

MEASUREMENT OF CUSTOMER SATISFACTION AND LOYALTY AS A BASE FOR COMPANY SUCCESS IN THE COMPETITIVE ENVIRONMENT

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Abstract

Many companies have started to measure customer satisfaction and loyalty in order to become more customer - oriented and to improve performance.

This information is very useful as companies are working in increasingly competitive environments. As measuring customer satisfaction and loyalty is a relatively new undertaking, companies usually have to learn from their own mistakes.

This paper is focused on general concepts of customer satisfaction and loyalty and some principles of their measuring.

Key words: *measurement, customer, behaviour, satisfaction, loyalty*

JEL classifications codes M31, M390

1.Introduction

The main goal of this paper is to confirm the:

Hypothesis: Customer satisfaction and loyalty information is a base for success of the company in the competitive environment

Customer satisfaction is indicative of the degree to which services and products satisfy customers' preferences. [10, p.141]. However, satisfaction is not a static idea and it changes as soon as a customer finds a better deal and along over- time – raising customer expectations.

Satisfaction doesn't indicate a customer's emotional connectedness, commitment to the company, which means that a satisfied customer is not necessarily a loyal customer [8, p.96].

A loyal customer's commitment can be verified through customer behaviour and attitude. A committed customer recommends the company to relatives or friends, decides to travel a little bit further than necessary to use one service and not another or pays a higher interest rate or price. At the same time a loyal customer will believe that their chosen company is the best from all the companies on the market.

Satisfaction and loyalty information can help companies to improve their programme and develop loyalty building strategies [8, p. 101].

Satisfaction is necessary but not sufficient for loyalty [11, p.316]. However its measurement is helpful in detecting dissatisfaction factors that could be disadvantageous and costly for the company in the future. It will also be helpful in building greater commitment on the part of its customers.

Satisfaction and loyalty studies can enable company to streamline its operations. An appropriately conducted satisfaction and loyalty will provide the company with information helpful to prioritise its improvement programme allowing to achieve better results in a cost effective way leading to better performance. The company may use the results to prompt product revision and development, improve its operations and/ or inform its strategic and tactical decisions.

Satisfaction and loyalty information does not replace data on impact. Although, keeping satisfied and loyal customer is necessary for achieving impact, the fact that they are satisfied and loyal does not allow to claim it. This is because met customer preferences don't necessarily reflect the fulfillment of their development needs.

2. Basic measurement and questionnaire design

General satisfaction question will not tell the manager much. As general satisfaction level is a consequence of the customer satisfaction from particular areas of company's performance, the general question "how are you satisfied..." will not tell much although it will be helpful in further analysis [7, p.143].

It is important to evaluate a company's performance with regard to different areas of its operation i.e. product, service, delivery, etc. The "4 Ps" concept can be very helpful for unpacking the company's product and selecting its detailed characteristics for evaluation. Looking at this information will allow the company not only to see which areas are

better or worse evaluated, but it will be also helpful in constructing aggregated indices and calculating overall satisfaction rating. This is more meaningful than a standing alone question on general satisfaction.

Not all performance areas are equally important. There are usually only a few key aspects which improvement will lead to increased customer satisfaction. The others either increase satisfaction when present but don't harm it when absent. Generally, the more significant the area is found to be, the more its improvement influences general satisfaction. Segmentation is key for effective operational use of the satisfaction and loyalty study results. General satisfaction and loyalty rating will not tell to marketing managers much how to improve and where. Segmentation of satisfaction and loyalty data will help marketing managers to determine where improvement is most warranted and where it will offer greatest return [2, p.67]. Thanks to the segmentation, managers will be able to identify prospective groups among their customers and the priority areas for the improvement action related to the preferences of those groups.

How much do marketing managers need to improve “to be the best”? Marketing managers might know their overall rating, but do they know how well they are really performing, if they lack benchmarks for comparison purposes?

To measure customer loyalty it is needed to look at the measures reflecting his/ her behaviour such as depth, length and breadth of loyalty, as well as referrals and intent to repurchase. Loyalty is a consequence of different aspects, so as in the case of satisfaction, a general rating, based on various aspects of behaviour and attitude, is required.

