

# **Loyalty and Satisfaction in Physical and Remote Service Encounters**

Extended abstract, including Interim Findings

## **Topic Area indication:**

Consumer Behavior in Interactive Environments (Relationships, satisfaction, and loyalty)

Presented by

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## Introduction

Today's consumers have more touch points with companies than ever before. With each new channel a company introduces, costs increase. The anticipated increase in revenues, however, often fails to materialize (Hobmeier 2001). So, companies are challenged to manage these channels in an efficient and effective way.

Faced with an increasing gap between additional costs and additional sales, management of a Dutch health insurance company was questioning whether they should hive off their physical, expensive service encounters (stores and busses) and become a direct writer using remote, but cheap channels only (phone, web site, and direct mail), or enhance their current multi-channel strategy as it is suggested that the future of customer service is multi-channel (Roussin 1999).

To avoid making hard decisions about their channel strategy for cost-efficiency reasons only, management decided to do some market research in order to take customer perceptions and (channel) preferences into account.

## Research Questions

The market research addressed three questions in particular:

1. Are users of a physical service encounter more likely to have a higher level of *service encounter satisfaction* than users of a remote service encounter?
2. Are users of a physical service encounter more likely to have higher levels of *loyalty key drivers*, i.c. overall satisfaction, trust, relationship proneness, reputation, and perceived switching costs, compared to users of remote service encounters?
3. Are customers who use a physical service encounter more *loyal* than those who use a remote service encounter?

To answer these questions, we propose a conceptual framework and develop hypotheses about service encounter satisfaction, the key drivers of customer loyalty, as well as customer loyalty itself. We test the hypotheses using a data set of customers of a Dutch health insurance company.

## Conceptual Framework

In Exhibit 1, we provide a conceptual framework for customer loyalty and its key drivers.

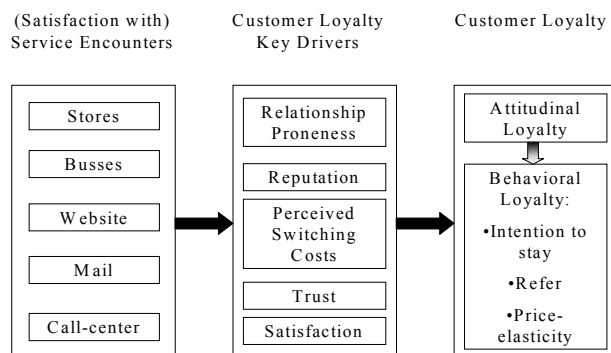


Exhibit 1: Conceptual framework for customer loyalty and

### **Service Encounter Satisfaction**

*Service encounter satisfaction* is transaction-specific. Service encounter satisfaction is related to overall customer satisfaction: overall satisfaction is driven by satisfaction from a series of service encounters. It is important, however, to recognize them as distinct constructs because of the factors influencing them may be different (Shankar *et al.* 2000).

### **Key drivers of customer loyalty**

We identify five major precursors of customer loyalty.

*Overall customer satisfaction* is relationship-specific: it is the cumulative effect of a set of discrete service encounters or transactions with the service provider over a period of time (Bitner and Hubbert 1994; Oliver 1997). Customer satisfaction is suggested to be a necessary, but insufficient condition for customer loyalty (Schijns 2002).

*Trust* exists “when one party has confidence in an exchange partner’s reliability and integrity” (Morgan and Hunt 1994: 23). It is suggested that trust positively affects commitment (e.g. Dwyer *et al.* 1987; Morgan and Hunt 1994; Odekerken-Schröder 1999; Schijns 1999), and is the basis for loyalty (Berry 1983).

Based on a company’s *reputation* one could decide to do business and start a relationship with that company. The reputation of a potential new partner reduces the perceived risk of making the wrong decision and facilitates the change to the new partner. From this perspective, the reputation of a company lowers the entrance barriers for (potential) customers. A company’s reputation also plays a role in case of breaking an existing relationship. The reputation of a company can withhold the customer breaking the relationship because he may face social uncertainty, lack of knowledge about new potential partners, and (thus) lack of confidence in a new exchange partner’s reliability and integrity. From this perspective, the reputation of a company increases the exit barriers for (existing) customers. Both perspectives may have a positive effect on customer loyalty, in particular on behavioral loyalty.

*Perceived switching costs* can be a significant mobility barrier when considering an alternative relationship (Morgan and Hunt 1994). Dwyer *et al.* (1987: 14) propose that “the buyer’s anticipation of high switching costs gives rise to the *buyer’s* interest in maintaining a quality relationship.”

*Relationship proneness* is an individual characteristic of the buyer, and is defined as “a buyer’s relatively stable and conscious tendency to engage in relationships with sellers of a particular product category” (Odekerken-Schröder 1999). Storbacka *et al.* (1994) indicated that a buyer’s interest in relationships positively influences the level of commitment to a relationship in which the buyer is engaged.

## Customer loyalty

We distinguish two types of loyalty: attitudinal loyalty and behavioral loyalty.

