



## “Customer Experience: A Key to Build Customer Loyalty”

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**Abstract:** *Objective of the study is to study the relationship and the factors which are important to build the customer loyalty in the retail banking sectors. A review of academic and practitioner literature on customer relationship management indicates that customer satisfaction, customer value and the service quality are the important variable to build customer loyalty in the retail banking sector in India. Yet, the clear understanding is not there that actually how the customer loyalty is build. This paper is aim to explore the basic process of building the customer loyalty and argues that one critical factor which is important for building customer loyalty is customer experience. The objective of this paper is to fill the gap between the existing literature and presenting relatively new concept. This paper argues that customer has to interact with various components of the service in order to become the service real.*

**Keywords:** *Service Quality, Customer Satisfaction, Customer Loyalty, customer experiences.*

### I. INTRODUCTION

The real GDP improved marginally to 4.7 percent in 2013-14 from 4.5 percent in 2012-13. In line with the overall economic experience, the Indian retail banking sector has become the back bone for the Indian financial market. The retail banking sectors of India consist of 25 public sectors banks, 20 private sectors banks, and 43 foreign banks. The retail banking industry has experienced major changes over the past 30 years. In recent times the banking industry faced with increased competition among banks and non bank financial services. The adoption of latest technology and the evolving customer's preferences are some of the factors that have had a huge impact in the financial industry. These changes, together with the current economic climate means that banks need to find alternative strategies to differentiate themselves from their competitor. In order to compete effectively and differentiate themselves in the market, banks need to offer more than just low prices and innovative services. There is a need for the banks to understand factors impinging upon customers' banking experiences, commitment and loyalty to a service provider. A sustainable competitive advantage cannot be achieved by only looking at the traditional variables of price, quality and service, but by focusing on customer experience. The consumers have become sophisticated and very difficult to serve. Customers are now looking for something more than just competitive prices and good services; they want memorable experiences.

This paper seeks to extend the concept of building customer loyalty in retail banking sector by indentifying the conceptual deficiencies of the past research. This paper recognizes that the successful management of customer experiences leads to differential competitive advantage and loyal customer for longer period. (Smith and wheeler 2002). The objectives of the paper are to:

- To create and analyze the literature on customer loyalty.
- To explore the relation between the customer loyalty and customer experience.
- To rectify the significant gap in literature and present a new perspective of customer loyalty.

### II. THE PRESENT CONCEPT OF BUILDING CUSTOMER LOYALTY

Loyalty is non random purchase expressed over time by some decision making unit with respect to one or more brands out of a set of such brands, and is function of psychological process. (Jacoby and Kyner, 1973). Considering this concept of loyalty, various other competing loyalty models have been proposed. (Patterson and Spreng. 1997) argues that service quality is the only element that impacts the customer loyalty thorough customer satisfaction and customer value. While others argue that service quality has direct impact on customer loyalty (Zeithaml et al., 1996: Parasuraman et al.1991), the analysis of service literature reveals that, the value model maintain that value leads directly to the favorable outcome customer loyalty and satisfaction and service quality are pioneer of value (Sweeney et al., 1999), the satisfaction model is directly influenced by the variables such as perception, service quality, customer satisfaction, customer value and the customer's willingness to repurchase the product. However, the literature indicates that value is an immediate factor to customer's intention to repurchase. Nevertheless the all agree that value, satisfaction and quality are important dimensions for building loyalty. (Salegna and Goodwin, 2005; Fornell et al., 1996).

#### **Service Quality**

Service quality is defined as comparison of expectation with performance (Parasuraman et al, 1994, Lewis and Boom, 1983). Researchers have mixed findings about the relationship between quality and loyalty. Zeithaml et al., (1996) observed a significant relationship between service quality and loyalty. Whereas Croni and Taylor (1992) observed a divergent results and did not find a



direct relationship between quality and loyalty. They concluded that service quality has a less impact on purchase intention. This explicit contradiction of research findings indicates that service quality provides only a partial view of customer loyalty. Although they all agree that service quality has a link to the other variables in determining customer loyalty.

### **Customer Value**

Customer value is defined as the difference between what benefits a customer gets (from a product or service), and what cost he or she has to pay in order to get these benefits. Considering the concept of 'value' for service firms, it is a sum total of perceived benefits received by the use of service and the cost which the customer has to pay in order to get the service (Woodruff 1997). Marketing strategists strongly believe that the creation of customer value is one of the most important variables involved in determining the customer loyalty (Higgins, 1998; Gale, 1994). Although the relationship between customer loyalty and customer value is still unclear within the existing literature. For e.g. Deshmukh, et al. (2002) found that customer value had a direct relationship with customer loyalty. Cronin et al (2000) observed direct and indirect effects of value on purchase intention. These authors perceive that considering only value for explaining customer loyalty is likely to give an incomplete evaluation for loyalty. Though the positive relationship between value and loyalty is negotiable by satisfaction, further indicating that value is not only the single variable which builds the customer loyalty. Different conclusions suggest that service quality is an important variable of perceived value, which in turn, impact on satisfaction in determining the purchase intention and loyalty. (Woodruff, 1997; Cronin et al., 2000).

