Conceptualisation of customer satisfaction

Simply put, satisfaction can be defined as a post-purchase evaluation of a product or service given pre-purchase expectations. A common approach is to view satisfaction as the response of a consumer to their evaluation of a perceived discrepancy between prior expectation and the actual performance of the product after consumption. In this respect there is some similarity with measurement of service quality. Most writers agree that expectations are important in post-purchase evaluations especially given their use by customers as a baseline for post-purchase comparison and disconfirmation. The expectancy-disconfirmation relationship is illustrated below in an adaptation of the original expectancy-disconfirmation framework.

**Figure 1: Consumer Satisfaction-Repurchase Intention Relationship**

**EXPECTATIONS** In Figure 1 expectations are formed prior to purchase and are the consumer’s ideas of anticipated performance. These create a frame of reference, about which a comparative judgement is made. Expectations are influenced by a number of factors including the extent of a customer’s prior experience and the nature of communications with an organisation’s staff.

**PERCEPTIONS** The most advantageous outcome both for the consumer and the company is where a consumer’s perception exceeds their expectations, i.e., the service or product received is better than that expected, and positive disconfirmation is created. Clearly, managers should try and avoid outcomes where the product or service has failed to meet the standards expected by the consumer.

**DISCONFIRMATION** This can be described as the outcome of consumers making a comparative judgement of their own evaluation or perception of performance rather than some external and objective measure. It represents the discrepancy between perceptions of service and prior expectations of that service.

**SATISFACTION** Customer satisfaction is one of the potential outcomes of the service experience. A positive relationship between positive disconfirmation and satisfaction has been found in the marketing literature, with disconfirmation having a marked effect on satisfaction. The various models of customer satisfaction conceptualise satisfaction using the same basic dimensions, i.e., an expectation standard, perceptions of performance, and a type of disconfirmation; with some studies incorporating an additional construct, such as quality.

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The antecedents of expectations

Customer expectations are beliefs concerning a particular product or service. These serve as standards or reference points against which subsequent service/product performances are compared, from which judgements on satisfaction or quality are made. Expectations are acknowledged to play a major part in consumers' evaluations of customer satisfaction and service quality, and as such are a central theme in much of the research in the area. However, there is less agreement on the nature and antecedents of expectations.

There have been significant variations in the ways in which expectations have been conceptualised. Six interpretations have been offered, as illustrated below.

Expectations, regardless of whether they are measured explicitly or not, are likely to form an anchor for consumers' quality assessments. Once this is accepted, the question of which factors determine customer expectations, the antecedents of expectations, then becomes a crucial issue.

Three main groups of antecedents can generally be identified. These are:

**CONTEXT OF THE CONSUMER** The first set of influences on expectations are those factors which depend upon the context of the consumer. Word-of-mouth is an example of such factors. This primarily relates to information from friends and family concerning their experiences and perceptions of the service and relevant companies. It provides the customer with an idea of what can be expected from the service and what is normally provided.

**FACTORS ASSESSED PRIOR TO SERVICE** The second set of elements which are posited to influence consumer expectations relate to those elements of the service which the consumer can assess prior to using it. These include tangible cues such as physical evidence.

**CUSTOMER COMMUNICATIONS** The final category of antecedents are those events and items which communicate, directly or indirectly, implicitly or explicitly, ideas concerning the company's intentions and performance.

The consensus from the literature appears to be that there is a range of factors which serve as antecedents of service expectations. Furthermore, it would seem that these can broadly be categorised as explicit service promises, implicit service promises, word of mouth, previous experience, personal needs and personal service philosophy.

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“Satisfaction is not necessarily one dimensional. It is possible for consumers to be satisfied and dissatisfied with the product simultaneously. Management must also aware that for any given level of satisfaction there are two types of items: maintainers (which must exist if dissatisfaction is to be avoided) and satisfiers (which motivate real satisfaction).”

Consequences of customer satisfaction

Importantly for managers, improvements in customer satisfaction and service quality have been shown in a number of studies to have a positive and direct influence on customer retention and long-term profitability. At the other end of the spectrum, complaints are one way in which customer dissatisfaction can be signalled. However, managers should bear in mind that many customers do not complain following a service failure or breakdown, but may instead engage in activities such as negative word-of-mouth and switching behaviour. This suggests that many organizations may miss out on addressing dissatisfaction amongst customers because of a lack of awareness.

