



**The Importance of Customer Satisfaction  
in Relation to Customer Loyalty and  
Retention**

**by**

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# ***The Importance of Customer Satisfaction in Relation to Customer Loyalty and Retention***

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## **Abstract**

To be successful, organizations must look into the needs and wants of their customers. That is the reason why many researchers and academicians have continuously emphasized on the importance of customer satisfaction, loyalty and retention. Customer satisfaction is important because many researches have shown that customer satisfaction has a positive effect on an organisation's profitability. Due to this, the consequences of customer satisfaction and dissatisfaction must be considered. There is also a positive connection between customer satisfaction, loyalty and retention. Therefore, customer satisfaction, loyalty and retention are all very important for an organization to be successful

**Keywords:** Customer satisfaction, customer loyalty, customer retention

## **Introduction**

The importance of customers has been highlighted by many researchers and academicians. Zairi (2000) said "Customers are the purpose of what we do and rather than them depending on us, we very much depend on them. The customer is not the source of a problem, we shouldn't perhaps make a wish that customers 'should go away' because our future and our security will be put in jeopardy". That is the main reason why organisations today are focusing on customer satisfaction, loyalty and retention.

According to Hansemark and Albinsson (2004), "satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfilment of some need, goal or desire". Customer loyalty, on the other hand, according to Anderson and Jacobsen (2000) "is actually the result of an organisation creating a benefit for a customer so that they will maintain or increase their purchases from the organisation. Oliver (1997) said that customer loyalty refers to "a deeply held commitment to re-buy or re-patronise a preferred product or service consistently in the future despite situational influences and marketing efforts having the potential to cause

switching behaviour". True customer loyalty is created when the customer becomes an advocate for the organisation, without incentive". According to Hoyer and MacInnis (2001), customer retention is "the practice of working to satisfy customers with the intention of developing long-term relationships with them". Zineldin (2000) said that retention can be defined as "a commitment to continue to do business or exchange with a particular company on an ongoing basis".

## **Customer satisfaction**

Many researchers have looked into the importance of customer satisfaction. Kotler (2000) defined satisfaction as: "a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations". Hoyer and MacInnis (2001) said that satisfaction can be associated with feelings of acceptance, happiness, relief, excitement, and delight.

There are many factors that affect customer satisfaction. According to Hokanson (1995), these factors include friendly employees, courteous employees, knowledgeable employees, helpful employees, accuracy of billing, billing timeliness, competitive pricing, service quality, good value, billing clarity and

quick service. This is shown in Figure 1 below.

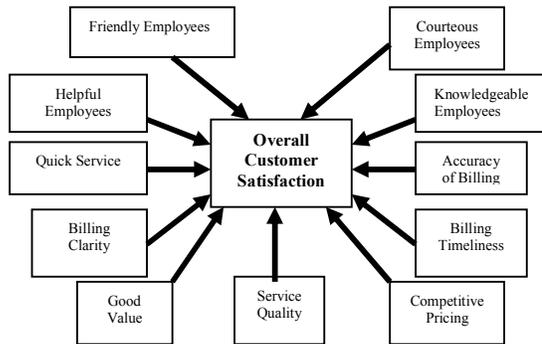


Figure 1  
Factors that Affect Customer Satisfaction

In order to achieve customer satisfaction, organisations must be able to satisfy their customers needs and wants (La Barbera and Mazursky, 1983). Customers’ needs state the felt deprivation of a customer (Kotler, 2000). Whereas customers’ wants, according to Kotler (2000) refer to “the form taken by human needs as they are shaped by culture and individual personality”.

**Effect of Customer Satisfaction on Profitability**

Customer satisfaction does have a positive effect on an organisation’s profitability. According to Hoyer and MacInnis (2001), satisfied customers form the foundation of any successful business as customer satisfaction leads to repeat purchase, brand loyalty, and positive word of mouth.

Coldwell (2001): “Growth Strategies International (GSI) performed a statistical analysis of Customer Satisfaction data encompassing the findings of over 20,000 customer surveys conducted in 40 countries by InfoQuest. The conclusion of the study was:

- A Totally Satisfied Customer contributes 2.6 times as much revenue to a company as a Somewhat Satisfied Customer.
- A Totally Satisfied Customer contributes 17 times as much revenue as a Somewhat Dissatisfied Customer.
- A Totally Dissatisfied Customer decreases revenue at a rate equal to 1.8 times what a Totally Satisfied Customer contributes to a business”.

Zairi (2000): “There are numerous studies that have looked at the impact of customer satisfaction on repeat purchase, loyalty and

retention. They all convey a similar message in that:

- Satisfied customers are most likely to share their experiences with other people to the order of perhaps five or six people. Equally well, dissatisfied customers are more likely to tell another ten people of their unfortunate experience.
- Furthermore, it is important to realise that many customers will not complain and this will differ from one industry sector to another.
- Lastly, if people believe that dealing with customer satisfaction/complaint is costly, they need to realise that it costs as much as 25 percent more to recruit new customers”.