### **Customer Satisfaction**

The concept of customer satisfaction is related with how products and services supplied by a company meet or surpass a customer's expectation. The concept of customer satisfaction has received a great importance because it provides marketers and business owners with a metric that they can use to manage and improve their business. Various studies reveal that there is a relationship between value and satisfaction. Customer recognize satisfaction as both as an evaluating and emotional based response to the service encounter (Oliver, 1997) and it is the result of a customer's recognition of the value received in a transaction or relationship-where value equals to the service quality relative to price and customer acquisition costs (Heskett et al., 1990)-in relation to the value expected from transaction or relationship with competing service providers (Zeithaml et al., 1990). Numerous literatures have found focusing the influence of customer satisfaction on building customer loyalty and found that satisfaction is one of the important determinants of customer loyalty (Hoisington and Naumann, 2003; Cronin et al., 2000; Gronholdt et al., 2000; Anderson and Fornell, 1994; Zeithaml et al. 1990; Oliver 1980).

However, some other researchers have found that customer satisfaction has a less of a significant impact on customer loyalty than is traditionally recognize in the literature (Khatibi et al., 2002; Bowen and Chen, 2001). They argue that although satisfaction is one of the significant elements in building customer loyalty, it does not necessarily guarantee loyalty. Concluding, that, although loyal customers need to be pleased, but it is not essential that pleased customer are loyal (Bannet and Rhundle, 2004).

The assessment of the academic and practitioner literature on customer relationship management indicates a general consent that service quality, customer value and customer satisfaction are critical element in explaining customer loyalty, however, this present concept of customer loyalty is been criticized to a great extent (Salenga and Goodwin, 2005; Cronin, 2003; Smith and Wheeler, 2002; Dube & Renaghan, 2000). The main reasoning of the criticism is the fact that it has become generally accepted amongst most loyalty researchers to assume that the variables quality, value and customer satisfaction are sufficient to build customer loyalty, and thereby deny any new constructs. It is our view that one critical variable has been excluded from consideration that impact on customer loyalty, i.e. customer experiences. In addition to the above reasoning, we believe that the following arguments can be directed against the present concept of the customer loyalty.

The interrelationship between the elements of value, quality and customer satisfaction in building customer loyalty remain relatively unresolved and contradictory in the literature (Cronin et al., 2000). This knowledge gap has inference on both practitioners and researchers. Without a clear understanding of how customer loyalty is build, the existing gap between what academicians are prescribing and what practitioners are practicing will remain unresolved.

There is a need to move away from the traditional quality—value —satisfaction—loyalty model to a new and more vibrant model for building customer loyalty, which integrate new element in order to enrich our understanding and bring a more comprehensive point of view to customer loyalty building (Cronin, 2003). And the one such element identify by the researcher is "customer experiences". This variable has got limited research in terms of building customer loyalty. The Capgemini world banking report 2011 was the first to introduce the concept of customer experience index in retail banking industry. They found that banks which maintain the favorable customer experiences are able to maintain the customer for a longer period of time and the customer leaving ratio is also very low.

### **III. RE-THINK THE CONCEPT OF CUSTOMER LOYALTY IN RETAIL BANKING TO INCLUDE THE CONCEPT OF CUSTOMER EXPERIENCES**

Before relating the concept of customer experience as a significant element of building customer loyalty, it is necessary to understand what the term "experience" is. According to the Oxford English dictionary, the term experience is defined as the "actual observation or practical acquaintance with facts or events". According to consumer behavior study "an experience is above



all a personal occurrence, often with important emotional significance, founded on the interaction with stimuli which are the products or services consumed” (Holbrook and Hirschman 1982). If we talk about the term “Customer Experience” it is the perception that customers have of their interactions with an organization. According to service marketing, the service become factual when a customer interacts with some specific prerequisites—such as bank, activities, people, and the channel through which they interact with the bank (Mascarenhas et al., 2006).

One of the recent Customer Experience definitions proposed by Gentile, Spiller and Noci in 2007: “The Customer Experience originates from a set of interactions between a customer and a product or service, a company, or part of its organization, which provoke a reaction. This experience is strictly personal and implies the customer’s involvement at different levels. Its evaluation depends on the comparison between a customer’s expectations and the stimuli coming from the interaction with the company and its offering in correspondence of the different moments of contact or touch-points”. This implies that creating customer’s experience is fixed in the performance of a company of a company’s ability to personalize specific moments of touch points (Mascarenhas et al., 2006). These fixed clues allow customers to form perception based on the technical performance of the service (Functional clues), the tangibles factors associated with service (mechanic clues), and the behavior and appearance of the employees of the bank (humanistic clues). It is these functional, mechanic and humanistic clues that influence the customer’s rational and emotional perception of the quality if the service and create real service experience (Berry and Bendaupi, 2003). Based on this perception of the concept, all the experience clues can be explained in detail as under.

