A STUDY ON SERVICE CUSTOMIZATION IMPACT TOWARDS CUSTOMER SATISFACTION, LOYALTY AND TRUST

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1. INTRODUCTION

Effectively managing customer service satisfaction is a topic of vast interest for marketing practitioners and academics alike because of their positive impact on customer behavior and firm performance. Customer satisfaction is one of the primary factors leading to customer loyalty and continuation of relationships. Various studies have found that higher level of customer satisfaction leads to greater customer loyalty and word of mouth recommendations (Guo. 2009, Lai. 2009.).

Service customization, evaluation and satisfaction are intricately related to perceived service quality (Parasuraman 1988; Zeithaml 1996). Marketing researchers have treated service quality and satisfaction both as perceptual constructs from a disconfirmation perspective. Service quality has been defined as “the outcome of an evaluation process where the consumer compares his expectations with the service he has received” or the difference between expected service and perceived service (Parasuraman 1985, Zeithaml 1990). Customer satisfaction has also been conceptualized as the perceived discrepancy between prior expectations and actual performance (Oliver 1980, Tse & Wilton 1988), although it has been suggested that quality appraisal is more cognitive-oriented, while satisfaction is a more emotional evaluation (Bagozzi 1992, Lai. 2009.).
As organizations increasingly focus on the needs of small segments of customers or even individual customers, one fundamental issue is how to deliver superior value to its customers in a cost-effective way so as to ensure customer satisfaction. From service delivery standpoint, the challenge has been to manage service quality and service productivity simultaneously. As the key to reducing cost, achieving reliability, and improving productivity is to standardize the service process and product, whereas the key to ensure that customer needs are met is to customize the service offering, this challenge eventually boils down to the balance of standardization and customization of service processes and offerings.

Although much research has been done in the service area from various perspectives such as the SERVQUAL model (Parasuraman 1988, Roses 2009), the gap model (Zeithaml 1990), service personnel management (Gwinner 2005), and operations design (Anderson. 1997), few studies are explicitly devoted to balancing customization. As a result, our understanding of how customization affects customer response (e.g., satisfaction) is limited. How are customization perceived by customers in affecting service satisfaction? Is more customization always better for the customer? Can customization efforts interact to provide synergy, or will they distract from each other in affecting service satisfaction? These managerially interesting questions remain to be answered.

Accordingly, whether service customization creates impact towards service quality, customer satisfaction and loyalty is the objective of this research is to gain insights on these perplexing questions. This study takes an operations perspective to quality and links it to customer satisfaction, and examines the possible interactive and nonlinear effects of customization on service quality, customer satisfaction, Trust and loyalty.

2. CONCEPTUAL BACKGROUND
Customer satisfaction is typically viewed from a disconfirmation perspective as a function of expected quality and perceived quality, or the extent to which perceived service performance meets or fails to meet prior expectations (Anderson & Sullivan 1993, Oliver 1980). Post-consumption satisfaction is the consumer’s response to the evaluation of the perceived discrepancy between prior expectations and the actual performance of the product or service (Oliver 1980, Tse & Wilton 1988). Following this literature, it is defined as customer satisfaction as the customer’s overall evaluation of service customization and service experience/evaluation, based on a comparison between prior expectation and perceived performance.

2.1. Customization
A firm’s service offerings can range from one-size-fits-all to totally personalized experiences for each customer (Pullman 2001). Although researchers have demonstrated satisfaction is a function of the quality of the service the customer receives, little research has been conducted to examine how service customization may affect satisfaction.

Quality can be conceived as consisting of two opposing but presumably complementary categories: freedom from deficiencies and meeting customer needs (Juran 1988). Freedom from deficiencies refers to the degree to which the service is reliable with respect to the variance customers experience in the set of features, feature levels, and service delivery. Meeting customer needs involves designing customized attributes, features, and unique ways of delivering the service. This dual...
nature of quality requires customization of the service design and delivery process (Anderson 1997). Customization improves the probability of meeting customers’ specific needs. Consistent with this reasoning, Lovelock (1992) points out seven operational issues that marketers need to understand in order to achieve a smooth and productive service operation. One of them is standardization versus customization. The key is to develop customer-oriented strategies that provide better service to customers but also make the operation run more smoothly (McCutcheon 1994).

