

Chapter 4

The Importance of Customer Satisfaction and Customer Loyalty in the Service Sector

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ABSTRACT

This chapter presents the overview of customer satisfaction; customer satisfaction and service quality; customer satisfaction and Online Travel Agency (OTA) websites in the tourism industry; customer satisfaction and switching behavior in the mobile service company; the overview of customer loyalty; the advanced issues of customer loyalty program; and the relationships among customer loyalty, customer satisfaction, brand management, and social media. Creating loyalty among customers can help service company significantly increase the purchases of existing products, charge premium prices for the appreciation of value-added services, and create the positive word-of-mouth promotion for the company, which is the significant marketing objective in the service sector. The chapter argues that facilitating customer satisfaction and customer loyalty has the potential to enhance organizational performance and gain sustainable competitive advantage in the service sector.

INTRODUCTION

Businesses can maintain their effectiveness as long as they have the satisfied and loyal customers (Aktepe, Ersoz, & Toklu, 2015). Manufacturing companies should focus more on improving customer perspectives (e.g., customer satisfaction and customer loyalty) by integrating products and services innovation and providing the diversified product-service offerings as well as developing the long-term partnership with customers (Pan & Nguyen, 2015). Ensuring customer satisfaction and maintaining long-term relationships with customers have become essential for survival among competitive service industries (Cheng, Yang, & Teng, 2013). Customer satisfaction, trust, perceived value, and commitment are the important determinants of customer loyalty (Gamboa & Goncalves, 2014). There are positive relationships between service quality and trust, between service quality and perceived value, between trust and customer loyalty, and between perceived value and customer loyalty in the service sector (Rasheed & Abadi, 2014).

DOI: 10.4018/978-1-5225-2084-9.ch004

Customer loyalty is defined as an attitude of intent to purchase a product or service (Gamboa & Goncalves, 2014). Consumer attitude affects the way consumer thinks and behaves and it is important for the marketers who study it to understand how consumer behaves toward increasing business profit (Kasemsap, 2017a). Customer loyalty is an essential factor in business survival (Chen, 2016) and is described as a customer's repeat purchase behavior while including the emotional commitment or expression of a favorable attitude toward the service provider (McAlexander, Kim, & Roberts, 2003). Customer loyalty provides a desirable atmosphere for firms because it reduces marketing costs, raises referrals, and promotes price premiums (Şimşek & Tekeli, 2015).

Gaining high levels of customer satisfaction is very important to business because satisfied customers are most likely to be loyal and to make repeat orders and to utilize a wide range of services offered by business (Kasemsap, 2016a). Customer satisfaction and customer loyalty have been studied for decades, especially in the hospitality and tourism industry (Golder, Mitra, & Moorman, 2012), but most studies only examine customer satisfaction and customer loyalty in a particular service, such as food and beverage (F&B) service (Pareigis, Edvardsson, & Enquist, 2011), hotel service (Ramanathan & Ramanathan, 2011), ski resort service (Matzler, Füller, & Faullant, 2007), and casino service (Lam, Chan, Fong, & Lo, 2011). Kumar et al. (2013) indicated that the relationship between customer satisfaction and customer loyalty is highly variable depending on various factors, such as the industry, customer segment studied, the nature of the dependent and independent variables, and the presence of numerous factors that serve as the significant mediators.

This chapter focuses on the literature review through a thorough literature consolidation of customer satisfaction and customer loyalty. The extensive literature of customer satisfaction and customer loyalty provides a contribution to practitioners and researchers by presenting the aspects of customer satisfaction and customer loyalty in order to maximize the impact of customer loyalty and customer satisfaction in the service sector.

Background

Customer satisfaction is a business philosophy that highlights the importance of creating value for customers, managing their expectations, and demonstrating the ability to satisfy their needs (Dominici & Guzzo, 2010). Maintaining customer satisfaction is one of the most contemporary challenges faced by management in service industries (Su, 2004). Customer satisfaction reduces price sensitivity, increases cross-buying, and increases positive word-of-mouth (Matzler, Bailom, Hinterhuber, Renzl, & Pichler, 2004). Perceived performance has a stronger influence on customer satisfaction when purchase importance is low, whereas satisfaction seems to be influenced both by disconfirmation and perceived performance when purchase importance is high (Tam, 2011).

The widely accepted satisfaction-profit chain framework suggests that profits obtain from customer retention that arises from the high levels of customer satisfaction, which is achieved by delivering the high-quality product or service (Anderson & Mittal, 2000). The logic emphasizing the satisfaction-profit chain derives from the idea that by improving product or service attributes or quality, customer satisfaction should increase (Mathe-Souleik, Slevitch, & Dallinger, 2015). delivering the optimal set of product or service attributes that produce the highest level of customer satisfaction is crucial to the competitive edge of businesses (Mikulic & Prebezac, 2011).

Customer loyalty is a topic that has received much attention since the 1990s as relationship marketing has become a popular marketing scheme (Yoo & Bai, 2013). The conceptualization of customer

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