"CUSTOMER SATISFACTION AND BRAND LOYALTY IN BANKING SECTOR"

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Abstract

The motive of this research is to find out various variables service companies are adopting in order to create customer satisfaction and brand loyalty. We have chosen different theories related to relationship marketing, service quality, different types of loyalty, customer value, brand loyalty, customer satisfaction, loyalty programs and social bonds. Out of these theories, we have concluded that shows how companies in the service sector create customer satisfaction and brand loyalty. Our findings are that the parameter called social bonds has a significant importance for the companies we have studied. Monetary benefits and loyalty programs are other factors that the companies use to create satisfied and loyal customers. More research has to be done and some suggestions for this will be given.

Keywords: brand loyalty , banks, customer satisfaction

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Introduction

During the past decade, the economic conditions have been changing due to economic dullness, intence competition, entry of foreign players, higher inflation and increased unemployment. Many markets have reached to the stage of maturity. It could be said that the actor who nowadays dominates the market is the customer because focus has moved from the seller to the customer. The trend from transaction marketing towards relationship marketing has been significant in recent years (Kotler et al, 1996).

Due to intensive competition, Companies are forced to take care of existing customers and retaining them for future reference to sustain in the market.

Today companies are more focused on customer retention. According to Kotler et al (1996) it takes five times as much effort, time and money to attract a new customer than it does keeping an existing customer.

In this research we have referred to authors who are frequently mentioned in the relationship marketing area. Blomqvist et al, (1993, 2000) discuss relationship marketing and Grönroos (2002) discusses service quality. Feurst (1999) discusses different types of loyalty and Butscher (2000) ends with a discussion about loyalty programs

In an environment with increasing competition, more and more research brings up the fact that companies have started using brand loyalty programs. The purpose of programs is to communicate and to create added value (Butscher, 2002). Therefore our assumption is that the companies have started realising the importance of taking care of their customers.

Expectations of relations between the satisfied customers and other variables are the most important reasons for the increased interest in the companies to make their customers satisfied. The satisfied customer is a part of the marketing and this will probably lower the company's marketing costs (Söderlund, 2001).

The reasons why customers are being not loyal today are that they have more options available in terms of different styles, variations, products, services and accessories to choose from. The customers have ease to access information in abundance by the help of Internet. Today the customers are also more aware and they have higher expectations. The abundance of information encourages customers to make comparisons between companies and the lowest prices (Schriver, 1997).

In the beginning of the business epoch, customer relationships were an important concept for companies and entrepreneurs (Blomqvist et al, 2000).

According to Blomqvist et al (2000) relationship marketing can be divided into two levels. Each level shows in what way companies try to develop higher customer loyalty.

The first level is the monetary level. On this level, companies are using the price to get higher customer loyalty, for example retailers reward loyal customers with bonuses, special prices or other monetary benefits.

The second level is the social level. On this level the companies are also using the price but they combine the price with other factors that can establish social bonds with the customers. For example when companies gifted movie ticket, hotel stay, tour packages, dinners, match ticket or lectures for their customers.

The purpose of relationship marketing is to achieve a continuing profitability by adding a higher value in the relation to the customer (Blomqvist et al, 2000).

The quality of a service or of a product is what the customer perceives it to be (Grönroos, 2002). Very often the technical measures of a service are seen as important when measuring quality. In reality, the customers have a much wider spectra of what quality is, customers often see other aspects as more important than the technical. According to Grönroos (1991), companies have to define their quality in the same way as their customers define it, or the companies might act in a wrong way.

Grönroos (2002) claims that the companies' image and profile work as a filter for the customers' perceived quality. If customers are treated badly but perceive the company as good from the beginning, bad treatment will not affect the customers. Bad treatment will affect customers more if they dislike the company from the beginning. If companies mistreat their customers several times, their image will be stained and every new mistake will be perceived harder.

According to Grönroos (2002), service quality consists of two parts; expected and perceived service. The perceived quality has two dimensions, one technical and one functional. The technical dimension is what the customers get, for example when bank customers take out a mortgage or buy stock shares through the bank, or when unsatisfied customers get complaints handled. The customers can often measure this dimension because it consists of a technical solution to a problem. The functional dimension is how the customer gets the service handled. For example, how do the personnel behave when they meet their customers?

