

ANALYSIS OF CUSTOMER RELATIONSHIP STRATEGIES FOR RETAILER

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Abstract:

Purpose-This paper is to develop and test a conceptual model of the relationship among the constructs of service quality, customer loyalty and relationship quality and role of emotional satisfaction in predicting customer loyalty and relationship quality in retail industry.

Design/Methodology/Approach- The study utilizes a review of the literature to propose a conceptual model that postulates that service quality is positively related to emotional satisfaction; emotional satisfaction is positively related to customer loyalty; emotional satisfaction is positively related to relationship quality. Moreover, the model postulates that the relationship between service quality and emotional satisfaction, and its consequential impact on customer loyalty and overall relationship quality. A four-item overall service quality scale was employed developed by Dabholkar et al., 2000, The measure adopted by Reynolds and Beatty (1999) was used to capture emotional satisfaction and a four-item customer loyalty scale was used developed by Parasuraman et al., 1994. A retail chain departmental store of India was chosen as the study site because of the more complex set of issues involving customer-contact employee interaction (Mishra, 2000). A widespread sample was adopted with the intent to reduce any potential socio-economical and/or geographical sampling biases. During a one-month data collection period, the researcher intercepted every third shopper leaving the retail store, asked whether he or she is willing to participate in the survey, and recorded all refusals. The survey was self-administered by interested participants.

Finding- The result shows that service quality is positively associated with both customer loyalty and relationship quality.

Research Limitations/Implications- Future result should replicate these finding by using samples from both within and across various industries, as larger information sample would provide greater breadth of understanding.

Originality/value- The research provide valuable insight into the role of emotional satisfaction in service firm like retail experience. Emotional satisfaction makes a significant contribution to the prediction of customer loyalty and relationship quality.

JEL Classification: M3, M00

Key words: Customer Relation, Customer Loyalty, Customer satisfaction, Service quality assurance

Introduction

The behavior of frontline service employees is critical to customer evaluations of the service encounter (Hartline et al., 2000). Not surprisingly, organizations can create a distinct and sustainable competitive edge by providing an excellent service delivery process (Gro'nroos, 2001). Most often, a service involves frequent or extended person-to-person encounters between the contacts employee and the consumer. In such instances, the service provided is inseparable from the contact employee; hence the contact employee plays an important role in the delivery of service quality as well as the formation of customer satisfaction. The degree of satisfaction, in turn, influences customers' behavioral responses in the form of customer loyalty, word-of-mouth, or switching behaviors.

The importance of understanding the customer-contact employee service encounter has been discussed in the marketing literature (Butcher et al., 2002; Hartline and Ferrell, 1996). In many cases, how a customer feels about the contact employee often determines whether the customer forms positive behavioral responses towards the

contact employee and the organization. Indeed, Liljander and Strandvik (1995) contend that customers who developed positive emotional responses towards individual contact employees will have a stronger relationship with and be more committed to the organization. The development and maintenance of strong social relationships over a period can give the organization the opportunity to respond to service failures or competitors' entreaties before a customer defects (Berry and Parasuraman, 1991; Storbacka et al., 1994).

The role of emotion is gaining attention as a central element in service quality management (Oliver, 1997). However, the literature does not yet offer clear models in this research area (Gro'nroos, 2001). There have been some studies of the effects of emotions on satisfaction with service quality. Recent studies suggest that emotion is a fundamental attribute in satisfaction and that customer satisfaction should include a separate emotional component (Cronin et al., 2000). Indeed, Stauss and Neuhaus (1997) contend that most satisfaction studies have focused mainly on the cognitive component of emotion, while seemingly important affective component has been largely ignored. Further, Liljander and Strandvik (1997) argue that customer satisfaction includes both affective (and emotional) and cognitive components. The Amy Wrang (2004) found that negative emotions have a stronger effect on satisfaction with quality than positive emotions. Despite the above, consumer behavior scholars have limited information about the nature of emotions in the consumption environment (Richins, 1997), and no conclusive guidance for management has yet been found (Gro'nroos, 2001).

Consequently, it is integral to understand the role of emotion in service encounters. This paper is structured as follows. First, a brief synthesis of the extant literature on key conceptual issues concerning the role of emotion in service encounters is presented. Subsequently, the results of a study designed to offer empirical evidence on the interactions between the concepts is provided. Finally, this paper concludes with a discussion of a number of managerial implications and future research directions.