A mix of methods will provide marketing managers with a complete picture. If marketing managers use quantitative techniques, don't forget the great value-added of qualitative ones. The survey will give them quantified, representative data on their customers' satisfaction and loyalty. However, to use the data effectively marketing managers will need to understand what drives it and why certain things matter or don't matter to their customers. To maximize use of the data, it is necessary to complement quantitative work with qualitative information and vice versa. Qualitative methods will help marketing managers get their questionnaire right [2, p.190], quantitative methods will give marketing managers representative statistics [2, p.230]. Then, probe the meaning of the statistics using qualitative methods.

It is necessary to draw the sample right. To obtain results relevant to all their customer, managers do not necessarily need to interview them all. If their sample is correctly drawn they will be able to use statistical tests to extrapolate results onto the entire population of their customers.

It is necessary to decide who is of interest to marketing managers and what are the characteristics of the population to be surveyed.

There are different sampling methods. Random sampling guarantees that every customer has an equal chance of being selected. Any differences between the sample and the population are only due to chance and not to selection bias. There are three main types of random sampling: simple, stratified and systematic sampling [6, p.316].

The bigger the sample, the more sophisticated analysis marketing manager may conduct and the more sure they can be that the results from the sample truly reflects the situation in the whole population. But bear in mind, the bigger the sample, the higher the cost of the study.

Questionnaire is just a tool. That is why it is important to clarify marketing manager's information needs and assess capacities to satisfy those needs, and focus on marketing manager's research objective throughout the process of the questionnaire design [6, p.377].

The main questions are:

a) Which type of survey to choose?

There are different methods of collecting data and administering a questionnaire (mail survey, telephone survey, face to face interview, self-completion form etc.) and they affect the information marketing manager's obtain. In this note, we will focus on a face to face survey.

b) Stick to the “kiss” rule. Keep it short and simple to obtain precise information. Translate marketing manager's objectives into the questions and avoid including questions that are not directly linked to the information they need. Ask marketing manager what he will do with the information from each question. If the marketing manager cannot give a satisfactory answer, leave it.

c) Make the most of existing information. The most common mistake during the questionnaire design phase is neglecting information which already exist. Using secondary data will aid the questionnaire design and help it formulate the right questions.

d) Get right questions. Follow some principal rules on designing questions:

-Avoid “threatening” questions or statements. A respondent should not have the impression he / she is being evaluated. Use neutral questions or statements.

-Don't ask for too many things at once – ask one question per issue.

-Avoid emotionally charged words or leading questions.

-Define words clearly –make sure your questions can accurately tell you what you want to learn. The way you phrase a question can influence the answers you get. Try to make sure the wording is clear to the respondent and does not favour one choice of answer over another.

-Do not use abbreviations or unfamiliar words -this is particularly important for setting product attributes. Make sure that all terms used are well understood either by pre-testing the questions or / and discussion with frontline staff. Very often using descriptions to present certain product characteristics can help customers understand what we mean.

-To avoid automatic responses to questions, try to use different formats or mix the questions throughout the questionnaire.

e) Watch out –score or rating scale questions are a particular problem. There are different kinds of scales, and their type and sensitivity can influence the results. It can choose from dichotomous and multi-point scale. The fewer the points,

the easier it will be for a respondent to provide the marketing manager with an answer. However, it will be less able to capture differences of opinion among respondents.

Another decision it need to make about a scale is whether it will be of even or odd number of points. Having even number will force people to choose between negative and positive options and help it avoid the “central tendency” that is very natural for people to choose. However, with a good interviewer it should be able to get the real answer from the respondent and still leave the middle option for those that are really indifferent to certain issues.

f) The questions order matter. The order of questions and answer choices can encourage people to complete the survey. It can also affect its results. Here are some general rules that will help it to use the question order in the most effective manner:

- Start with an easy question. These will encourage people to continue the survey and help build rapport with the interviewer.

- Group together questions on the same topic to make it easier for the respondent to answer.

- Move more important questions to the beginning of a series or rotate the order to counteract the “habituation effect”. People tend to link more about their answers to questions earlier in the series and so give more accurate answers. With later questions they tend to give same answers.

- Leave difficult or sensitive questions for the end. Any rapport that has been built up will make it more likely that people will answer these questions. If people quit at that point anyway, at least they will have answered most of the questions.

- As a rule from general to specific – first ask about a general issue then move to details. Move from spontaneous to supported questions- ask an open- ended question first to get spontaneous answers and only later ask about the same issue using closed questions.