Blomqvist et al (2000) base their statements about quality on Grönroos's view of the subject. They say that a good perceived customer quality, correspond to the expectations of customers. If customers have unrealistic high expectations, the quality will be perceived as bad, even if it objectively is seen as good. The customer perceived quality is not entirely determined by the expected and perceived quality, but more by the difference between the customers' expectations and experiences. The quality affects the customer perceived value, which is the strongest factor that affects the relation between the customer and the company. (Blomqvist et al, 2000)

Customer value is the essential element of relationship marketing. What customers basically want is value. "Customer value is the difference between the values the customer gains from owning and using a product or service and the cost to obtaining the product or service" (Kotler, et al, 1996, page 11). In the 1990s, customer satisfaction had a significant impact on management thinking. In fact, the realisation that understanding, meeting and anticipating the needs of customers was probably the most important source of sustained and competitive advantage for a company that had a decisive effect on the setting of corporate priorities and practices (Vilares et al, 2001).

A broad definition of customer satisfaction is "that it is an emotional response to the use of a product or a service: and it is also a complex human process, which involves cognitive and affective process, as well as other psychological and physiological influences" (Chu, 2002, page 285).

Kotler et al (1996) say that customer satisfaction depends on a product's or a service's perceived performance in delivering value relative to the buyer's expectations. If the performance of the product or service does not correspond to the customer's expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If the performance exceeds expectations, the buyer is satisfied. "Customer satisfaction is customers' overall evaluation of the purchase and consumption experience with a product, service or provider" (Johnsson and Gustafsson,).

Satisfied customers make repurchases, and they tell others about their good experiences with products and services. The key is to match customer expectations with company performance. "Customer satisfaction is closely linked to quality" (Kotler, et al, 1996, page 12).

There are many variables that influence customer satisfaction. It could be variables like quality, delivery speed, delivery dependability, costs, flexibility, competitive capabilities, product mix and customer service. Companies must take the variables into consideration when they want to satisfy their customers. (Sighted in Zhang et al, 2003, White, 1996).

The interest in measuring customer satisfaction is reflected in the ability to help build up customer loyalty, enhance favourable word-of-mouth and improve the market share and profitability of the company (Chu, 2002).

Most scientists agree that customer loyalty is important. Customer loyalty is defined as;

"a customer which over time engage one company to satisfy entirely, or a significant part, of her needs by using the company's products or services" (Blomqvist et al, 2000 page 103). Customer loyalty means that the customer is loyal to the company and only turns to a competitor in exceptional cases.

According to Blomqvist et al (2000) there are two fundamental ways in how to put more effort in customer loyalty:

• With the right marketing, it is possible to build up a loyal base of customers with a high frequency of purchases. With a loyal base of customers, the company can reach a stable market share which consists of loyal customers who are easier to defend from competitors.

• Researches show that it costs five times more for a company to reach a new customer instead of trying to keep an existing customer. Losing a customer means a decrease in the income while the cost of keeping an existing customer often is limited.

Söderlund (2001) divides loyal customers into two main groups, loyal customers and strongly loyal customers. Within the loyal group there are satisfied and unsatisfied customers. The satisfied customers do not have to be loyal but there is a correlation between satisfied customers and loyal customers. There are unsatisfied customers who are loyal. The combination of unsatisfied customers and high loyalty is sometimes called false loyalty. The overall reason for this combination is factors that are obstacles for the customer to choose supplier These factors are called switching costs, or switching barriers.

Based on the assumption that a satisfied customer is a loyal customer, Söderlund (2001) argues that high level needs seem to have the largest potential to create strong loyalty. He talks about factors that seem to create strong loyalty. An example could be high level needs, or values. These can be freedom, a meaningful life, happiness, and other feelings. Blomqvist et al (1993), give a definition of customer clubs: "A customer club is a formalised association of customers which meets certain criteria that have been set up by the company, which performs some kind of achievement for its membership and as a reward for that receive benefits that are only available for the members of the club"

There are few customer clubs that entirely belong to the first or the second category. Most customer clubs are using a combination of extra service and monetary benefits, in most cases a quantity discount. New members are usually attracted by the monetary benefits that they receive. This is a dangerous method in the long run, since the companies do not reach any lasting competitive advantages and it is far too easy for the competitors to follow that pattern (Blomqvist et al, 1993).

According to Blomqvist et al (1993), these five following points appear to be common in most customer clubs:

- They should not have any connection or annual charge.
- They demand that the customers fill in an application with personal information so a list of customers can be created.
- The customers get a membership card when they join the club. If the customers want the benefits, the card has to be shown when purchasing.
- The benefits are only offered to the members as special offers. Other customers will not be a part of the special offers.
- Principally the benefits are of a monetary character.