Customer emotions in service encounters

Past research has explored the role of customer emotions in understanding the consumption experience (Oliver, 1997). As suggested by Richins (1997), many specific consumption experiences involve a broad range of mixed emotions or ambivalence. In this instance, consumer ambivalence

has been referred to as the experience of multiple positive and/or negative emotions in one consumption episode (Otnes et al., 1997). For example, Arnould and Price's (1993) research on the consumer-guide interaction in river rafting services provides picturesque examples of multiple ways by which emotions such as fear and anxiety may be expressed by the river rafting customers. The authors found that high levels of trip satisfaction could simultaneously include extreme positive (i.e. pleasure, happiness) and negative feelings (i.e. sad, regretful). In yet another study, Edell and Burke (1987) asked participants to indicate the types of emotions they experienced while viewing a series of ads. A key finding of this study is that multiple and diverse emotions are often experienced in response to marketing stimuli and that these feelings are systematically related to marketing outcomes. Despite the importance of the topic for service organizations (Brown and Kirmani, 1999; Knowles et al., 1999), there is still a lack of empirical investigations of the role of emotion in service encounters and its relationship with key concepts in service quality management.

This study aims to examine the role of emotional satisfaction in service encounters. Accordingly, a service encounter is defined as "a period of time during which a customer directly interacts with a service" (Shostack, 1985, p. 243). This definition includes discrete, separate, and distinct events and behavior, as well as a customer's interaction with all the dimensions of a service, such as the physical surroundings and the service contact employees (Bitner, 1990). Subsequently, this study seeks to:

- (1) Investigate the relationship between emotional satisfaction and key concepts, such as service quality, customer loyalty, and relationship quality; and
- (2) Clarify the role of emotional satisfaction in predicting customer loyalty and relationship quality.

The role of emotional satisfaction

According to the satisfaction literature, the concept of consumption emotion refers to the set of emotional responses elicited specifically during consumption experiences (Westbrook and Oliver, 1991). Specifically, consumption emotions have been conceptualized as distinct categories of emotional experience and expressions, such as joy, anger, fear; or as a limited number of dimensions underlying emotional categories, such as pleasantness/

unpleasantness, relaxation/action, or calmness/excitement (Izard, 1977; Plutchik, 1980). In the satisfaction literature, there has been a debate as to whether satisfaction is itself an emotional construct or a cognitive construct which includes an emotional component (Babin and Griffin, 1998; Bagozzi, 1991). Indeed, Wirtz and Bateson (1999) have suggested that satisfaction is a partly cognitive and partly affective (emotional) evaluation of a consumption experience and that separating the two is both valuable and necessary for modeling consumer behavior in service settings. Further, Oliver (1997) suggests that emotion "coexists alongside various cognitive judgments in producing satisfaction" (p. 319) and is essential in understanding customers' consumption experiences.

Although there seems to be generally not agreed-upon definition among marketing scholars, Bagozzi et al. (1999) have recently defined emotions as mental states of readiness that arise from cognitive appraisals of events or one's own thoughts. In this instance, one's positive emotion is linked to one's decision to stay and continue involvement, while one's negative emotion is linked to the opposite decision, such as to leave and discontinue involvement. In addition, positive emotions may lead to positive word-of-mouth behaviors, while negative emotions may result in complaining behaviors (Liljander and Strandvik, 1997).

Service quality and customer satisfaction

Gronroos (1984) define service quality as a perceived judgment; resulting from an evaluation process where customers compare their expectations with the service, they perceive to have received (p. 38). The author also suggests that service quality issues can be split into technical quality (what is done) and functional quality (how it is done). Following on the above definition, service quality has also been described as a form of attitude, related but not equivalent to satisfaction that results from the comparison of expectations with performance (Bolton and Drew, 1991; Parasuraman et al., 1988).

From a review of the services literature, it has been found that early research efforts concentrated on diminishing the confusion between customer satisfaction and service quality by determining whether there is any distinction between them (Bitner, 1990; Cronin and Taylor, 1992; Oliver, 1993). Indeed, customer satisfaction is different from service quality. The most common explanation of the difference between the two is that perceived service quality is a form of attitude, a long-run overall-

evaluation, whereas customer satisfaction is a transaction-specific measure (Bitner, 1990; Bolton and Drew, 1991; Chadee and Mattsson, 1996; Cronin and Taylor, 1992). This view is supported by qualitative research conducted by Parasuraman et al. (1985) which found several examples where consumers were satisfied with a particular service but still did not think that it was of a high quality.