Aaker (1995) said that the strategic dimension for an organisation includes becoming more competitive through customer satisfaction/brand loyalty, product/service quality, brand/firm associations, relative cost, new product activity, and manager/employee capability and performance (Figure 3).

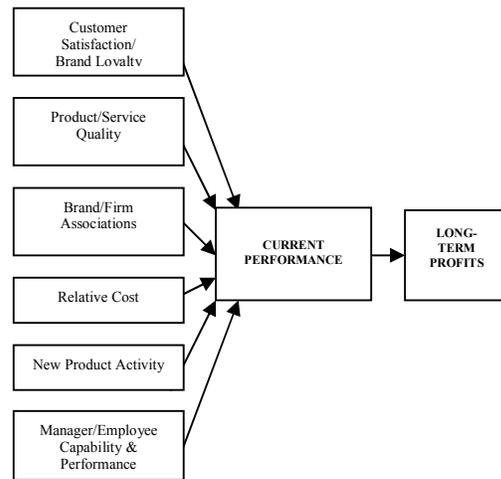


Figure 3  
Performance Measures Reflecting Long-Term Profitability

**Consequences of Customer Satisfaction and Dissatisfaction**

The consequences of not satisfying customers can be severe. According to Hoyer and MacInnis (2001), dissatisfied consumers can decide to: -

- discontinue purchasing the good or service,
- complain to the company or to a third party and perhaps return the item, or

- engage in negative word-of-mouth communication.

Customer satisfaction is important because, according to La Barbera and Mazursky (1983), “satisfaction influences repurchase intentions whereas dissatisfaction has been seen as a primary reason for customer defection or discontinuation of purchase”.

### **Effect of Customer Satisfaction on Customer Loyalty and Retention**

However, Bowen and Chen (2001) said that having satisfied customers is not enough, there has to be extremely satisfied customers. This is because customer satisfaction must lead to customer loyalty. Bansal and Gupta (2001): “Building customer loyalty is not a choice any longer with businesses: it’s the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers. The strategic imperatives for building a loyal customer base are as:

- Focus on key customers
- Proactively generate high level of customer satisfaction with every interaction
- Anticipate customer needs and respond to them before the competition does
- Build closer ties with customers
- Create a value perception”.

Sivadas and Baker-Prewitt (2000) said “there is an increasing recognition that the ultimate objective of customer satisfaction measurement should be customer loyalty”. Fornell (1992) said “high customer satisfaction will result in increased loyalty for the firm and that customers will be less prone to overtures from competition”. This view was also shared by Anton (1996) who said that “satisfaction is positively associated with repurchase intentions, likelihood of recommending a product or service, loyalty and profitability”. Loyal customers would purchase from the firm over an extended time (Evans and Berman, 1997). Guiltinan, Paul and Madden (1997) said that satisfied customers are more likely to be repeat (and even become loyal) customers. Sivadas and Baker-Prewitt (2000): “Satisfaction also influences the likelihood of recommending a departmental store as well as repurchase but has no direct impact on loyalty. Thus satisfaction in itself will not translate into loyalty. However, satisfaction will foster loyalty to the extent that it is a prerequisite for maintaining a favourable relative attitude and

for recommending and repurchasing from the store. Once customers recommend a department store it fosters both repatronage and loyalty towards that store. Thus the key to generating loyalty is to get customers to recommend a store to others. Also, customers are likely to recommend a department store when they are satisfied with that store and when they have a favourable relative attitude towards that store”. Evans and Berman (1997): “Companies with satisfied customers have a good opportunity to convert them into loyal customers – who purchases from those firms over an extended period”.

Clarke (2001) said, “a business that focuses exclusively on customer satisfaction runs the risk of becoming an undifferentiated brand whose customers believe only that it meets the minimum performance criteria for the category. Long-term customer retention in competitive markets requires the supplier to go beyond mere basic satisfaction and to look for ways of establishing ties of loyalty that will help ward off competitor attack”. Sivadas and Baker-Prewitt (2000) also said that it is not merely enough to satisfy a customer. According to Reichheld (1996), 65 to 85 percent of customers who defect to competitors’ brands say they were either satisfied or very satisfied with the product or service they left. Therefore, in order to ensure that customers do not defect, Bowen and Chen are correct to say that customers must be extremely satisfied. As far as organisations are concerned, they want their customers to be loyal to them and customer satisfaction does not guarantee this. According to Storbacka and Lentinen (2001), customer satisfaction is not necessarily a guarantee of loyalty. They said that in certain industries up to 75% of customers who switch providers say that they were ‘satisfied’ or even ‘very satisfied’ with the previous provider. Customers may change providers because of price, or because the competitor is offering new opportunities, or simply because they want some variation (Storbacka and Lentinen, 2001). Clarke (2001) said that customer satisfaction is really no more than the price of entry to a category. For satisfaction to be effective, it must be able to create loyalty amongst customers. Sivadas and Baker-Prewitt (2000): “There is increasing recognition that the ultimate objective of customer satisfaction measurement should be customer loyalty”.

