitive markets, such as those that are dominated by legal monopolies, which as a result, customers will be loyal to the product (of course, regardless the level of customers dissatisfaction) (Cutler and Armstrong; 2001).

“Sasser” et al, in their article entitled “*Why Satisfied Customers Defect?*” that have published in “Harvard Business Journal”, have suggested that companies that are relying on their results and reviews in relation to customer satisfaction have made a great mistake. This article has pointed out that if and only if a customer being very satisfied, her/ his loyalty will be meaningful. Other studies have shown that those who have chosen the option of “completely satisfied” have repurchased six times more than those who have chosen the option of “satisfied”; and 42 percent are more loyal than others (Salari; 2004).

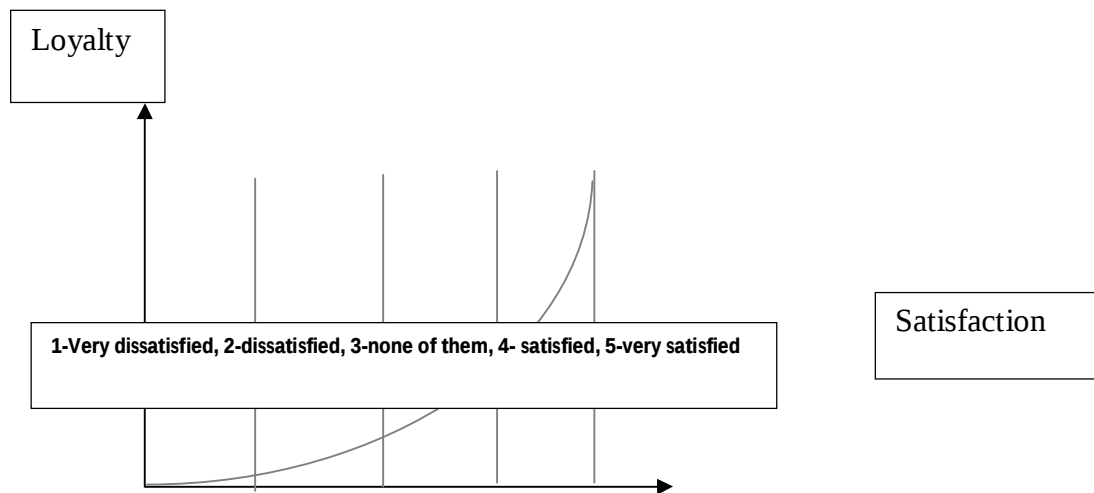


Figure 3- The Relationship between Satisfaction and Customer Loyalty from Sasser et al Point of View

Effective Factors on Relationship between Satisfaction and Loyalty:

1)Switching Costs: one of the effective factors on relationship between satisfaction and loyalty is switching cost. Companies can keep their customers (increase their loyalty) without increasing their satisfaction.

Switching costs is economic and psychological costs, which will perceive by consumer through changing from one alternative (brand) to other alternatives (brands).

Some switching costs are following items: benefits that were obtained by continues relationship with supplier, but by switching supplier will be lost, such as purchase discounts, which awarded to people who are old customer. Psychological costs related to the perceived risk, at the time of changing brand; evaluation cost and research before changing brand; The cost of preparation, such as filling out a new form while we changed our bank and... (Jones et al; 2002)

“Lurasi” and “Kennedy” (2002) have demonstrated that switching barriers are an important factor in keeping customer. Customers, even dissatisfied customers, will continue their supporting of supplier because rebuying is easier (Cohen et al; 2006).

2)Demographic Factors: “Mittal” and “Kamakura” (2001) in their findings have concluded that despite the same satisfaction, there is a significant difference in behavioral loyalty (rebuying), due to respondent characteristics, such as age, education, financial status, gender and residence. This research suggests that the consumers who have different characteristics have different threshold level, and as a result the probability of different repeated purchase. This paper has stated the impact of demographic factors on relationship between satisfaction and loyalty (Auh, Johnson; 2005).

3)Overall Satisfaction: Before 1990, satisfaction criteria have been concentrated on specific product or service (transaction-specific satisfaction) and were defined as evaluative judgments after choosing in a particular purchasing decision. Recently, another concept has emerged, which is in associated with all customers’ previous experiences about service and products of company in general (Bode; 2008). Overall satisfaction is overall impact of a series of separated provided services

or transactions with service providers, over than a period of time (Shanker et al; 2003). It seems that overall consumer satisfaction is better predictor to her/his expectations and behaviors. The following pictures illustrate the impact of overall satisfaction on relationship between satisfaction and loyalty.



