Financial Services Research Forum

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Customer Satisfaction, Loyalty and Retention in Financial Services

A report published by the Financial Services Research Forum

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Executive Summary

The purpose of this paper is to provide insights into issues related to customer satisfaction, loyalty and retention which will prove useful to managers in financial services. This paper is based upon an up to date review of the literature from authoritative sources in the academic domain including the Harvard Business Review, Journal of Marketing and the European Journal of Marketing. Customer satisfaction and service quality are often presented as closely related with some commentators even considering customer satisfaction to have a direct effect on service quality while others believe that satisfaction is affected by pre-existing ideas of quality. Service quality can be described as an attitude that is related, but not equivalent to customer satisfaction, and which results from a comparison of customers' expectations with the actual provision of a particular service by an organisation.

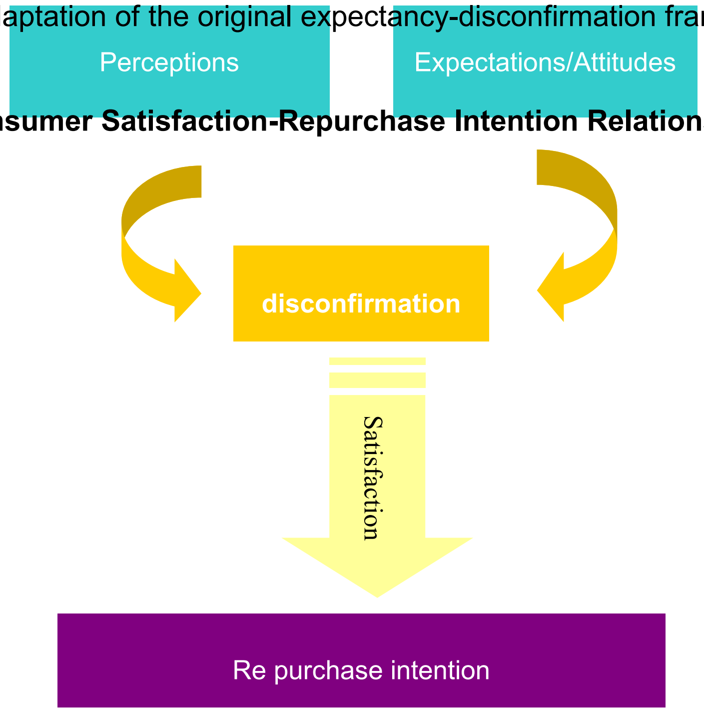
There has been much debate as to the precise relationship between satisfaction and service quality. The most commonly made distinction between service quality and customer satisfaction suggests that the latter is generally more short term and transaction specific than service quality. Thus, a customer is either happy or unhappy with a particular transaction or experience whereas attitudes towards the quality of service are more likely to be built over a long-term and across several transactional experiences. Generally service quality relates to what customers think they should get, while customer satisfaction is concerned with individual's ideas of what they will receive. Satisfaction is posited to be a function of service quality (staff service and corporate image), price, innovativeness, and convenience. Increased customer satisfaction has the potential to enhance organizational performance and as a result, managers should have customer satisfaction as a key target. In a recent 2007[1] study of the banking sector, four overall dimensions of customer satisfaction with bank services were identified. These were personnel related considerations, financial considerations, atmospherics of the facility, and convenience. The importance of customer satisfaction is evident in another 2007 study which showed that high customer satisfaction rates translated into loyalty and customer retention with this translation being significantly lowered by approximately 60% in cases where the customers were not as strongly satisfied[2].

Despite the desirability of customer satisfaction, managers must also realize the impossibility of always delivering a perfect service especially in a high customer facing sector like the financial services. This makes it important for firms to understand not only how to increase their customer satisfaction levels but also manage service failures and ultimately customer dissatisfaction in order to minimize their potential adverse effects. Certainly, service recovery 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.

