THE RELATIONSHIPS OF CUSTOMER PERCEIVED VALUE, CUSTOMER SATISFACTION AND CUSTOMER LOYALTY: AN EMPRICAL STUDY

Mrs.Sathana.Vaikunthavasan

Department of Marketing, University of Jaffna

sathanavaikunthavasan@yahoo.com

Abstract

In today's world of intense competition, satisfying customers is only the base line , Management should focus on gaining customer loyalty with the customer satisfaction through increasing customer perceived value. This research intentionally focuses on the relationships among customer perceived value, customer satisfaction and customer loyalty, that is the proposed model indicates that delivering superior customer value can result in achieve high customer satisfaction, ultimately leading to consumer retention. Data were collected from 500 customers of retail-banking in Jaffna District by using structured questionnaires. Customer perceived value is analyzed through the benefits and cost of the service, then the benefits and cost were assessed by the product offering, customer services, relationship, image, buy price and other costs. Measures of customer loyalty were selected from length (retention) and depth (cross sell) of the bank-customer relationship. Length of relationship is reported by customer-reported relationship tenure. Relationship depth is measured by division cross-sell rates, as account cross sell or service cross sell. Simple correlation is used to examine the hypothesized relationships and also to increase the internal validity of the results; regression measures of customer perceived value, customer satisfaction and customer loyalty were examined. An important finding of this study that since customer satisfaction is related to customers' perceived value, banks should endeavor to satisfy every customer. Banks were wise to target and serve only those customers whose needs it met better than its competitors in a valuable manner. Customer satisfaction led to customer loyalty as the customers who were most likely to remain with that bank for long periods, who purchased multiple products and services, who recommended the bank to their friends and relations, but unsatisfied customer involved in customer complaints, when there was adequate level of responses to that complaints creates customer loyalty.

Key words: perceived quality, customer expectation, customer perceived value, customer satisfaction and customer loyalty

1. INTRODUCTION

There are intense competitions in today's banking industry; one of the challenges for banks is how to differentiate themselves from their competitors. Differentiation based on price and cost strategies is normally short-lived, and the only real way to differentiate is through relationships and service propositions. It is a marketplace reality that marketing managers sometimes inflict switching costs on their customers, to inhibit them from defecting to new suppliers. In a competitive setting, such as the Internet market, where competition may be only one click away, has the potential of switching costs as an exit barrier and a binding ingredient of customer loyalty become altered? Customer valuebuilding and maximizing customer value is very important in this competitive world. Creating loyal customers is at the heart of every business. Don Peppers & Martha Rogers: The only value your company will ever create is the value that comes from customers-the ones you have now and the ones you will have in the future. Businesses succeed by getting, keeping and growing customers. Customers are the only reason you build factories, hire employees, schedule meetings or engage in any business activity. Without customers, you don't have a business."Customers are more educated and informed than ever. They have the tools to verify companies' claims and seek out superior alternatives. Customers estimate which offer will deliver the most perceived value and act on it. Whether the offer lives up to the expectations affects customer satisfaction and the probability that the customer will purchase the product again.

Customer perceived value is the difference between the prospective customer's evaluation of all benefits and all the costs of an offering and the perceived alternatives. CPV = what customer gets (benefits) – what he gives (costs). Total customer benefit is the perceived monetary value of the bundle of economic, functional and psychological benefits customers expect from a given market offering because of the products, services, personnel, and image involved. Total customer cost is the perceived bundle of costs customers expect to incur in evaluating, obtaining, using, and disposing of the given market offering, including monetary, time, energy, and psychological costs.

Managers conduct a customer value analysis to reveal the company's strengths and weaknesses relative to those of various competitors. They must identify the major attributes and benefits that Customers are asked what attributes, benefits and performance levels they look for in choosing a product and Customers are asked to rate the importance of the different attributes and benefits. Further managers assess the company's and competitor's performances on the different customer values against their rated importance. Customers describe where they see the company's and competitors' performances on each attribute and benefit. It is very important to examine how customers in a specific segment rate the company's performance against a specific major competitor on an individual attribute or benefit basis. If the company's offer exceeds the competitor's offer on all important attributes and benefits, the company is in a position to charge a higher price or it can charge the same price and gain more market share. Managers must monitor customer values over time that is they must periodically re do the studies of customer values, and competitor's standings, as the economy, technology and features change.

