ABSTRACT

A little more than 25 years back, the concept of loyalty was initiated in the form of “frequent flyer program” by the aviation industry. Almost all brands in most of the industries started following loyalty marketing as primary customer strategy. It is believed that loyalty marketing principles and practices deliver sustainable organic growth to shareholders by identifying best customer segments, retains and increases the yield from these segments. Such companies have identified customer satisfaction as a logical goal for this purpose and have been pursuing it as a critical element of their marketing strategy. Research reveals that organizations today are realizing that customer satisfaction means far more than just “happy customers”. The research problem seeks to determine both direct and indirect effects of relational outcomes on customer loyalty, conceptualized as a psychological state.

Key Words: Service Marketing, Customer Loyalty and Relational Outcomes

Customer loyalty and its antecedents constitute the focus of this research. Customer loyalty in services is vital to business performance (Fisk, Brown, Cannizzaro & Naftal, 1990). Kingstrom (1983) and Patterson (1998) emphasized the need to consider the unique characteristics of services when investigating relational concepts related to service marketing.

Service marketing emerged as discipline of study in 1960’s and now forms a major area of research. The dominant characteristic of services marketing is the notion of intangibility (Patterson & Johnson, 1994). Services cannot be touched, seen or felt (Gummesson, 1987). This intangibility makes service evaluation difficult and its quality hard to control. This quality of service experience is directly dependent on the interaction of customer and service provider (Bowen & Schneider, 1988).

The early notion of customer loyalty was largely equated with repeat purchase. Authors like Czepiel (1990) and Kingstrom (1983) conceptualized loyalty as a psychological state where: resistance to switching, service preference, feelings of belongingness, and advocacy of the service to others infer feelings of loyalty to the service. Most researcher predicted customer loyalty in the form of satisfaction-loyalty model (Loveman, 1998). This approach referred to increased loyalty resulting from higher levels of customer satisfaction. Other
authors suggested that loyalty is influenced by *value* (Stum & Thiry, 1991) and *quality* (Zahorik & Rust, 1992). The weakness of the satisfaction –loyalty model is that it does not account for interactive and people-processing nature of the services. A better approach could have been to identify and include factors more relevant to the services. In this study, relational factors have been used as possible predictors of loyalty in services. These are friendship, social comfort and social regard which are result of relational outcomes. Relational outcomes are the feelings, thoughts, and perceived relationships arising out of social interaction with the service provider or service employee. This approach is an extension to Butcher (1995) who emphasized the role of relational outcomes.

**Theoretical Background**

**Definitions**

The terms used in the study have been explained as per their meaning in the context of the current study.

<table>
<thead>
<tr>
<th>Terms</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Service, Business</td>
<td>Any business entity</td>
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<tr>
<td>Service Provider</td>
<td>Service firm, owner, manager</td>
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<tr>
<td>Service Employee</td>
<td>Person serving a customer</td>
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<tr>
<td>Loyalty</td>
<td>Attachment to a firm, product</td>
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<tr>
<td>Psychological loyalty</td>
<td>Form of customer loyalty</td>
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<tr>
<td>Relational outcomes</td>
<td>Feelings, thoughts &amp; perceived relationships arising from the interaction with service employee</td>
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**Research Problem**

Relational outcomes directly or indirectly effect customer loyalty and thus help in overall service evaluation. Factors like value for money do not affect customer loyalty much as compared to the relational outcomes.

The objectives of this secondary research are to understand the following:

1. Do the relational outcomes affect customer loyalty?
2. Which relational outcomes have a direct effect on customer loyalty?
3. What is the nature of friendship, social regard, and social comfort in service context?

**Rationale of the Research**

Service production is expanding with growing awareness about its importance in our day-to-day life. Service industry today employs around 70% of the workforce and countries like India are rising and fast becoming service economies.