The hierarchical framework, a classification scheme devised in the 1970s, recognises this fact and classifies consumer responses as first and second level. It posits that consumers firstly decide whether to convey an expression of dissatisfaction (action) or to take no action. The former is then followed by a second level decision on whether the response taken is public or private. Public actions include seeking redress directly from the organisation, taking legal action, or complaining to public or private agencies for example writing to complain about bank charges. Private actions include switching to another provider and/or negative words-of-mouth, for instance, insurance policy cancellations or non renewals.
Clearly, a key element for managers in any effort to improve organisational performance and profitability is the discouragement of switching behaviour whilst encouraging greater customer loyalty. This is a deeply held commitment by a customer to rebuy or repatronize a particular product and / or service consistently or repetitively in the future. Undoubtedly, customer dissatisfaction is more likely than not to attract negative consequences including switching behaviour.

Customer satisfaction and firm performance

Although conventional wisdom suggests that enhancing customer loyalty and widening the customer base would be useful CRM strategies, managing customers based on their profitability is the most operative approach to CRM. There are different paths to profitability that a firm can undertake; namely operational excellence, building brand equity, and effective relationship marketing. In selecting the last path, managing customer loyalty becomes a crucial issue. It has been shown that loyal customers aren’t always profitable, and not all profitable customers are loyal. Therefore, an approach that closely links loyalty to profitability is necessary in developing a customer management strategy. Thus, the marketing initiatives should be based on customer profitability rather than loyalty: Customer lifetime value (CLV) is the most effective metric in managing customer profitability. Implementation of a CLV based approach requires collecting and maintaining extensive information databases regarding customer purchase behavior. Once they are empowered with CLV, firms can reevaluate and overhaul their existing customer management strategies.

The literature which has developed concerning customer satisfaction has grown along with an interest in the development and maintenance of relationships with customers in an attempt to improve company performance. Indeed, several positive consequences for companies achieving high levels of customer satisfaction have been posited. Behavioural outcomes are said to include enhanced loyalty, retention and business performance with a link between customer retention and market share being noted by a number of authors. Behavioural performance indicators, such as repeat purchase, word of mouth, and referrals, have also received attention. Furthermore, customer satisfaction and quality perceptions do unarguably have consequences such as effects on repurchase intentions and actual buying behaviour, each of these ultimately impacting on the profitability of the firm.

This increased intention to repurchase is a particularly important element in the retention of customers which in turn is one of the key strategies managers can use to maximize their Customer Lifetime Value. These strategies are: optimal allocation of resources (cost reduction), piloting the right product to the right customer at the right time (revenue maximization), and acquiring and retaining profitable customers (revenue maximization and cost reduction). A corollary to retaining profitable customers is having strategies in place to manage those customers who would like a long term relationship with the organization but which are unlikely to prove profitable.

Conclusions and managerial implications

On balance, the literature presents clear evidence of the link between satisfaction and loyalty, although some have questioned the implicit assumption that loyalty is automatically associated with increased profitability. The objective of managers should be to ensure that the most profitable customers are satisfied and show a propensity to be loyal. Expectations and their antecedents play an important part in determining levels of satisfaction and managers need to ensure that they manage customer expectations as much as possible. Factors such as the appearance of branches and the implicit promises contained in the brand of the organisation and staff have a significant bearing upon the expectations formed by customers. It may well be that having an image and reputation which fosters positive associations will attract customers. Concomitantly, such implicit promises may well lead consumers to formulate a higher level of both desired and predictive expectations. Managers must ensure that they match such expectations so as to avoid the consequences of negative disconfirmation, which may include a lack of attitudinal and behavioural loyalty, as well as negative word of mouth.

Despite the desirability of customer satisfaction, managers must also realize the impossibility of always delivering a high level of satisfaction, especially in a high customer facing sector like financial services. Firms should therefore understand how service failures and related customer dissatisfaction can be managed. Certainly, service recovery from failures and responses to customer dissatisfaction especially through effective complaint handling – a key element in service recovery – can result not just in improved satisfaction rates but also repurchase intentions and the spread of positive word-of-mouth.

Further Information

I do hope you have found this publication interesting and informative. If you would like to know more about The Forum and how to become involved in our work it would be great to hear from you. Please get in touch with me through our offices in Nottingham or Poole, full contact details are given below.

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