Dr. Gale has shown that the following empirical relationships govern customers' purchase decisions:

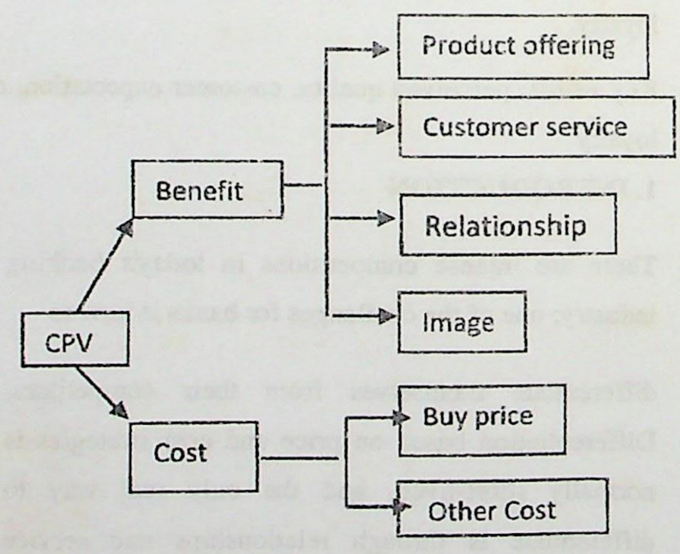


Figure1: Customer Perceived Value

- Customers buy on perceived value
- Value is defined as Benefits relative to Cost
- Benefits include all non-cost attributes: Product, Service, Relationship and Image
- Benefits, costs, and value are perceived by customers relative to competition

Customer Satisfaction is a person's feelings of pleasure or disappointment that result from comparing a product's perceived performance to their expectations. Customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs.

Customer Loyalty is defined as a deeply held commitment to rebuy or repatronise a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior. Further Customer loyalty means that customers are so delighted with a company's product or service that they become enthusiastic word-of-mouth advertisers" and "the willingness of someone – a customer, an employee, a friend – to make an investment or personal sacrifice in order to strengthen a relationship". Loyalty is much more than repeat purchases, as inertia, circumstances, or exit barriers erected by the bank may trap customers who buy again and again. points out three general rules of thumb regarding customer loyalty, which are of note to any company:• Some customers are more loyal than others, no matter with whom they are dealing. These customers are inherently predictable and prefer stable, long-term relationships. Certain customers are more profitable than others. They require less service or advice, pay on time, and spend more money. Company products and services will be more valuable to some customers than those of your competitors. To measure loyalty a company must determine the lifetime value of a customer. Lifetime value is the total return earned (after recruitment cost) over the length of time the customer stays with a company or balancing the long-term commitment against the period spent with the company. Recommending a company to a friend is the best sign of customer loyalty and sacrifice. When referring friends a customer goes beyond indicating satisfaction or receiving good economic value, they put their own reputation the line. This a customer will only risk if they are intensely loyal.

A highly satisfied customer generally stays loyal longer, buys more as the company introduces new products and upgrades existing products, talks favorably to others about the company and its products, pays less attention to competing brands and is less sensitive to price, offers product or service ideas to the company, and costs less to serve than new customers because transactions can become routine. Intense competitions in the banking industry; and more suppliers in the industry create more bargaining power to customers. Success of the banking activity depends on the how customer expected services are fulfilled to their expectations. Bank must differentiate the customers' services, have good relationship with customers and handle best the complaints properly.

Bank of Ceylon (BOC), Peoples' bank, commercial bank of Ceylon and Hatton National bank are major commercial bank in Sri Lanka. Banks mission related customer is Foster most rewarding relationship with trust and reliability for our customers, exceeding their expectations The banks have a network of branches and extension centers covering all parts of the island in real time operation. Banks ATM network serve the people 365 days 24 hours in all 24 districts of the country. Banks represent the highest worldwide network with correspondence banks and exchange houses. Addition to the local presence, Bank operating in-house Off-shore Banking Unit in the head office, Colombo and overseas offices and have appointed agents in all countries in the world for more convenient banking to its all customers. Banks have evolved continuously over the years, undergoing changes in its business operations, branch network, ownership, people, product and services to emerge as the largest financial service provider in Sri Lanka.

Delivering superior value to customers is an ongoing concern of management in Banks today. Knowing where value resides from the standpoint of the customer has become critical for suppliers. Banks are ready to pay any means to identify and understand the customers and their needs. It is an effective reaction of the consumers when their desires and expectations have been either met or exceeded in the course of experiencing the service. In the context of Banks, satisfaction could be interpreted as just meeting the expectations of the customers, not any sort of exceeding of failing short of the expectations. Most of the retail banks try to achieve competitive advantage by taking the responses of the customers beyond the level of 'just satisfied' towards 'exceeding their expectations'. So this research intentionally focused to analyze the impacts of customer perceived value on customer satisfaction and to investigate the influences of the personal characteristics on the customer satisfaction, that is the proposed model indicates that delivering high quality service to the customers expectation and creating superior customer value can result in achieve high customer satisfaction, ultimately leading to consumer retention.