CONCEPTUALISATION OF CUSTOMER SATISFACTION

Simply put, satisfaction can be defined as a post-purchase evaluation of a product or service given pre-purchase expectations[3]. It has also been suggested by some commentators that satisfaction is really about subjective evaluations of their experiences and outcomes as they buy or use products and services. This is an interesting suggestion since it links the service process which culminates in purchase with post-purchase phenomena such as attitude change, loyalty and repurchase. It also means that managers must adopt a multi-stage approach to fully conceptualise customer satisfaction. In other words: elements existing before exposure to the service or product have an impact on the evaluation which takes place after consumption, suggesting pre-purchase elements are compared by consumers against some baseline derived from the purchase experience. This evaluation then produces attitudinal and behavioural outcomes. 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. Most writers agree that expectations are important in post-purchase evaluations especially given their use by customers as a baseline for post-purchase comparison. The expectancy-disconfirmation relationship is illustrated below is an adaptation of the original expectancy-disconfirmation framework[4]

Figure 1: Consumer Satisfaction-Repurchase Intention Relationship



Expectations In the above figure 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 the company's staff. A customer's satisfaction is then largely influenced by how they perceive the service's performance relative to prior expectations.

Both the service quality and customer satisfaction literatures have acknowledged the potential existence of different classes of expectations with particular attention being paid to what consumers think they will, or alternatively, should receive from service providers. Some authors have suggested that satisfaction can still result if predictions of what customers think they will receive are met. This however does not necessarily mean that consumers judged the service encounter to be of high quality.

How consumers interpret the term expectations is an important consideration, particularly for the antecedents of service expectations. These are information concerning factors which influence the formulation and level of customer expectations. Expectation formation should be of great interest to firms, as potentially it will provide more opportunity to influence assessments of customer satisfaction. The antecedents of expectations will be explored further in one of the following sections.

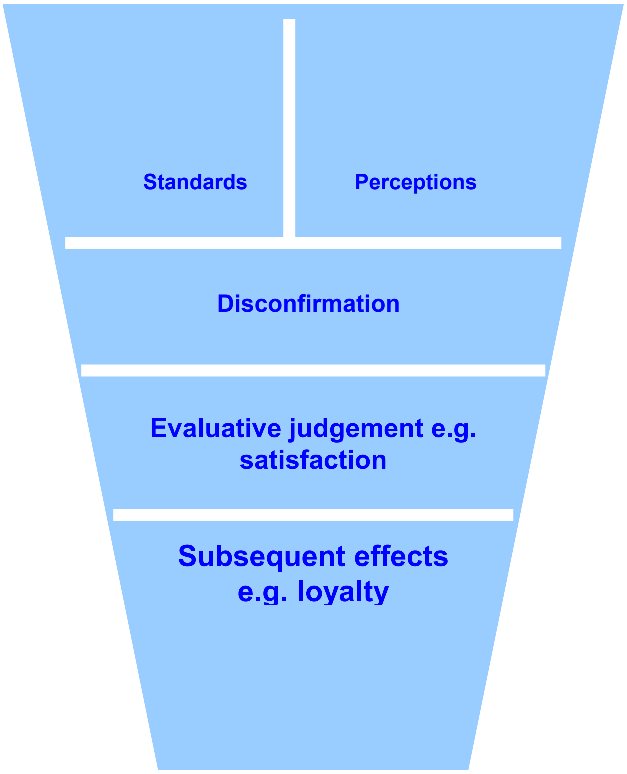
Perceptions The most advantageous outcome both for the consumer and the company is where a consumer's perception exceeds their expectations, i.e., the service or product received is better than that expected, and positive disconfirmation is created. Clearly, managers should try and avoid outcomes where the product or service has failed to meet the standards expected by the consumer. This creates negative disconfirmation and constitutes a failure to perform on the company's part. Confirmation occurs in cases where perceptions equal expectations i.e. when consumers' ideas of what they would receive are matched by their perceptions of what they did receive.

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. Consumers make performance perceptions against their own expectations to produce some kind of internal rating described above. Disconfirmation represents the discrepancy between perceptions of service and the prior expectations of that service. The direction and size of the gap is indicative of the consumer's feeling toward the purchase encounter.