*Attitudinal loyalty* represents a higher-order, or long-term, commitment of a customer to the organization that cannot be inferred by merely observing customer repeat purchase behavior (Shankar *et al.* 2000). Attitudinal loyalty is important because it indicates propensity to display certain behaviors, such as the likelihood of future usage (Liddy 2000).

*Behavioral loyalty* refers to customer's (intentions to) repeat purchases from an organization, their willingness to recommend the organization, and less price sensitivity. Behavioral loyalty is important because it focuses on the 'value of the customer to the brand' (Schultz and Bailey 2000).

## Research Hypotheses

We expect that customers using a physical service encounter will be more satisfied with the service encounter than customers using a remote service encounter, because of 1) the human contact that facilitates the relationship, and 2) the degree of interactivity of the service provider's remote service encounters that is low relative to the physical service encounters. Therefore, we propose the following hypothesis.

*H<sub>1</sub>: Users of a physical service encounter are more likely to have a higher level of service encounter satisfaction than users of a remote service encounter*

As overall satisfaction is driven by satisfaction from a series of service encounters, we expect that users of physical service encounters will be more generally satisfied than users of remote service encounters.

Beside the effect of service encounter satisfaction on overall satisfaction, we expect service encounter satisfaction to have an effect on other customer loyalty key drivers. In particular, we expect that perceived switching costs, reputation, and trust be positively affected by service encounter satisfaction, directly and/or indirectly (e.g. through overall satisfaction). As relationship proneness is an individual characteristic of the buyer, it is suggested that relationship proneness is independent from the satisfaction with the services provided through the service encounters. Therefore, we propose the following hypothesis.

*H<sub>2</sub>: Compared to users of remote service encounters, users of physical service encounters have higher levels of loyalty key drivers, i.e. overall satisfaction, trust, reputation, and perceived switching costs.*

As a result, we expect that users of a physical service encounter will be more committed to the service supplier than users of a remote service encounter. In addition, since committed customers are more likely to stay with the company in the future, to refer the company, and to pay a price premium, we expect that they will be more behaviorally loyal. Therefore, we propose the following hypothesis.

*H<sub>3</sub>: Customers who use a physical service encounter are more loyal than those who use a remote service encounter*

## Methodology

A questionnaire was developed, and directed at measuring responding customers' attitudes towards loyalty, and its key drivers.

The primary data were collected using CATI (Computer Assisted Telephone Interviewing). All of the adult consumers targeted were existing customers of a Dutch health insurance company who had used one or more of the company's service encounters (bus, store, call-center, (direct) mail, and/or the web site) during the last 12 months.

3,396 customers of the health insurance company were targeted with the questionnaire/telephone interviewing. 2,074 of these targeted customers were able to respond and met the sample criteria. 1,011 customers refused to cooperate (48.7%), which resulted in a response rate of 51.3 per cent.

Within the data set, three types of customers were distinguished: (1) a sample of customers who used both a physical service encounter (i.e. bus or store) and a remote service encounter (i.e. website, call-center and/or mail), (2) a sample of customers who used the physical service encounters exclusively, and (3) a sample of customers who used the remote service encounters exclusively.

By having these last two samples, we are able to compare the attitudes and behavior of populations that differ primarily in the medium they use to contact their service provider.

## Findings

### Service Encounter Satisfaction

Exhibit 2 shows the means and Cronbach's Alpha values for service encounter satisfaction. It should be noted that the lower the mean, the higher the level of satisfaction.

	Store	Bus	Website	Phone	Mail
<b>Mean</b>	1.91	2.06	2.26	2.98	2.27
<b>Cronbach's Alpha</b>	.71	.72	.78	.76	.83
<b>n</b>	357	136	87	620	323

*Exhibit 2: Means and Cronbach's Alpha values for Service Encounter Satisfaction*

From Exhibit 2 it can be concluded that the satisfaction with the service encounter used is higher for users of physical service encounters (stores and busses) compared to users of remote service encounters (web site, call center, mail). The (low) level of satisfaction with the call center turned out to be mainly caused by the inaccessibility of the call center and the extensive waiting lines resulting from that.

*Key finding 1*

*Users of a physical service encounter are more likely to have a higher level of service encounter satisfaction than users of a remote service encounter.*

**Loyalty key drivers**

Exhibit 3 shows the means and Cronbach's Alpha values for the five customer loyalty key drivers as distinguished in our conceptual framework for customer loyalty (see Exhibit 1) and for the three types of service encounters.