Rationale Behind Study

Emotions play a critical role in the customer-contact employee interaction. Moreover, Czepiel and Gilmore (1987) suggest that human interactions are always more engaging than impersonal ones, and that it is possible for a customer to display mixed attitudes towards a service firm and its employees. In line with previous findings (Bagozzi et al., 1999; Liljander and Strandvik, 1997), this study generally supports the connection between emotions and behavior. Indeed, feelings take on monetary worth as customers' emotional displays often influence their future behavioral intentions such as intent and word-of-mouth (Fox, 2001). Further, Sherman et al. (1997) suggest that a customer who shops at a store to buy a specific product may purchase additional items if his or her emotional state is positively enhanced by creative displays or demonstrations. Also, a customer may choose to shop at a particular store because he or she likes the store environment; subsequently, the customer may spend more money as a result of a positive-mood inducing atmosphere in the store. To this extent, even when a customer is in a prior negative emotional state, he or she may become emotionally uplifted while in a store where the atmosphere creates positive feelings of happiness or enjoyment.

Subsequently, Oliver (1993, p. 76) differentiates between the two constructs by suggesting that satisfaction is "potentially all salient dimensions", requires experience-dependency, and involves emotions. The author further reverses the previous notion that satisfaction is an antecedent of service quality and claims that quality is an antecedent of satisfaction. This view is supported by a study conducted by Gotlieb et al. (1994), which found that perceived service quality affects satisfaction, and behavioral intentions are affected by satisfaction. In other words, consumer satisfaction is an intervening variable that mediates the relationship between service quality judgments and behavioral intentions (i.e. service quality! customer satisfaction! behavioral intentions)(Cardozo, 1965; Fornell, 1992; Halstead and Page, 1992; Taylor and Baker, 1994). In fact,

perceived service quality has been considered as one of the primary drivers of customer satisfaction (Kristensen et al., 1999; Martensen et al., 2000). Hence, the following hypothesis is proposed:
H1. Service quality is positively related to emotional satisfaction.

Customer loyalty and purchase behavior customer loyalty is often referred to as a purchase behavior, unlike customer satisfaction, which is an attitude (Griffin, 1996). Customer loyalty, a key mediating variable in explaining customer retention (Pritchard and Howard, 1997), is concerned with the likelihood of a customer returning, making business referrals, providing strong word-of-mouth, as well as providing references and publicity (Bowen and Shoemaker, 1998). Loyal customers are less likely to switch to a competitor due to a given price inducement, and these customers make more purchases as compared to less loyal customers (Baldinger and Rubinson, 1996). Although most research on loyalty has focused on frequently purchased package goods (brand loyalty), the loyalty concept is also important for industrial goods (vendor loyalty), services (service loyalty), and retail establishments (store loyalty) (Dick and Basu, 1994). Accordingly, customer loyalty constitutes an underlying objective for strategic marketing and management planning (Kotler, 1984) and represents an important basis for developing a sustainable competitive advantage (Kotler and Singh, 1981). Prior research has shown that one's emotions have an influence on behavior, and that one responds to an event in certain ways to maintain positive emotions (i.e. happiness) and to avoid negative emotions (i.e. depression) (Stauss and Neuhaus, 1997). Not surprisingly, positive emotion triggered by the provision of a high level of service quality can be linked to favorable customer behaviors, and vice versa. To reinforce this view, an exploratory study by Oliver et al. (1997) found that positive emotion led to higher levels of customer satisfaction and increased repurchase intentions. On the other hand, Andreassen (1999) found that initial negative emotion caused by a service failure results in customer exit behavior. Given that previous research has found a direct relationship between emotions and customer

loyalty behavior (Liljander and Strandvik, 1997; Stauss and Neuhaus, 1997), the following hypothesis is advanced:

H2. Emotional satisfaction is positively related to customer loyalty.