SATISFACTION Customer satisfaction is one of the outcomes of purchase. A positive relationship between positive disconfirmation and satisfaction has been found in the marketing literature, with disconfirmation having the largest effect on satisfaction, larger than that of expectations. All models conceptualise satisfaction along the same basic dimensions, i.e., some expectation standard, perceptions of performance, and a type of disconfirmation; with some studies incorporating an additional construct, such as quality.

Although the expectation-disconfirmation framework represented a significant shift in the satisfaction literature, several other models have also since developed. Generally, though all the various alternative frameworks contain the same five main elements. These are presented in figure 2 below.

Figure 2: The Five Elements of Satisfaction Measurement Models

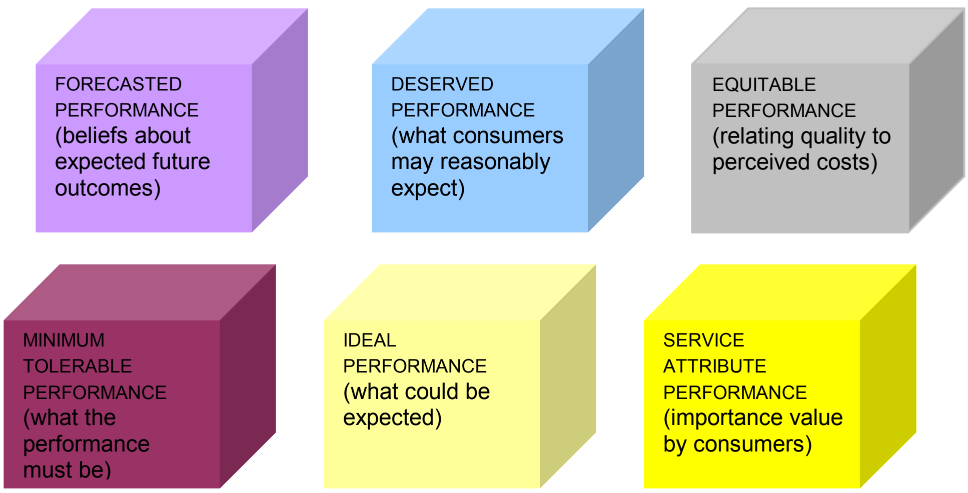


THE ANTECEDENTS OF EXPECTATIONS

Customer expectations are beliefs that they have formed 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 this area [5 6 7]. However, there is less agreement on certain aspects of their role and in particular the nature or conceptualisation, and the antecedents, of expectations.

There have been significant variations in the ways in which expectations have been conceptualised. Within Oliver's original disconfirmation paradigm[4] , and as a trend throughout the literature since, expectations have been conceptualised as belief probabilities of what the consequences of an event will be. In contrast, work on service quality[7] has defined expectations in terms of what customers feel they should be offered. While these differences have helped distinguish customer satisfaction and service quality from each other, there exists relatively little consensus on whether the nature of the expectation standards used are appropriate. Indeed, some commentators have acknowledged the existence of different classes of expectations [8] any or all of which could affect customer satisfaction and service quality. It has been suggested that individuals may be using one of six interpretations illustrated below when forming expectations[9].

Figure 3: Consumer Expectation Formation Variants



Satisfaction, the marketing literature shows, can still result if consumers' expectation predictions are met without necessarily meaning that the consumers judged the service encounter to be of high quality. Service quality, unlike satisfaction, is about the fulfilment of all the customer's expectations concerning what they would like to receive, i.e., what they think they should get.

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.

Consumer expectations have been ascribed to three factors: the product, the context of the consumer and consumer characteristics[4]. They have been found to be determined by the context of the consumer, communications between customer and company, and those elements of the service which could be assessed prior to purchase[10]. The above mentioned study's author also posited that the buying context affects the way in which expectations are formulated. Generally, though, three main groups of antecedents can be identified. These three are discussed in greater details below.

Context Of The Consumer The first set of influences on expectations are those factors which determine the context of the consumer himself. Word-of-mouth is an example of these 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 and can be linked to the idea of derived service expectations[11] or those demands of the customer influenced by others.