- Follow, the logical flow – an appropriate order of questions helps it to reduce certain biases and increases the likelihood of obtaining more accurate answers on sensitive topics.

g) Demographic information. They will help to identify people of similar characteristics. The best timing for this information (age, gender, income, education, etc.) is at the end of the questionnaire. By then the interviewer should have built a rapport with the interviewee that will allow honest response to such personal questions. Exceptions to this rule are any demographic questions that qualify someone to be included in the survey. Obviously, these questions must come near the beginning. Some of information it may be able to extract from MIS instead of asking the respondent, in order to save time.

Example of demographic information:

- Individual characteristics: sex, age, place of residence, education.

- Describing household situation: number of household members, number of children, number of dependants in the household, indicators for income.

- Describing experience with the institution: time with the programme, number of loans taken / cycle, cross-usage, size for each loan taken.

- Describing the business situation: type of business, place of operation, registration status, number of workers.

3. Quality of data and what to do with data

Pre-testing the questionnaire will reduce the costs of the survey and increase data quality [6, p.330]. During the pre-test, make sure the questionnaire responds to the research objectives and check it is properly designed, in terms of language, length, order of questions by examining the reactions of the “experimental” respondents.

How the interviews are conducted is crucial to the quality of data. Interviewers need to be carefully chosen and properly trained [6, p. 336]. At the very beginning, consider the characteristics required of interviewers and analyse whether the company has the capacity to supply the interviewers. Then decide whether to use external or internal interviewers. External interviewers are less familiar with the topic, but respondents might be more honest with them as they are not representatives of the company. Internal interviewers will know the company and the customers, but their links with the company may influence the way respondents answer the questions. Surprisingly, the costs of using external or internal interviewers may not be dissimilar.

Training is a must as it is a tool increasing data credibility through building interviewers’ buy- in and education. First of all, the research objectives have to be explained in- depth to interviewers and it must ensure they understand them clearly. Each question has to be elucidated in the context of research objectives otherwise there is a possibility that some questions will not be properly posed by interviewers. There should be common understanding of aspects so that interviewers make sure that answers provided are adequate to the researched topic. Interviewers should practice posing questions and dealing with potential problems [2, p. 234].

Visual aids and instructions. As the human memory is elusive, it is reasonable to provide the interviewers with hard copies of instructions. For face- to -face interviews it is highly advisable to present possible answers to the respondent using response cards. Such a visual aid makes the interview more eventful and makes the interviewer’s job easier.

How useful are quality checks? It needs to check with the randomly chosen respondents whether the interviewers actually visited them to conduct the survey to make sure that the answers provided are from the customers themselves,

rather than the interviewers. In addition, look through questionnaires for exceptions and unusual answers, which can be discussed with the interviewer and verified.

Avoiding mistakes in the future. After fieldwork, discuss the process of collecting data with the interviewers. Use their knowledge to identify mistakes and ways of preventing them in the future.

Get most from data. If the survey design was driven by the research questions and it is ensured the data quality, the data analysis will be rewarding. It is wise to prepare the data analysis framework before the research implementation so that it will get all needed data (Table1). There are several tools it may use for the analysis, starting with Excel and ending with more specialized statistical software, such as SPSS, Statistics, Quantum.

Table 1. Example of a Data Analysis Framework

Research objective	Survey questions	Analyses
To determine the overall and detailed satisfaction level	1.About overall satisfaction 2.About detailed satisfaction	Frequencies Descriptive statistics Satisfaction index
To identify strengths and weaknesses	1.The same questions as above 2.The question about importance of aspects	Frequencies Descriptive statistics Correlation analysis
To determine the level of loyalty	Questions covering all aspects of loyalty: -Breadth -Depth -Length -Secondary behaviour: intent to purchase, likelihood to recommend -Type of loyalty (emotional attitude)	Frequencies Descriptive statistics Loyalty indices
To identify groups of lower satisfaction and loyalty	The same questions as above	Descriptive statistics (means and standard deviations) Pivot tables
To segment customers based on loyalty and satisfaction	The same questions as above	Factor analysis Cluster analysis
To segment customers based on the profitability and target characteristics	MIS	Profiling Factor analysis Cluster analysis
To benchmark satisfaction and loyalty performance against other players on the market	1.About overall satisfaction 2.About detailed satisfaction 3.Questions on relative performance of the competition	Frequencies Descriptive statistics Satisfaction indices Correlation analysis

How customers are satisfied? Questions on overall satisfaction only indicate the first reaction to the product or service and does not provide marketing manager with accurate information on overall satisfaction. One of the ways to obtain meaningful information on overall satisfaction it is to construct a satisfaction index.