Relationship marketing is at the forefront of business thinking. Organizations are working towards establishing stronger and long lasting bonds with its customers (Crosby, 1991) and

**Customer Loyalty in Services**

Loyalty also can be conceptualized and classified in three different groups:

- Loyalty and Repeat Purchase
- Repeat Purchase as a Component
- Loyalty excluding repeat purchase (psychological state)

**Literature Survey**

Services marketing because of its basis essence (*i.e.* intangibility) has been treated separately from marketing (Edgett & Parkinson, 1993) and as a core discipline in its own. Services marketing was distinguished from goods marketing some four decades ago by researchers like Regan (1963), Judd (1964) and Rathmell (1966). The key characteristics used to highlight the unique features of services marketing were:

1. Heterogeneity of service outcomes
2. Inseparability of production and consumption
3. Perishability
4. Intangibility

Through the 1980s, these formed the focus of most research interests. Later on the research focus shifted to areas like internal marketing, service processes, service quality, service encounters, service recovery, relationship marketing, etc. (Fisk, 1993; Swartz, Bowen & Brown, 1992; Carson & Gilmore, 1996). While there has been not much consensus amongst scholars on the domain of services marketing but they do agree to one point. A service produces “an essentially intangible benefit” (Palmer, 1994). Intangibility has been considered to be the most cited reason for a difference between services and goods which seems to come out as a defining characteristic of services.

<table>
<thead>
<tr>
<th>Author/s</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Regan, 1963</td>
<td>Services represent either intangibles yielding satisfaction directly or intangibles yielding satisfaction jointly when purchased with commodities or other services.</td>
</tr>
<tr>
<td>Uhl &amp; Upah, 1983</td>
<td>A service is any task performed by another or the provision of any facility, product or activity for another’s use and not ownership, which arises from the exchange transaction.</td>
</tr>
<tr>
<td>Gummesson, 1987</td>
<td>Services are something that can be bought or sold, but which You cannot drop on your foot.</td>
</tr>
<tr>
<td>Kotler &amp; Zeithmahl &amp; Bitner, 1991</td>
<td>A service is an activity or benefit that one party can offer to another that is essentially intangible and does not result in ownership of anything.</td>
</tr>
<tr>
<td>Zeithmahl &amp; Bitner, 1996</td>
<td>Services are deeds, processes and performances.</td>
</tr>
</tbody>
</table>
Based on the comments of service researchers, a separate set of theoretical perspectives can be presented which reflect upon the classical characteristics of services marketing. These three perspectives/approaches are:

- **Comparative**
- **Evaluative**
- **Comparative**

These can be represented diagrammatically in Fig. 1

**Comparative Approach**

This concept is based on the basic founding concept for the services: services are different (Uhl & Upah, 1983). Zeithmal et al., (1996) endorsed the view that difference in services are important. Most of the researchers have focused on this aspect of the services and not tried to associate loyalty from both services marketing or a psychological perspective. Few researchers centered their research on customer satisfaction only.

**Evaluative Approach**

The intangible nature of services makes evaluation difficult for both customer and service provider especially new and unfamiliar services. Service firms find it difficult to evaluate the quality of their output. Research within the evaluative approach has been conflicting as the distinction between quality and satisfaction is not very clear. Service quality has been modeled as mediating the relationship between satisfaction and customer retention (Henning-Thurau, & Klee, 1997) while satisfaction has been viewed as an intervening variable between service quality and purchase intentions (Chadee & Mattsson, 1995). As consensus is unlikely about service quality, it is argued that it appropriate to test perceived core quality rather than overall quality, service encounter satisfaction rather than overall satisfaction, and value for money rather than value.

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Interactive Approach

The service encounter is a moment of truth (Normann, 1991) and its importance to effective service delivery has been referred to as interactive marketing (Gronroos, 1984).

Service encounter has been defined as period of time when the customer interacts with some element of the service (Bitner, 1990). Service experiences may be with an individual employee or with a machine such as ATMs, a piece of mail, a telephone conversation or a place to visit. Unlike the narrow focus of the person-to-person process, the services environment primarily includes physical surroundings, company rules and policies, other customers, and other aspects of tangible evidence. Due to intangible nature of services, many customers will use cues from the environment to make evaluative judgements (Palmer, 1994). Servicescapes (Bitner, 1992) form the physical component of the service environment. The social environment that includes customers who share the service experience with the focal customer can also influence customer satisfaction (Martin & Pranter, 1989).