Personal needs also represent a strong set of influences on the expectations of individuals. These relate to the physical, social and psychological desires of the consumer. Individuals want different things from the service and their relationship with the service provider, needs which are often dictated by their past experience, personality and relationships with others. So, for example, a customer with high social and dependency needs may have higher expectations of the relationship and support they should be able to expect from their service provider.

Finally, customers' expectations are influenced by their generic expectations, or their personal service philosophy. Individuals have underlying attitudes concerning the meaning of the service and the proper conduct of service providers. The more experience customers have with the service in question, the stronger these philosophies are likely to be. For example, the vast majority of individuals expect lawyers, doctors, etc. to act in a certain professional manner and provide certain elements and levels of service.

"Word-of-mouth is an example of the context of the consumer 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. The intangibility, heterogeneity and inseparability of services is often emphasised within the literature. Due to these features of services several researchers have emphasised the importance of such tangible cues as physical evidence on the formation of judgements concerning the performance of the service. In the case of banking, factors such as the layout of the branch, the appearances of leaflets and staff all hold considerable influence on consumer expectations. The brand of the service provider can also act as an important cue when consumers are assessing a service prior to use.

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.

Formal communications from various sources are stressed in all the pieces of exploratory work in this area. Communications, through advertising and leaflets, from the focal company, as well as competitors in the same product class, and related articles in magazines and newspapers, relate the company ideals to the customer. This can also include the nature of contracts and personal selling as well as advertising, which impacts on the way customers interpret objectives and ambiguous evidence concerning quality. Managers should be aware that often, where evidence of the quality of a company's service is highly ambiguous, customers will place much more emphasis on advertising, increasing its impact.

Price is also an antecedent of expectations. The price of a service contains implicit suggestions concerning service quality. However, for financial services, pricing is often opaque and poorly understood by consumers, meaning that the role of price in making implicit suggestions as to probable service quality may be diminished. Finally, the credibility of the company as assessed by customers is another antecedent. Credibility relies heavily on ideas such as branding and reputation, from which customers develop expectations of service levels.

Interestingly, the four buying contexts[10] below show that other significant determinants of expectations exist in addition to the above mentioned factors. For example: in the case of a new task purchase, the consumer already possesses a highly detailed knowledge of the supplier and their performance under certain conditions. Therefore, for a new service that is heavily related to existing ones, customers are likely to use their knowledge and experience, with confidence in their ability to accurately predict what they will receive.

Figure 4: Four Consumer Buying Contexts

	Existing service	New service
Existing supplier	Re-buy	Product search
New supplier	Supplier search	New Task

Another influential commentator has also categorised antecedents of expectations albeit in a slightly different grouping[12]. These are now outlined in the following section.

> Implicit service promises are an important antecedent of expectations. It would appear from the literature that such factors as the appearance of branches and the implicit promises contained in the image and reputation of the organisation and staff having a significant bearing upon the expectations formed by customers. Managers need to be aware that such factors are important to customers as they formulate expectations and would be wise to undertake research to establish exactly how customers' expectations are being influenced in the context of their particular service. 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.

Explicit service promises These include advertising, contracts and other communications. The importance of communications, through advertising and leaflets, (from the focal company, as well as competitors in the same product class), and related articles in magazines and newspapers, that relate to the customer the company ideals has been emphasised in the literature[10]. Some authors have also suggested that advertising affects the way customers interpret ambiguous evidence concerning quality[13]. Therefore, where evidence of the quality of a company's service is highly ambiguous, customers will place much more emphasis on advertising, thus increasing its impact.

Implicit service promises as a possible antecedent of both predictive and desired expectations. The examples of tangibles and price were provided, but other factors which could be construed as containing an implicit promise, such as image. reputation and brand factors, could be included in this category.

Previous experience or pre-purchase contact between the customer and the company is the other factor said to influence expectations. It should be noted that previous experience may extend beyond a consumer's experience of a particular service provider to a class of services or similar.

Word of mouth both personal from friends and relations and expert in the form of informed opinion from journalists etc was also posited to be an important antecedent of expectations. It seems reasonable to expect that word of mouth will influence various classes of expectations provided there are individuals available to share vicarious experience and other information.