	Reputation	Perceived Switching Costs	Relationship Proneness	Overall Satisfaction	Trust
	Mean (n)	Mean (n)	Mean (n)	Mean (n)	Mean (n)
<b>Physical service encounter</b>	2.86 (105)	2.87 (70)	1.98 (191)	2.00 (191)	2.13 (190)
<b>Remote service encounter</b>	3.04 (368)	2.98 (255)	2.01 (510)	2.28 (501)	2.31 (493)
<b>Both physical and remote</b>	2.93 (199)	2.89 (129)	2.00 (288)	2.23 (288)	2.20 (286)
<b>Cronbach's Alpha</b>	.64	.55	.78	.89	.77

*Exhibit 3: Means and Cronbach's Alpha values for Loyalty Key Drivers*

Exhibit 3 indicates that users of physical service encounters on average have higher levels of overall satisfaction, trust, reputation, relationship proneness, and perceived switching costs as compared to users of remote service encounters. The differences with respect to overall satisfaction and trust, variables that are generally seen as the main or core components for customer relationship management (CRM), are statistically significant.

#### *Key finding 2*

*Compared to users of remote service encounters, users of physical service encounters have higher levels of loyalty key drivers, in particular with respect to the core fundamentals for CRM: overall satisfaction, and trust.*

#### **Customer Loyalty**

Exhibit 4 shows the means and Cronbach's Alpha values for the different types of loyalty (behavioral and attitudinal) and for the three types of service encounters.

	Attitudinal Loyalty		Behavioral Loyalty	
	Mean (n)	Stay Mean (n)	Recommend Mean (n)	Price Premium Mean (n)
<b>Physical service encounter</b>	2.38 (148)	2.17 (172)	2.60 (168)	2.63 (170)
<b>Remote service encounter</b>	2.72 (419)	2.35 (441)	2.99 (461)	2.84 (462)
<b>Both physical and remote</b>	2.50 (227)	2.25 (240)	2.77 (260)	2.76 (250)
<b>Cronbach's Alpha</b>	.82	.83	.82	.69

*Exhibit 4: Means and Cronbach's Alpha values for both behavioral loyalty and attitudinal loyalty*

From Exhibit 4 it can be concluded that users of physical service encounters are more loyal than users of remote service encounters or users of both types of service encounters. Based on ANOVA, the differences between physical and remote service encounters are significant. There are no significant differences between users of physical service encounters and users of a combination of physical and remote service encounters.

#### *Key finding 3:*

*Users of physical service encounters are significantly more loyal than users of remote service encounters*

## **Channel preferences**

“Channel preference is not a static and independent customer characteristic” according to Klootwijk Emis and Maatje (2001: 30). Our research suggests that customer channel preferences differ with respect to both the stage in the customer buying decision process and the stage in the customer lifetime cycle.

In different phases of their buying decision process customers prefer to use different contact channels. In the stage of information search, for example, the Internet is an excellent channel for gathering information beside the telephone channel. In the stage where the transaction is made, however, personal contact may be preferred.

Customers also prefer to use different contact channels during their lifetime cycle. For example, ‘dinkies’ (double income, no kids) may prefer remote channels for reasons of e.g. convenience, time- or cost saving, whereas the ‘empty nesters’ and/or retired people may prefer the personal contact and are not open to the use of, often technologically advanced, remote service encounters.

### *Key finding 4:*

*Customer channel preferences differ with respect to the stage in both the customer buying decision process and the customer lifetime cycle.*

## **Conclusions and interpretations**

It is concluded that users of physical service encounters, if compared to users of remote service encounters, have higher levels of satisfaction (service encounter satisfaction as well as overall satisfaction), trust, and loyalty (both attitudinal loyalty and behavioral loyalty).

Based on our conceptual framework, resulting from an extensive literature review, we suggest that the human contact facilitates the development of customer relationships between businesses and their customers more than contact through remote means. Communication takes place within a situation and relationships (social context). Much of what is communicated in face-to-face situations is communicated through nonverbal communication (e.g. facial expressions, eye contact, gestures, and body language). Technologies that filter out nonverbal information decrease social context cues and therefore limit communication, and hinder building customer loyalty (Alter, 2002).

On the other hand, if companies ignore the remote service encounters, it may result, at best, a customer not choosing to use a company’s remote service encounter (e.g. the web site, or call-center), and, at worst, a company losing that customer (Allan and Chudry, 2000). Channel preference is not a static and independent customer characteristic but depends on the stage in both the customer buying decision process and the lifetime cycle.

From this customer loyalty perspective, slashing costs by migrating customers from expensive physical service encounters to cheaper remote contact channels is not always the right thing to do, and might damage the relationship with the customer.

It's not only about finding the best ways for the company, to get to their customers, but also about finding the best ways for customers to get to the company. So, the health insurance company has to offer all of the preferred channels, not just the most popular. "This multi-channel service secures the customer relationship according to what every customer wants, not what we decide that every customer 'needs'" (Roussin 1999).

Although multi-channeling may not always be the most efficient approach, it is suggested that *multi-channeling* is the most effective approach for building and sustaining customer relationships. Companies must view every interaction as a resource point for gathering data on customer behavior and preferences (Horzewski 2001). In accordance with Allan and Chudry (2000), we recommend that every service encounter should be used as an integral part of a business's overall strategy and, as a channel, managed in conjunction with all other channels that a business uses. This combination of different methods provides a comfortable shopping experience for different types of customers with different preferences and experience levels.

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