2. PROBLEM OF THE STUDY

The researchers hope this research will answer the following question regarding customer satisfaction and loyalty.

1. Is there any relationship between customer perceived value and customer satisfaction?
2. How the customer satisfaction relates with the customer loyalty?

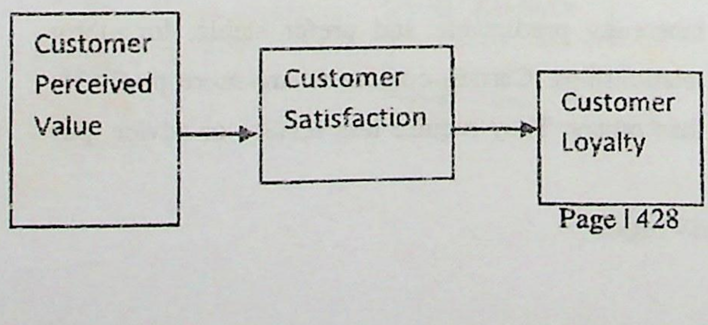
3. OBJECTIVES

In line with the issues identified above, the main purpose of the study is to examine the following objectives

1. To examine the impact of customer perceived value on customer satisfaction
2. To identify the relationship and of customer satisfaction and loyalty

4. CONCEPTUALIZATION

Research concept was developed by the University of Michigan Ross School of Business and it was used by researcher to this study. It links customer perceived value to overall customer satisfaction and customer loyalty. See chart below:



Source: ACSI Drivers of Customer Satisfaction
Figure 2: Conceptualization Model

HYPOTHESIS

The present study undertakes to test the validity of the following hypotheses.

H1: Customer perceived Value is related to Customer satisfaction

H2: Customer satisfaction is related to customer loyalty.

5. RESEARCH METHODOLOGY

The study was descriptive in nature. Primary data had been collected using questionnaires as data collection tool. Self –prepared questions were developed on the basis of review of the literature, measuring three construct. A five- point Likert scale ranging from strong Disagree(1) to strong agree(5) was related to each respondents to rate. The target population of the study included customers at important four Banks in Jaffna District. The important banks in Jaffna District are Bank of Ceylon, Peoples' Bank, Hatton National bank and Commercial bank of Ceylon, which were considered to this study. Totally five hundred questionnaires, each banks customer was issued 125 questionnaires. Ratified Convenient sampling method was chosen to serve the purpose of data collection. This method seemed acceptable and appropriate taken into account the descriptive nature of the study. Descriptive statistic, correlation, regression analysis and t-test, were used to this research by assistance of statistical package of SPSS.

Table 1: Measures of Variables

Measures of CPV	Measures of customer satisfaction	Measures of customer Loyalty
Benefits	Price	length (retention) of customer relationship
Costs	service	depth (cross sell) of customer relationship

Customer perceived value is analyzed through the benefits and cost of the service, then the benefits and cost were assessed by the product offering, customer services, relationship, image, buy price and other costs. Customer satisfaction was measured in two ways. Satisfaction was measured independently as the "service index" and the "price index". Measures of customer loyalty were selected from length (retention) and depth (cross sell) of the bank-customer relationship. Length of relationship is reported by customer-reported relationship tenure. Relationship depth is measured by division cross-sell rates, which record the percentage of customer households with multiple accounts (account cross sell) or multiple services (service cross sell).

6. RESULTS AND DISCUSSION

A pilot survey was made to test the reliability and validity with the samples of 500 consumers. A consistency checks with co-efficient was made the cronbach's Alpha value. According to Nunnally (1978) the alpha value should be greater than 0.7 for the variables used in research. In the table No 2, it was denoted as point 0.822 and 0.874 for Customer Perceived Value and Customer Satisfaction respectively and 0.813for customer Loyalty. These values indicated a high reliability of data and researcher satisfied with instruments and then decided to continue the study.

Table 2: Reliability Test

Variables	Cronbach's Alpha value
Customer Perceived Value	0.822
Customer Satisfaction	0.874
Customer Loyalty	0.813

In this research correlation analysis was used to understand the relationship between variables and regression analysis was used to analyze the impacts. The F –Value was used to analyze the significant impact of variables.