PERSONAL NEEDS These can be in terms of the physical, social and psychological desires of the consumer. Individuals want different things from the service and their relationship with the service provider, needs which are often dictated by their past experience, personality and relationships with others. Thus, customers with high social and dependency needs may also have high relationship and support expectations.

PERSONAL SERVICE PHILOSOPHY Individuals have underlying attitudes concerning the meaning of the service and the proper conduct of service providers.

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.

Figure 5: Factors Impacting on Customer Satisfaction

HYGIENE FACTORS	ENHANCING FACTORS	DUAL THRESHOLD FACTORS
Aspects of the service that the customer expects to be present, and will not necessarily create satisfaction, while their absence will create dissatisfaction (for example, instructions being carried out by the bank at the time they have been promised).	Are those elements of the service which lead to satisfaction, but the absence of which will not necessarily create dissatisfaction (for example, the service personnel remembering your name between service encounters).	Those aspects which, if the company fails to deliver them, will create dissatisfaction, but their delivery above a certain level will create satisfaction (for example explanation of the terms of a contract).

For managers, a particularly useful study of service quality in the context of a range of UK organisations identified three categories of factors which can impact on satisfaction[14]. These factors are outlined in figure 5 above.

"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)"[15]

CONSEQUENCES OF CUSTOMER SATISFACTION

Although complaints have been highlighted in a previous section as one way customer dissatisfaction can be signalled, managers must 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[16] - a classification scheme devised in the 1970s – recognises this and classes 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.

Other subsequent approaches have largely been similar to the hierarchical framework and broadly fall around customers seeking private redress from the provider; making their dissatisfaction public through, for example, negative word of mouth; and, personal boycott or switching behaviour.

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.

Customer loyalty is a deeply held commitment by a customer to rebuy or repatronize a particular product and / or service consistently or repetitively in the future. It is a reflection of the relationship between the customer's relative attitude towards the service provider that is often based on past experiences as well as future expectations of service quality. Indeed, customer perceptions of a company's service quality have been positively linked to their purchase behavior[17] leading to both the retention and expansion of the existing customer bases.

The degree of customer loyalty varies. The degree of patronage can be gauged in a number of ways, for instance, by tracking customers over a period of time either from their bank accounts or as they do business with the organization over a defined time.

One empirical study of service quality and customer satisfaction found both to be significant predictors of loyalty although satisfaction had the stronger relationship with loyalty. The literature in this area distinguishes between attitudinal and behavioural loyalty. The former, it is said, represents the individual's feelings towards the company, which may or may not be translated into behavioural loyalty, depending on factors such as cost, alternatives and convenience. However, attitudinal loyalty is an important construct because it is customers with favourable attitudes who are more likely to stay behaviourally loyal in the long term.

"There are a number of other reasons why managers should focus on encouraging customer loyalty and retention. These include:[18]

- **the expenses of opening and closing of accounts in terms of human and others resources i.e. processing costs**
- **high customer turnover reduces profitability**
- **the retention of customers can often lead to cross-selling opportunities.**
- **satisfied customers can sometimes lead to word of mouth recommendations and new ones.**

This last reason is particularly important given the findings of an empirical study of personal banking service antecedents which showed that individuals were quite often influenced by word of mouth[19] in making banking provider choices"

Clearly then, one positive consequence of satisfaction, i.e., customer retention, can help the firm gain competitive advantage and an expansion of their market share as customers willingly buy other products as well as refer others to the organisation. In addition, long term relationships with customers often means a greater resulting profitability as their economic positions improve over time. Indeed, it has been argued by some authors that customer retention is particularly relevant to the financial services sector where the building and maintenance of long term relationships is a key component of improved business performance[20]. The same authors also suggest that both service quality and customer satisfaction are fundamental factors in the retention of loyal customers and eventual improved organizational performance.

It is also clear from the literature that improvements in customer satisfaction often result in loyalty. Interestingly, loyalty and customer satisfaction have been found to have an asymmetrical relationship: i.e., although dissatisfaction guaranteed that customers switched, satisfaction did not guarantee loyalty[21].