McIlroy and Barnett (2000): “An important concept to consider when developing a customer loyalty programme is customer satisfaction. Satisfaction is a measure of how

well a customer's expectations are met while customer loyalty is a measure of how likely a customer is to repurchase and engage in relationship activities. Loyalty is vulnerable because even if customers are satisfied with the service they will continue to defect if they believe they can get better value, convenience or quality elsewhere. Therefore, customer satisfaction is not an accurate indicator of loyalty. Satisfaction is a necessary but not a sufficient condition of loyalty. In other words, we can have satisfaction without loyalty, but it is hard to have loyalty without satisfaction".

McIlroy and Barnett (2000), "in a business context loyalty has come to describe a customer's commitment to do business with a particular organisation, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates". Anderson and Jacobsen (2000) said customer loyalty is actually the result of an organisation creating a benefit for a customer so that they will maintain or increase their purchases from the organisation. They said that true customer loyalty is created when the customer becomes an advocate for the organisation, without incentive.

Clarke (2001): "The notion of customer loyalty may appear at first sight to be outmoded in the era of the Internet, when customers are able to explore and evaluate competing alternatives as well as checking reports from others – at the touch of a button. Yet the evidence shows that the old rules of successful and profitable management still hold good: customer retention is still a key to long-term profits, while on the other side of the coin there is a high cost-penalty to low loyalty. Indeed, the very fact that customers can so readily assess the competing services and products on offer and then so easily make the new purchase does in itself give added weight to the importance of building strong ties of loyalty with customers".

Bowen and Chen (2001): "It is commonly known that there is a positive relationship between customer loyalty and profitability. Today, marketers are seeking information on how to build customer loyalty. The increased profit comes from reduced marketing costs, increased sales and reduced operational costs. Finally, loyal customers cost less to serve, in part because they know the product and require less information. They even serve as part-time employees. Therefore loyal customers not only require less information themselves, they also serve as an information source for other customers".

Bansal and Gupta (2001): "Building customer loyalty is not a choice any longer with businesses: it's the only way of building sustainable competitive advantage. Building loyalty with key customers has become a core marketing objective shared by key players in all industries catering to business customers. The strategic imperatives for building a loyal customer base are as:

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McIlroy and Barnett (2000) said that loyalty cannot be taken for granted. They said that it will continue only as long as the customers feels they are receiving better value than they would obtain from another supplier.

Anton (1996): "When you can increase customer loyalty, a beneficial 'flywheel' kicks in, powered by: -

- Increased purchases of the existing product,
- Cross-purchase of your other products,
- Price premium due to appreciation of your added-value services,
- Reduced operating cost because of familiarity with your service system,
- Positive word-of-mouth in terms of referring other customers to your company".

In order to ensure that there is customer loyalty, organisations must be able to anticipate the needs of their customers (Kandampully and Duffy, 1999). According to Kandampully and Duffy (1999), a customer's interest in maintaining a loyal relationship is depended on the firm's ability to anticipate customer's future needs and offering them before anyone else.

According to the study done by Bowen and Chen (2001), it supported the contention that there is a positive correlation between loyal customers and profitability. Bowen and Chen (2001): "The result of our study supported the contention that there is a positive correlation between loyal customers and profitability. Loyal customers indeed provide more repeat business and were less likely to shop around for the best deals than non-loyal customers".

Day (1994) said that the identification and satisfaction of customer needs leads to improved customer retention. Clark (1997): "Customer retention is potentially one of the most powerful weapons that companies can employ in their fight to gain a strategic advantage and survive in today's ever-increasing competitive environment. It is vitally important to understand the factors that impact on customer retention and the role that it can play in formulating strategies and plans".

## Conclusion

Based on the views and research done by numerous researchers and academicians, it can be concluded that customer satisfaction is very important. Thus, though customer satisfaction does not guarantee repurchase on the part of the customers but still it plays a very important part in ensuring customer loyalty and retention. This point has been echoed by Gerpott et al. (2001) when they said "customer satisfaction is a direct determining factor in customer loyalty, which, in turn, is a central determinant of customer retention". Therefore, organisations should always strive to ensure that their customers are very satisfied.

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Harkiranpal Singh is now a senior lecturer at APIIT/UCTI where he lectures subject relating to business, management and law.