Table 3: Standard correlation and regression coefficient

Customer Satisfaction **dependent variable**	***Customer Perceived Value*** **independent variables**
R	0.838
Adjusted R^2	.702
Significance of F	0.000

The above table shows the correlation(r) and co-efficient determinant (r2) between independent variable and dependent variable. Based on the Table 3 the following relationship between variables can be explained. Relationship between Customer satisfaction and CPV was a high positive one, that is r= .838. It gives the evidence between the two variables are positive. The Regression analysis was used to find out the impact of Customer perceived value on Customer satisfaction. The Co-efficient of determinant is 0 .702, this explains that 70.2% of variance satisfaction is accounted by Customer perceived value, the impact of customer perceived value on customer satisfaction is proved by the significance of F value as 0.000. So hypothesis 1 was proved from this study.

Table 4: standard correlation and regression coefficient

Customer Loyalty **dependent variable**	***Customer satisfaction*** **independent variables**
R	0.788
Adjusted R^2	.620
Significance of F	0.000

Based on the Table 4 the following relationship between variables can be explained. Relationship between Customer loyalty and customer satisfaction was a high positive one, that is r= .788. It gave the evidence between the two variables were positive. The Regression analysis was used to find out the impact of Customer satisfaction on Customer Loyalty. The Co-efficient of determinant was 0 .620, this explained that 60.2% of variance in loyalty was accounted by Customer satisfaction, significance of F value was 0.000 , this proved the impact of customer satisfaction on customer Loyalty , so hypothesis 2 was proved from this study.

7. CONCLUSION

An important caveat must be made regarding the findings of this study. This study elaborates that Banks need to develop competitive strategies for all levels of customers. From the research it is clear that CPV enhances business customer satisfaction which again has customer loyalty, numerous advantages and benefits for banks. Therefore the primary objective was satisfied and banks consider the CPV to a considerable extent. Researcher might infer from the conclusion that since CPV is related to customer satisfaction bank should endeavor to satisfy every customer. A bank's population of customers are very large, anyway bank would be wise to target and serve those customers whose needs it can meet better than its competitors in a profitable manner. This concludes that for banks to achieve sustainable success, they require a customer perceived value that considers the importance of customer satisfaction and customer loyalty.

Customers have more expectation on the Customer services because it facilitate further the low level of risks for their transactions, reliability, confidentiality, recognition, friendly and high availability. This expectations were fulfilled by the bank in the way of branches, extensions centers , ATM networks, 365 days 24 hours services, correspondence banks and exchange houses and overseas offices, different types of deposits , primary dealers for the treasury transactions, foreign fund transaction , Advances for different category customers, leasing and credit cards. Higher level of expectation was satisfied with more perceived quality from the banks, it leads to higher level CPV, that is customers get more benefits rather than the cost of Banks services. Banks in the competitive world must develop superior capabilities to create customer satisfaction; it may be both goal and a marketing tool for organizations. Customers are value maximizers and they realized actual perceived value. When perceived value will be expected more, it creates satisfaction, so the objective one was satisfied further the proved Hypothesis one ensured the objective one.

Banks recover customer-goodwill through many activities as, Set up a seven day, 24-hour hotline (phone, fax, e-mail) to receive complaints, Contact the complaining customer as quickly as possible, accept responsibility for the customer's disappointment; don't blame the customer, Use customer service people who are empathic, Resolve the complaint swiftly and to the customer's satisfaction and make the customer feel that the company cares, Product and Service quality. The customer's perception of value drives the customer's behavior. The greater value of an offering versus the customer's alternatives, the more likely the customer is to make a decision to select the particular offering. Banks were wise to target and serve only those customers whose needs it met better than its competitors in a valuable manner. Customer satisfaction led to customer multiple products and services, who recommended the bank to their friends and relations, but unsatisfied customer involved in customer complaints, when there was adequate level of responses to that complaints creates customer loyalty. Finally the satisfaction leads to customer loyalty by giving quality services by the organization, it wins the competitive advantage among rivals. It ensured the objective two of this research.

Researcher can say that a seller has delivered quality whenever its product or service meets or exceeds customers' expectation. Product and service quality, customer satisfaction and company's profitability are intimately connected. Higher levels of quality result in higher levels of customer satisfaction, which support higher prices and often (lower) costs. Banks play several roles in helping branches define and deliver high quality goods and services to target customers. They bear the major responsibility for correctly identifying the customers' needs and requirements. They must communicate customer expectations properly to product designers. They must make sure that customers' orders are filled correctly and on time. They must check that customers have received proper instructions, training, and technical assistance in the use of the product. They must stay in touch with customers after the sale to ensure that they are satisfied and remain satisfied. They must gather customer ideas for product and service improvements and convey them to the appropriate departments. When marketers do all this, they are making substantial contributions to total quality management and customer satisfaction.

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