Importantly for managers, improvements in customer satisfaction and service quality have in fact been shown in a number of studies to have a positive and direct influence on customer retention and long-term profitability in traditional service contexts where face-to-face interaction between customers and employees was the only focus, for example, in a banking hall.

"Increasing competitiveness amongst financial services providers as well as the increased likelihood and relative ease of customers switching means that many more managers need to focus on the concept of relationship marketing. Indeed, they should pay greater attention to the retention of their existing customers and enhancing their relationships rather than trying to attract new ones especially given the costs of new customer acquisition. Improved customer satisfaction levels should certainly be a key component of any customer retention strategy"

Managers must however realize that this context has changed significantly in the last few years as information technology continues to have a significant impact on service delivery. Customer-friendly technologies including ATMs, telephone and internet banking have become important strategies in efforts to increase customer retention and market share. Thus, managers need to think beyond the traditional face to face service contexts as information technology rapidly diffuses across the world. This means a greater focus on how superior service encounters and quality can be incorporated into the newly evolving technology based and automated service context. It is clear that customer's evaluation, expectations and perception of service delivery will in all likelihood include that of automated service options.

The quality of each automated delivery channel will be important in forming the customers' overall perception of automated service quality and thus a factor in whether the customer is satisfied and decides to remain with the organisation or not. Thus, managers should aim to offer continuously improving high standards of automated service quality in order to increase overall levels of customer satisfaction and the attendant positive consequences i.e. loyalty, retention and eventually increased financial performance. Examples of such improvements include quick responses to customer problems as they seek insurance quotations online and the provision of easily understood independent navigational guides to websites as part of efforts to improve internet banking experiences quality.

Undoubtedly, customer dissatisfaction is more likely than not to attract negative consequences including switching behavior. A recent 2007 study[2] has however identified several other reasons for financial services organisations customers' switching firms apart from dissatisfaction. The study of customer loyalty and switching attitudes in the banking sector found these reasons to include more convenience, better service, lower service charges and higher interest rates on their accounts. More importantly, the study also suggests that even if a customer was dissatisfied with a service which they considered extremely important, they would not switch to another bank if there was no difference in the service or product offered. This holds particularly true for the financial aspects of a bank's service where competitive offerings are similar. On the other hand customers were less likely to remain with the firm when dissatisfied with such non-financial aspects as employee behaviour. The clear implication for managers is that they should understand the importance of a particular service to customers and especially how critical satisfaction would be in the customers' decisions to stay or switch.

In addition, it appears that the direct delivery of retail financial services through Automatic Teller Machines (ATM), phones and computer banking which enables customers to conduct their business any time is set to continue as more institutions adopt modern technologies. However, although consumers' use of electronic banking technology continues to grow, organisations should not neglect the importance of human interactions in their service delivery processes and pursuit of service quality and customer satisfaction. The latter's importance is evident in its relationship with firm performance. This has been highlighted by a number of authors and is the following section's focus.

CUSTOMER SATISFACTION AND FIRM PERFORMANCE

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[22]. 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[23]

> "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"[22]

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.

The literature in this area suggests that profitability and growth are largely determined by loyalty with that having been shown to be a direct result of customer satisfaction; where satisfaction is a result of customer perceptions of the value received from the encounter compared to that which was expected. Loyalty thus occurs when the level of value received is greater than that which is available from other vendors.

Generally, a company's market share comes from three sources or groups. Firstly, those customers switching to the company from other brands; secondly, new customers to the market who choose the company as their initial purchase; and finally those customers the company has retained from the previous time period. Clearly changes in retention rates will affect the number of people in the third group whilst future retention rates will affect numbers of individuals in the first two. This means that changes in the level of retention can have important implications for the financial position of the company.

Satisfaction is only of value to companies if it elicits some kind of positive financial outcome. Gaining market share is very often associated with offensive marketing strategies, with retention being given little attention. However, as the costs of acquiring customers are often far in excess of the costs of retaining them the importance of good defensive marketing techniques become apparent.