How customers are loyal? To find out about customer loyalty we need to take into account its different dimensions using loyalty indices. It is necessary to construct loyalty index. The positive answers provided by respondents to the questions on customer intent to repurchase, past recommendation and likelihood to recommend were summarized and allocated to the defined category of “client loyalty”. To get a loyalty rating it is important to construct an index that will be a combination of all mentioned variables.

How well are marketing manager performing? To assess this, marketing manager will need to compare the results to those of its competitors, using benchmarking analysis as it was described earlier on.

How do customers evaluate company’s performance in different areas? Using top answers (the percentage of definitely satisfied in each category) to the question on customer satisfaction with various aspects of company’s performances and calculating the adjustment threshold the marketing manager will allow to identify two main categories: programme elements that customers are satisfied with and those that they are less satisfied with.

Customers’ expectations. Customers do not attach equal value to all aspects- there are aspects of high importance and aspects that no attention is paid to. High satisfaction with the former leads to higher overall customer satisfaction and in case if improvements are needed, these are the attributes the change of which will bring the highest return.

There are two ways to identify important aspects.

First approach is to rank the aspects of performance by asking customers about the importance of each. Using a multi- scale question we are able to calculate frequencies and find out which aspects were rated as the most important ones (top answers). The calculated adjustment threshold enables the division of different attributes into categories of less

importance and more importance for customer. The limitation of this approach is that a questionnaire become too long and thus tiring for respondent, and consequently the quality of results may decrease.

Second approach: work out the level of each aspect's influence on the overall satisfaction level through a correlation analysis. Using the general satisfaction question and a multi- scale question about satisfaction with detailed aspects, we run a correlation analysis to identify the influence of each aspect on the overall satisfaction. The limitation of the second approach is that answers have to be diversified (different respondents have to choose different answers) in order to differentiate between the aspects' relative importance.

Performance vs. client expectations. To find out how this evaluation of company's performance in certain aspects of its operation (client satisfaction) relates to client expectations, it is necessary to compare satisfaction and importance results.

This will enable you to identify priority areas for a company to improve.

To do this a multiple- scale question on satisfaction detailing various aspects of the programme, as well as a question on customer expectations, should be used.

The crossing point divides the chart into 4 areas:

-Improve (low satisfaction and high influence) – an company should prioritise those aspects, as they are important for customers.

-Maintain or improve (high satisfaction and high influence) – a company is doing well in these areas, so further improvements will not have much influence on overall customer satisfaction.

-No action needed (high satisfaction and low influence) – this area is highly evaluated and not so important. If there is a need to look for cost savings, then look here.

-Less important (low satisfaction and low influence) – this is an area of low priority for improvement. Even though the aspects are not highly evaluated, they are not important. Companies can ignore those aspects and focus on priority areas.

However, it is important to consider who will benefit from these improvements, since company serve different people with different needs.

Simple descriptive statistics can be used to get this information- mean and standard deviation can be calculated for each aspect using the multi –point question on satisfaction with detailed aspects. This analysis will help marketing managers to understand how consistent opinions are across your customer base.

The point of crossing of the axes divides the chart into four areas:

-Homogenous satisfaction (high mean of satisfaction with the aspect and low standard deviation) –aspects in this area are consistently highly evaluated by a majority of customers;

-Homogenous dissatisfaction (low mean and low standard deviation -aspects in this area are consistently given a low by a majority of customers;

-Dispersed satisfaction (high mean and high standard deviation) –even though a majority of customers are satisfied with the aspects, this opinion is not consistent. There are some respondents less satisfied with the aspect;

-Dispersed dissatisfaction (low mean and high standard deviation) –even though a majority of customers are not satisfied with the aspects, this opinion is not consistent. There are some respondents satisfied with the aspect.

Identifying aspects of dispersed satisfaction or dissatisfaction gives to marketing managers an indication that further customer segmentation is needed. However, further exploration of segments will be possible only if the sample is big enough (about 300).

The analyses are also supportive in verifying information on the priority areas to improve.