Customer clubs improve companies' possibilities, building up profitable relations with an attractive group of customers. The customer clubs give companies individual information, a better customer dialogue and therefore an improvement in the service offer (Blomqvist et al, 1993). Today customer clubs and customer programs are common. (Blomqvist et al, 1993; Feurst, 1999). According to Feurst (1999), a loyalty program has been designed to build up economic and emotional barriers to prevent the customers from changing their supplier of origin.

There are two significant aspects which point out why loyalty programs are used. One is to increase sales revenues by raising purchase/usage levels, and/or increasing the range of products bought from the supplier. The second aspect is more defensive. By building a closer relation between the brand and the customer, companies hope to maintain the current customer base. Blomqvist et al (1993) say that the most important advantage of loyalty programs is the dialogue that leads to better information about the customers. The customer who considers joining a club weighs his input against his output. For example the input includes a membership fee, obligations and costs for benefits, and the output might include benefits, financial advantages and a better customer treatment. As can be understood, the balance between input and output is an important issue. Therefore it is important that the benefits have a high value. Higher value makes it more interesting to be a part of the club. In order to have a high value, the benefits must meet certain expectations and have certain exclusiveness for the customers. Another aspect is the perceived value. The value must be high for the company and especially for the customer. If customers perceive the benefit differently than what the company expects them to, there might be a lower value of the benefit than expected. To reduce the misunderstandings, the company must find what the customers really want. Customers' opinions are what matters. The program will only work if it offers benefits that the customers like (Butscher, 2000).

According to Saunders et al (2003), the characteristic of positivism is that the researchers adopt the philosophical stance of the natural scientist. The researchers work with an observable social reality and the end product of such a research can be law-like generalisation. The researchers assume the role of an objective analyst. There will be an emphasis on a highly structured methodology to facilitate replication and on quantifiable observations that lend themselves to statistical analysis.

"The researcher is independent of and neither affects nor is affected by the subject of the research" (Sighted in Saunders et al, 2003, page 84: Remeyi, Williams, Money and Swartz 1998).

The characteristic of realism is that "it is based on the belief that reality exists and that it is independent of human thoughts and beliefs" (Saunders et al, 2003, page 85). There are also large-scale social forces that affect peoples' perception. Realism share the same aspects with positivism, for example the view of an external objective nature but in a social context (Saunders et al, 2003).

"Relationship Marketing can be defined as; consciously work to establish, develop and liquidate relations with customers and other interested parties, in a way which creates mutual value and competitiveness" (Blomqvist et al, 2000,page23) According to Blomqvist et al (2000) relationship marketing can be divided into three levels. Each level shows in what way companies try to develop higher customer loyalty.

"Service quality is not a separate discipline from services marketing; service quality is the central part of services marketing" (Sighted in Blomqvist et al, (1993), page 49; Berry and Parasurman).

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Research Methodology

Approach: We have chosen to use a qualitative approach in our research. Due to this we have conducted personal interviews and the data collected from these interviews have been hard to quantify.

Data: Secondary data about theories concerning consumer behaviour, customer loyalty, service management and relationship marketing books, articles, databases and the Internet have been used.

Conclusion

On the basis of secondary data, we cannot draw any general conclusions from this study in the service company sector, but we conclude some important factors about the bank sector in general.

According to various study done so far by the researchers , we conclude that the study was that the banks agreed on customer loyalty being very important in the bank sector. Certain parameters affect customer loyalty more than others. In the creation of loyalty, the most important parameter was social bonds including, among other things, personnel. In order for a bank to survive it is important to have a strong competitive personnel since many banks offer services that are quite similar. It is also found that monetary benefits is a one of the important parameter, but the banks also say that monetary benefits play a minor part in the process. We believe that this is due to differences in the price and quality that are difficult to differentiate for the banks. None of the banks use customer clubs in their creation of customer loyalty. All of the banks see problems with customer clubs concerning how to build clubs that satisfy all customers.

We have not found any reasons strong enough to add a new parameter for creating customer loyalty although "building networks" and "personal competence". We argue that further research has to be done to see if these two parameters should be included.

Suggestions for Further Research

Since we have created a new model with three parameters, a suggestion for further research might be to study one parameter more deeply, for example study how social bonds affect customer loyalty in service companies.

Since we conducted our research in the bank sector, a suggestion for further research might be to try our model in another type of service sector. An example could be in the cleaning line of business since these companies work entirely with services.

We found that if customers perceive companies' measures for customer loyalty in the same way. It would be interesting to investigate customer loyalty in service companies from the customers' perspective.

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