> **"In observing the customer behavior of a retailer, it has been found that the largest segment (32%) was made up of customers who were easy to acquire and retain, but they accounted for only 20% of the total profits. Conversely, 40% of the total profits came from the smallest group of customers (15%), who were expensive to acquire but cheap to retain".**

Customer satisfaction has certainly been found to have a direct impact on retention and loyalty with one study showing that 37% of the variance in loyalty across divisions of a retail bank was due to customer satisfaction[24]. Other researchers have furthermore suggested that purchase actions, as opposed to intentions, are a function of intentions, past actions and satisfaction.

However, results have been found which emphasise that there are two differing loyalty trends across those customers who say they are satisfied and those customers who claim to be very satisfied[25]. They show that the very satisfied customers have a much more direct and evident link between their attitude and re purchase behaviour, while the satisfied customers are more likely to have differences between their attitudes and the re purchase behaviour. For repeat purchasers, intention to repurchase in the future was largely determined by previous intentions to purchase. However, for switchers, purchase intentions were largely determined by (dis)satisfaction.

Satisfaction has also been linked with purchase intentions. Buyers purchase a brand which they feel will maximise their satisfaction, therefore if their expectations of a particular brand are high they are more likely to purchase it. Similarly, a poor service encounter with a brand will cause a decrease in the chances of repurchase. If firms can create a reputation for providing a high quality service, the variance in individual's expectations of the service outcome will decrease, increasing the chances of purchase.

"Managers should use a Customer Lifetime Value based framework: the first step being to predict the customers who are most likely to be acquired. The second step is to predict the customers who are most likely to be retained, based on the customers acquired. The third and crucial step is to predict the customers who are most likely to be profitable based on the acquired and retained customerS"[22]

This increase in repurchase chances 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[22]. These strategies are: optimal allocation of resources (cost reduction), pitching 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. One authoritative source[26] referred to such customers as "barnacles". One strategy may be to capture the maximum possible share of wallet of such customers, therefore converting them into profitable customers. However, some customers may have insufficient business potential to warrant any effort, or indeed, to justify serving them at all. Commercial logic would suggest that an organization seeking to maximize its returns should avoid serving such segments. However, if all organizations take a similar view of the customer's potential profitability, then it may be difficult for the customer to find any organization that is willing to provide the service in question. Thus, the customer may be excluded from provision. Such an outcome is particularly problematic in the case of services which are generally considered necessary to function in society, such as bank accounts. In such cases, the commercial imperative and the social good may be difficult to reconcile.

The material presented thus far has provided a detailed insight into those factors which may influence customers' satisfaction and loyalty. Such factors are also influenced by evolving perceptions of ongoing service interactions and service recovery actions[2]. The topic of service recovery will now be discussed briefly.

MANAGERIAL SERVICE RECOVERY STRATEGIES AND PERCEIVED JUSTICE

Once a service failure occurs within a particular service delivery process, firms should embark on a well thought out and effective service recovery strategy. Service recovery is principally concerned with all the activities an organisation undertakes to try remedy any service delivery problems between them and a customer.

A number of commentators have tried to determine what constitutes an effective service recovery with most conceptualisations being based around the five pillars concept[27]. These pillars are certainly a useful toolkit for managers facing a service delivery failure and include such actions by the company as apology, symbolic atonement and follow up calls to customers.

THE ROLE OF PERCEIVED JUSTICE

More recently, the debate on what constitutes a good recovery strategy has focused on the role of perceived justice[28] in attempts to understand the effectiveness of such strategies. Its underlying rationale is that customers are more likely to be satisfied where their levels of perceived justice after a service delivery failure are high, i.e., they perceive the outcomes of service recovery strategies as just.

Perceived justice is an aggregation of three dimensions that customers are likely to use when evaluating service recovery[27|26}]. These three dimensions are: Procedural justice or the fairness of the resolution procedures; Interactional justice, which is about the manner in which people are treated during the complaint handling process including such elements such as courtesy and politeness; and distributive justice, a dimension primarily concerned with the level and nature of apologies and compensations.

CONCLUSION 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 profitibility. 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

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