Customer profiles. To identify more or less satisfied groups, marketing manager may use pivot table to study the characteristics differentiating the groups. In such an analysis, manager may notice e.g. that people who take smaller product / service are generally less satisfied with magazine location and employer's professionalism than those taking medium size and higher product / service. Further in-depth analysis can provide manager with additional information upon which manager may decide to change its priority areas to improvement.

Analysis of the entire database will provide manager with a rather general, superficial picture. To get more precise information manager will need to conduct analysis in sub- groups of respondents. Such profiling as presented above will provide marketing manager with more in- depth information on different client preferences. However, it is not powerful enough to identify customer groups taking into account several indicators simultaneously. To obtain such information marketing manager will need more sophisticated statistical methods for segmentation.

Comprehensive segmentation. To be able to further prioritise and better direct company's improvement programme, it is important to distinguish groups of customers with relatively similar characteristics, behaviour and attitudes. This involves more sophisticated statistical methods such as cluster or factor analysis.

4.Case study - Research Services Quality and Customer satisfaction index (CSI) in the Macedonian hotel services

GAP 5: Service Quality = Perceived Quality - Excepted Quality

Research result is obtained by simple found of 100 servqual queries completed by Macedonian clients.

Table 2. SERVQUAL result without impacts of the factors ranking

Dimension	Question	Excepted Quality	Perceived Quality	Gap	Dimension Average
Tangible	1. Modern equipment	6,16	1,71	-4,45	-3,71
	2. Objects (buildings, rooms, restaurant, lobby hall) are attractive	5,94	2,03	-3,91	
	3. The stuff is tidy	5,43	2,80	-2,63	
	4. Materials (brochures, bills, etc..) are visually appealing	5,93	2,10	-3,83	
Responsiveness	5. Promise that the service will be realized at time and with no error	6,23	2,56	-3,67	-3,22
	6. When clients have a problem, the hotel shows great interest to solve it	5,78	2,74	-3,04	
	7. The service would be implemented correctly every time	6,17	2,61	-3,56	
	8. The service is provided just as it is projected	6,24	3,44	-2,80	
	9. They insist on working without error	6,26	3,25	-3,01	
Reliability	10. The employees always give exact information about services	6,78	3,55	-3,23	-3,22
	11. Staff provide prompt (no delayed or late) service	6,48	2,99	-3,49	
	12. Staff always help clients	6,27	3,23	-3,04	
	13. Employees were never very busy to respond to the demands of clients	6,11	3,01	-3,10	
Assurance	14. The behaviour of employees makes clients feel confident	6,21	2,81	-3,40	-3,43
	15. Clients feel safe and satisfied	6,28	2,61	-3,67	
	16. Staff is always kind to clients	5,89	2,33	-3,56	
	17. Employees are well educated to give appropriate answers to client's questions	6,22	3,12	-3,10	
Empathy	18. The hotel focuses on each client individually	5,51	2,21	-3,30	-3,27
	19. The hotel's timetable is in	6,16	2,99	-3,17	

	accordance with client's needs				
	20. Employees contact clients directly and personally	5,53	2,23	-3,30	
	21. Hotel gives need to client's interests	5,87	2,57	-3,30	
	22. Employees understand the specific needs of clients	4,67	2,38	-2,29	
	average	6,01	2,69	-3,32	
Average SERVQUAL result without impacts of the factors ranking					-3,37

Table 3. SERVQUAL Result with impacts of the Factors ranking

SERVQUAL Dimension	Dimension Average	Score of the Factors ranking	Ranking Result
Tangible	-3,71	0,18	-0,67
Responsiveness	-3,22	0,34	-1,09
Reliability	-3,15	0,19	-0,60
Assurance	-3,43	0,16	-0,55
Empathy	-3,27	0,13	-0,43
Average SERVQUAL Result with impacts of the Factors ranking			-0,67

The Results of The Research by Servqual method with impacts of the factors ranking is – 0.67
CSI 67% < 80.4% - Borderline

The consumer satisfaction index in Macedonian hotel services is CSI 67% < 80.4% - borderline, and the marketing manager must make bigger efforts and create the new strategies for make better condition and develop the services quality like a base factor for satisfactions of the Macedonian clients.

Conclusion

With properly designed satisfaction and loyalty research, the results obtained will provide marketing manager with sufficient confidence to make difficult decisions, which are important to build long-term relationships with its customers. Marketing manager improvement programme will be well directed, rewarding the company with the loyalty of its priority customers and highly competitive performance level.

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