Encounter has been viewed as part of development of a relationship (Liljander & Strandvik, 1993). The encounter incorporates all the elements of human interaction such as formal communication, body language, feelings and social skills. Thus, all customers form relationships (Gronroos, 1990). These relationships begin at the initial contact from the accumulation of individual discrete transactions accumulated over a period of time (Czepiel, 1990). It is well recognized that service encounter is a critical element of relationship building between service provider and recipient and is supposed to have significant effect on perceptions of quality and satisfaction.

Customer Loyalty

Customer Loyalty although being studied for last several decades still remains not a well understood phenomenon. Loyalty has been treated as repeat purchase behaviour (Liljander & Strandvik, 1993), a composite of repeat patronage combined with an attitudinal component (Dick & Basu, 1994) and a psychological state (Czepiel, 1990).
The first approach treats loyalty as actual purchase behaviour or repeat purchase intentions. This has been criticized for leading to spurious loyalty (Day, 1969). The composite approach lacks theory (Jacoby & Chestnut, 1978). The third approach which treats loyalty as a psychological state appears more appropriate.

Relational outcomes/factors have been defined as the customer’s feelings, thoughts, and perceived relationships arising from the social interaction with a particular service provider.

**Table 1 Relational Outcomes of Customers**

<table>
<thead>
<tr>
<th>Types of Relational Outcome</th>
<th>Examples</th>
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<tbody>
<tr>
<td>On the relationship between two people</td>
<td>We are friends</td>
</tr>
<tr>
<td>About self in relation to other people</td>
<td>I trust him</td>
</tr>
<tr>
<td></td>
<td>I feel respected</td>
</tr>
<tr>
<td>About other person in relation to self</td>
<td>He cares about me</td>
</tr>
<tr>
<td></td>
<td>He recognizes me</td>
</tr>
</tbody>
</table>

**Trust**

Trust is an important concept in business marketing and critical to forming relationships with services businesses (Berry, 1995) and has been linked to service outcomes as well as to satisfaction (Barnes, 1997), probability of continued purchases (Shemwell et al, 1994) and service loyalty (Gremlar, 1995). It has been identified that relationship quality, comprising of satisfaction and trust is a significant determinant of probability of continued purchase (Crosby et al, 1990).

**Social Regard**

Customers must be treated well. The aim of any business should be to treat the customer as any person would like to be treated and with respect (Aaker, 1991). The implication of this statement is that a more universal social relations approach is warranted for the moment of truth, rather than the narrower conception of a commercial exchange.
Critical incident studies of satisfactory and dissatisfactory service have provided evidence that a substantial amount of both satisfactory and dissatisfactory service evaluations arise from not the quality of the core service but the manner in which the customer was treated (Bitner et al., 1990). A mistake, combined with rudeness is extremely dissatisfying.

**Social Comfort**

Loyalty, friendship, respect and feeling comfortable can be linked together. In a holiday setting, repeat business travelers like to be remembered by hotel staff and feel more comfortable with familiar room layouts and faces (Barsky & Labagh, 1992). Hence, feelings of comfort by customers are very important.

These feelings of comfort arise from the behaviour of others. Customers’ role expectations exist generally for many service situations. For example, the person at the counter is often expected to acknowledge the client’s presence, smile, and be pleasant, but also accomplish the task. Where services have closer personal contact with the customer, the provider’s role includes making the client feel at ease.

**Friendship**

Customer retention can be increased by building positive relationships with customers (Barnes, 1997). Companies need to develop a more deep-seated affective relationship with its customers if they wish to sustain those relationships (Palmer, 1996) rather than short-term loyalty schemes for customer detention. Relational outcomes thus form the right variables and predictors of the formation of such affective relationships and notion of friendship amongst two people.

Loyalty can be increased through personal friendships (Kokko & Moilanen, 1997) or interpersonal bonds (Gremlar, 1995), greater commitment to a service or where customers feel a closeness to the firm and its staff. Where strong relationships have developed a customer may remain for a long time without even thinking about switching (Storbacka, 1994).

**CONCLUSION**

It has been identified that relational outcomes, which have been conceptualized as a psychological state, has a direct effect on customer loyalty. Loyalty can be associated with friendship, social regard, comfort and trust with the service provider. These findings have great implications for marketers and for service industry in specific. Relational outcomes lead to psychological loyalty which is a must for sustained customer retention.

**REFERENCES**