#### **Functional Clues**

Functional clues are concerned with the technical quality if the service offerings, specially the reliability and competence of the actual service. In the context of the retail banking, the importance of getting this clue right is clearly illustrated in world retail banking report (Capgemini 2011) study on why customers switch bank; the report found that 55 percent of the customer switching bank because of a failure in the actual quality of the product/service. Along with the service quality, the ease of use, fees and rate of interest offered by the bank are among the top reason for customer for switching the bank.

In fact, it is fundamental for the service experience that businesses evaluate and manage the functional clues of their service offerings effectively to meet customer’s expectations (Berry et al., 2006), but the functional clues alone are not sufficient to meet the customer’s expectation, because to make the service real or tangible the bank using various channels to contact the serve the customer and therefore two other sets of clues are important, i.e. mechanic and humanistic clues.

#### **Mechanic Clues**

Mechanic clues are derived from tangible non-living objects and offer a physical representation of the service. For e.g. Branch layout, ATM design and environment of the surroundings. Bank’s website, lighting and other sensory clues visualize the service, communication with customers without words (World banking report, Capgemini, 2011). A variety of terms have been used by experts to explain this concept such as the “Physical environment” (Banker, 1987), “atmospherics” (Kotler, 1973) etc. There is nevertheless, a common theme that the mechanistic clues includes “the environment in which the services is accumulated and in which seller and consumer act together, shared with physical commodities that enhance the performance of the service (Booms and Binter, 1981).

#### **Humanic Clues**

Humanic clues are concerned with the actions and appearance of employees and the service providers such as the choice of words, tone of voice, and level of enthusiasm, body language and appropriate dressing (Berry et al., 2006). Humanic clue is concerned with the employee performance and interaction for creation of the actual customer experience (Berry and Carbone, 2007; Berry et al., 2006). The quality of service encounter is an important basis for how a customer judges the service experience (Hennig-Thurau, 2004; Czepiel et al., 1985). The extensive service quality research has found that the behavior of the employee’s providing service affects the customer’s perception of the service (Zeithaml et al., 1996; Binter, 1990; Parasuraman et al., 1985). It is important of the service providers to indentify the mechanic clues of an employee’s behavior and performance in order to meet and exceed customer’s expectation (Berry et al., 2006).

### **IV. THE ASSOCIATION BETWEEN QUALITY, VALUE, SATISFACTION AND EXPERIENCES IN BUILDING LOYALTY**

The researcher has found that there is an association between quality and experience, it has been found that the quality of service relies entirely on the impression the customer have about the service provider delivered during the course of service providers (Zeithaml and Binter, 2000). Moreover, it is found that noteworthy associations exist between customer experience and service quality and argued that customer experience and satisfaction are inextricably linked with service quality (Rowley, 1999). It is also found that there is an association between the mechanic clues, humanistic clues and service quality (Dabholkar, 1996; Haywood-farmer, 1988). Moreover, the academicians agree that “customer satisfaction is a function of the relationship between customers expectation and experience, that it is rely on value and that it formed continuously (Dahlsten 2003). It is also found that total customer experience is measured “from the moment a customer seeks to park their vehicle, make a connection with branch and the moment the customer leaves the bank (Rowley, 1999). This indicates that there is a strong association customer experience and the level of customer satisfaction obtained. Based on the above discussion, we can derive that there is a direct link between customer experience and customer loyalty. Indeed, customer experience is an essential component for building customer



loyalty. Yet, it does not on its own fully explain the concept of loyalty. Customer value, satisfaction and quality are also important elements to consider.

## V. CONCLUSION

In summary, although much has been written about the relationships between customer satisfaction, service quality, and loyalty, researchers in this field have not been successful in totally explaining how loyalty is built. In recent times, a few researchers have turned their research and focus on the relationship between loyalty, customer value, and customer experiences. What research has been completed on these three variables, specifically by Dube and associates, has indicated that customer experience has a substantial affect on building customer loyalty through creating customer value. Yet a multitude of questions remain unanswered. For instance: (1) what is known about the process and content of “experience” especially in the Indian retail banking? (2) What is customer value? (3) What do customers value about their experiences? (4) Which experiences have the most impact on building customer value? (5) Which don’t? (6) How can customer experiences be managed successfully?

On a theoretical level, this knowledge gap is significant in light of the present literature which indicates that loyalty-building value is found in the customer’s experience with the product/service; hence a major key to building customer loyalty is the successful management of each customer’s service experience. The limited research shows that there is tremendous opportunity for theory building and empirical testing of new variables such the “customer experience variable” in building customer loyalty.

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