Figure 4 - General Model of the Relationship between Overall Satisfaction, Transaction-Specific Satisfaction and Attitudinal Loyalty

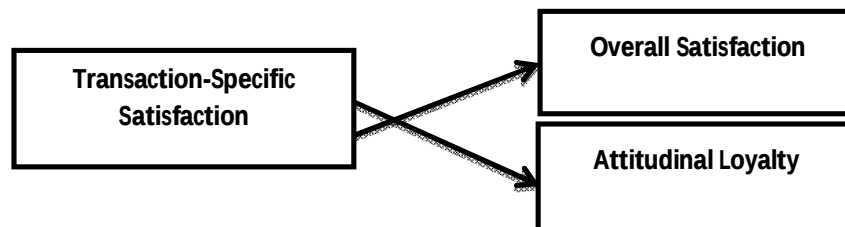


Figure 5- General Model of Partial Relationship between Overall Satisfaction, Transaction-Specific Satisfaction and Attitudinal Loyalty

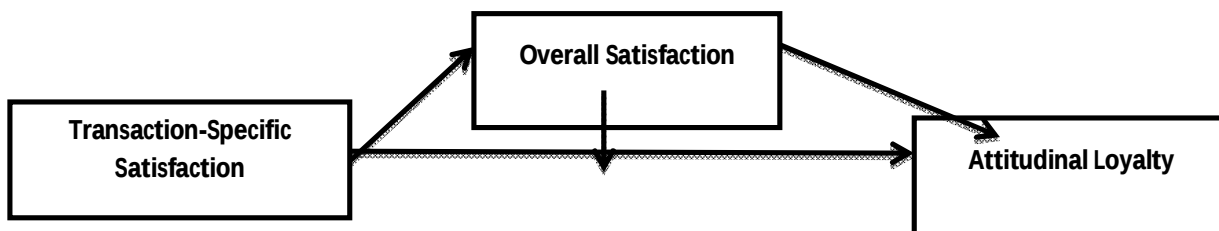


Figure 6 - General Model of Moderated Relationship between Overall Satisfaction, Transaction-Specific Satisfaction and Attitudinal Loyalty

In these models, overall satisfaction play moderator role in relationship between Transaction-Specific Satisfaction and loyalty; therefore, it is possible that some customers refer to service provider (product), even though they are dissatisfied about using a particular service (Due to the overall satisfaction of the supplier) (Bodet; 2008).

4)Compatibility Effect: Researches performed by “Auh, Johnson” (2005) indicated that the relationship between satisfaction and loyalty is affected by two factors: **(A) The Quality of Brands** **(B) Easiness of Judgment and Comparing Qualitative Differences between Various Brands.**

According to compatibility hypothesis, when the information about the quality and price, are available equally, the relationship between satisfaction and loyalty will increase. This paper has described the rational reason to negative relationship between satisfaction and loyalty as follows:

“applied attributes in satisfaction is different from those that are used in loyalty. For example, a customer of an insurance company who is satisfied, due to high service quality will make a decision on whether continue his/her relationship with the company or not; while customer can not differentiate between different qualities due to low information. In this case, the relationship between satisfaction and loyalty will reduce. According to this theory, if the quality is important and significant quality assessment is easy, the quality, most likely, will be use equally to evaluate satisfaction and loyalty. As a result, the relationship between satisfaction and loyalty will increase.

RQI importance of quality

EQ Easiness of Comparing Quality

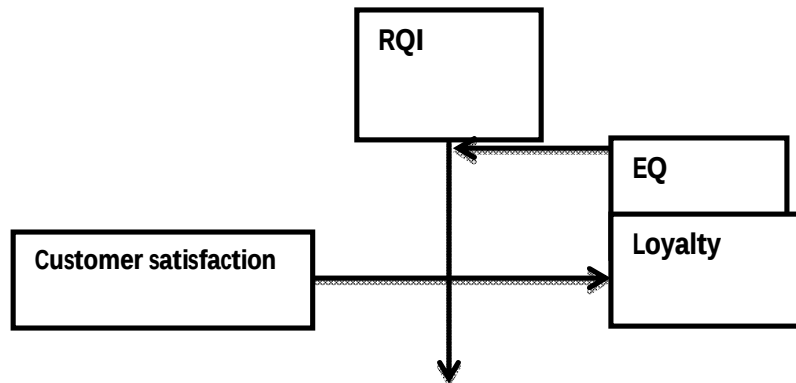


Figure7- The Impact of Compatibility and Relationship between Satisfaction – Loyalty (Auh, Johnson; 2005)

5)Other Factors: Literature related to the relationship between satisfaction and loyalty, has indicated the impact of moderating variables such as: consumer characteristics, perceived product importance, relationship duration, consumer mood, purchase uncertainty on relationship between two structures (Davis-Sramek et al; 2007)

4-Conclusions

On the basis of performed researches and investigating effective variables on relationship between satisfaction and loyalty it can be concluded that:

1. Satisfaction is one of effective factors on consumer loyalty; however, this effect is not always directly.
2. The impact of satisfaction on loyalty is possible at very high levels of satisfaction. Therefore to make customers loyal, their satisfaction should increase to its highest level according to the factors affecting satisfaction.
3. One way of keeping dissatisfied customers is increasing switching cost (Including the costs that one should pay on changing brand or supplier). In this case, by increasing switching barriers, increasing individual's behavioral loyalty (rebuying) will be possible.
4. Managers should increase overall customer satisfaction, because, what is important to customers is satisfaction that will develop during a particular period, to them. In this case, we should look for increasing customer satisfaction during supplier-- customer relationship.
5. And at the end, according to the theory of compatibility, managers should provide appropriate and comparable information about the quality of their product to customers, so that customers will be able to compare the products and their loyalty increase.

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