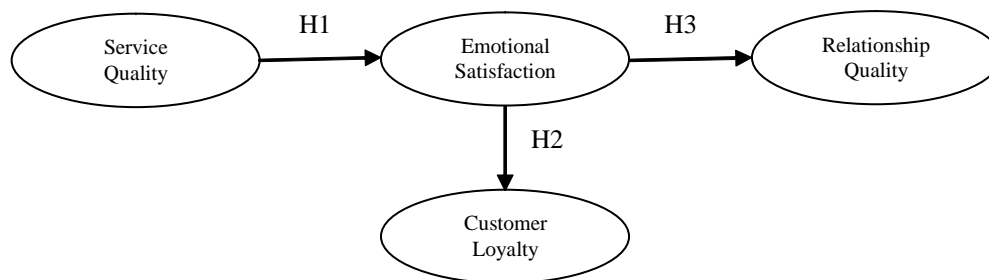
Overall relationship quality

Past research has not studied quality from a relationship perspective; therefore, the concept of relationship quality has not reached a general accepted definition (Holmlund, 2001). Within the marketing literature, relationship quality has been discussed as a bundle of intangible values, which augments products or services and results in an expected interchange between buyers and sellers (Levitt, 1986). The more general concept of relationship quality describes the overall depth and climate of a relationship (Johnson, 1999). Moreover, relationship quality refers to a customer's perceptions of how well the whole relationship fulfills the expectations, predictions, goals, and desires the customer has concerning the whole relationship (Jarvelin and Lehtinen, 1996). Consequently, it forms the overall impression that a customer has concerning the whole relationship including different transactions. According to Bateson and Hoffman (1999), when a consumer purchases a service, he or she purchases an experience created by the delivery of that service. During the consumption experience, various types of emotions can be elicited, and these customer emotions convey important information about how the customer will ultimately assess the service encounter and subsequently, the overall relationship quality. If the customer is displaying positive emotions during the service encounter, it is expected that he or she will also form positive perceptions of overall relationship quality. Therefore, the following is put forth:

H3. Emotional satisfaction is positively related to relationship quality.

Research model

Based on the preceding literature, the research model for this study, shown in Figure 1, focuses on the relationship between service quality and emotional satisfaction, and its consequential impact on customer loyalty and overall relationship quality.



Method

Sampling frame and context

The emotional nature of retail shopping has been widely discussed by researchers for some time. For example, Oxenfeldt (1974) posits that customers will have both opinions and feelings towards certain stores that will influence their perceptions, while Donovan and Rossiter (1982) suggest that emotional states of shoppers can affect their retail patronage, store search, interactions with store personnel, and in-store behaviors. Specifically, the focus of this study is to investigate the relationship between emotional satisfaction, service quality, customer loyalty, and relationship quality within a retail setting.

A retail chain departmental store was chosen as the study site because of the more complex set of issues involving customer-contact employee interaction (Mishra, 2000). A widespread sample was adopted with the intent to reduce any potential socio-economical and/or geographical sampling biases. During a one-month data collection period, the researcher intercepted every third shopper leaving the retail store, asked whether he or she is willing to participate in the survey, and recorded all refusals. The survey was self-administered by interested participants.

Measures

To remain consistent with past research, the measures were selected from previous studies in marketing, management, and psychology.

Service quality

A four-item overall service quality scale was employed (Dabholkar et al., 2000). Customers were asked to indicate their feelings on the following seven-point Likert-type scales—in terms of service delivery, retail store XYZ: "Has an excellent overall service"; "Has a service of very high quality"; "Provides a high standard of service", and "Delivers superior service in every way". Cronbach's alpha coefficient of reliability for this component measure of overall service quality was 0.76.

Emotional satisfaction

The measure adopted by Reynolds and Beatty (1999) was used to capture emotional satisfaction. Similarly, customers were asked to indicate their feelings with respect to shopping at retail store XYZ on a seven-point Likert-type scale along measures of emotions such as: "pleased/ displeased"; "unhappy/happy"; "disgusted/ contented", and "enjoyable/frustrating". The composite reliability coefficient for the emotional satisfaction measure was 0.77.

Customer loyalty

A four-item customer loyalty scale was adopted (Parasuraman et al., 1994). Using a seven-point Likert-type scale, customers were asked to indicate their loyalty towards retail store XYZ along the following: "I say positive things about retail store XYZ to other people"; "I recommend retail store XYZ to someone who seeks my advice"; "I encourage friends and relatives to shop at retail store XYZ", and "I consider retail store XYZ my first choice in the next few years". Consistent with prior research (Parasuraman et al., 1994), the composite reliability alpha of the scale was 0.78.

Relationship quality

To measure customer's evaluation of relationship quality, a two-item direct relationship quality scale was developed. Customers were asked to state their overall assessment of the quality of their relationship with the contact employee and the company on a seven-point Likert scale. Cronbach's alpha coefficient for this component measure of relationship quality was 0.71, thus suggesting adequate reliability.

In Table no. I, indicate that data have enough normality for conducting regression analysis and other test for testing the hypothesis.

Result and Analysis

All the hypothesized relationships were supported. Service quality is positively associated with emotional satisfaction, as predicted. Emotional satisfaction is positively associated with customer loyalty, as hypothesized. But emotional satisfaction is not so strongly positively related with Relationship Quality. If the customer is displaying positive emotions during the service encounter, it is not expected that he or she will also form positive perceptions of overall relationship quality all the time.

Investigating the role of emotional satisfaction

To investigate the role of emotional satisfaction in predicting customer loyalty and relationship quality, multiple regression analyses were conducted. In the first regression, customer loyalty, as the dependent variable was regressed against the independent variables of emotional satisfaction: "pleased/displeased"; "unhappy/ happy"; "disgusted/ contented"; and "frustrating/ enjoyable". In the second regression, the test was re-run using relationship quality as the dependent variable. The results of the multiple regression analyses are displayed in Tables IV and V. The results in Table IV indicate that a customer's feeling of pleased or displeased with regards to shopping at retail store XYZ is an

important predictor of customer loyalty. The Adjusted R Square= 0.146, F=5.245. On the other hand, as seen in Table V, the extent to which a customer feels Pleasured or displeased is an important predictor of relationship quality.

Discussion and managerial implications

This research empirically examined the role of emotional satisfaction in service encounters. This study used the relationship between emotional satisfaction, service quality, customer loyalty, and relationship quality as a context, as well as data from sample survey retail customers concerning their evaluation of their shopping experiences to address this issue. Specifically, service quality is positively associated with emotional satisfaction, which is positively associated with both customer loyalty and relationship quality. Further investigations showed that customers' feelings of enjoyment serve as the best predictor of customer loyalty, while feelings of happiness serve as the best predictor of relationship quality. Given the significant relationships between emotional satisfaction and both service quality and customer loyalty, managers need to pay particular attention to how customers feel during the service delivery process. Consequently, being well informed about the feelings of customers can bring forth valuable management initiatives. To achieve this, employees can be trained to observe evoked emotions in customers and to report them to the organization. This can increase the potential for imposing a significant and positive impact on customer loyalty and relationship quality.

From a strategic viewpoint, understanding and adapting to customers' emotional displays can help enhance the overall service delivery process provided by the organization, and this may be key to a successful differentiation strategy. Given the array of product and service choices that customers have due to the parity among brands and technology, organizations should constantly strive to deliver unique and differentiable value in order to create a significant competitive advantage in the current marketplace.

Limitations and future research directions

This research contributes to a richer and more systematic understanding of the role of emotional satisfaction in service encounters. In particular, this study examined the role of emotional satisfaction and its relationship with service quality, customer loyalty, and relationship quality. The findings demonstrated that different aspects of emotional satisfaction (i.e. pleased/unpleased) are important in enhancing customer loyalty and relationship quality.

The results imply the need for a service firm to strategically leverage on the key antecedents of customer loyalty and relationship quality in its pursuit of customer retention and long-term profitability.

In interpreting the results, the limitations of the study have to be considered. First, the use of a specific type of retail store (i.e. chain departmental store) is a limitation of this study. Future research should replicate these findings by using samples from both within and across various industries, as larger informant samples would provide greater breadth of understanding. Future efforts could benefit from testing the proposed research model and hypotheses in a longitudinal design, so that actual behaviors of shoppers can be taken into account.

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Table: I - Tests of Normality

	Kolmogorov-Smirnov(a)		
	Statistic	df	Sig.
Customer Loyalty	.127	168	.000
Overall Service Quality	.116	168	.000
Relationship Quality	.144	168	.000
Emotional Satisfaction	.103	121	.003

Table- II Descriptive statistics, means, standard deviations, and intercorrelations

Construct	Mean	SD	a	OSQ	ES	CL	RQ
Overall Service Quality(OSQ)	3.233	.71	.76	1.00			
Emotional Satisfaction(ES)	3.67	.75	.77	.347	1.00		
Customer Loyalty(CL)	3.52	.76	.78	.315	.377	1.00	
Relationship Quality (RQ)	3.50	.70	.71	.347	.104	.530	1.00

Table No. III Regression Analysis

	b	t	Sig.
Pleased/Displeased	.275	2.110	.037
Happy/Unhappy	.136	1.110	.270
Contented/Disgusted	.003	.024	.981
Enjoyable/Frustrating	.094	.810	.420

Adjusted R Square= 0.146, F=5.245

	b	t	Sig.
Pleased/Displeased	.145	1.016	.312
Happy/Unhappy	.057	.429	.669
Contented/Disgusted	.018	.142	.887
Enjoyable/Frustrating	.020	.158	.874

Adjusted R Square= .020, F= 0.484