As humans are a must in most service operations and humans are notorious for the unreliability and variability in their behavior, service and retail organizations strive to mimic one of the fundamental characteristics of industrial production, which is standardizing the human factors in the production and delivery of service. In retail stores customization takes the form of explaining the wide variety of products available in one particular segment, understanding the exact need of the customers, and suggesting the right product based on their requirements. The primary goal of service customization is to explain all the wide variety available in the stores.

Researchers argue that customizing the firm’s offering to meet the diverse needs of individual customers is more important for service firms than for goods firms (Anderson 1997). The production and delivery of the service should be unique, where customized encounters take place with human beings interacting with each other to solve the customer’s unique problems (Gronroos 1990, Zeithaml 1990).

2.2. Quadratic Effect of Customization

A relationship can be conceived between customization and satisfaction. Customization aims to identify individual customer needs and match products and service offering to these specific needs, thereby enhancing customer experience. Customer delight occurs when performance significantly exceeds customer expectations. A high level of customization will delight the customer because of the individualized attention and specific tailored solutions. High customization through discovery of latent needs and provision of tailored solutions can heighten customer satisfaction.

Lovelock & Wirtz (2004) suggest that firms can build especially strong bond with customers through customization, leading to loyalty or higher level of customer retention. Customized service requires employees’ cerebral contributions and intellectual input and can be a substantial source of differentiation (Safizadeh 2008). Compared to competitive offerings, based on which the customer may form baseline expectations, the firm’s more customized service, even only slightly more so than competition, may significantly affect the customer.

However, customization means higher cost, longer waiting time, and higher customer involvement in the service delivery process, which are sacrifices for a better fitting product. At a low level of customization, the offering may not exactly meet the customer’s needs and specifications, yet the cost, involvement, and other sacrifices may have increased. The customer may not be willing to pay a higher price for a service which is not necessarily better (Bardakci & Whitelock 2004). In other word, the marginal return for the additional cost may be zero or even negative. Only when the customization effort is able to identify the exact customer problem and offer the exact product for the customer needs, the customer will be delighted to pay a price premium for the customized solution.

Customization is driven by the desire to satisfy each individual customer, generate greater revenue, and expand the market. As a result, the effort to standardize or
customize is often implemented by different functional areas in the organization. Customization is more market and customer oriented.

There is a dilemma that retailing and service firm’s face in their effort to customize its service offerings during sales and service. That is, simultaneous pursuit of customized service might be counterproductive.

Customization requires different organizational resources to accomplish. Customization requires flexibility and innovation. Customization is driven by the desire to satisfy each individual customer, generate greater revenue, and expand the market. As a result, the effort customize is often implemented by different functional areas in the organization. Customization is often initiated by the marketing or sales department. These departments may not work well with each other as interdepartmental coordination is a constant struggle for management. In addition, organizational culture supporting customization efforts tends to be different. The culture that supports customization is more market and customer oriented.

Because the inherent contradiction involves the simultaneous pursuit of customization, the resulting service offering may be of questionable quality, which will compromise customer evaluation satisfaction, loyalty and positive word of mouth.

3. HYPOTHESES

1. Service Customization Creates positive impact towards customer satisfaction.
2. Service Customization Creates positive impact towards customer loyalty.
3. Service Customization Creates positive impact towards customer trust.
4. Service Customization creates indirect positive impact towards customer satisfaction, loyalty and trust

4. METHODOLOGY

The study is descriptive and correlative in nature. The study consists of both primary and secondary data. The sample frame for our study consists of customers during sales, and post sales and service occurred in HUL, Water Purifier Division, Chennai. HUL, water purifier division alone is considered appropriate because, there are 10 wide varieties of water purifier available. Customers in India are not much aware about the technical specifications about water purifier. In this decade only customers were aware of purified drinking water. The service required during happening of sales, is very important. The customer will explain his requirement; the sales persons should rightly understand the requirement of customers and suggest the right products to customers. Thus there exists high level of employee contact, which should be highly standardized and customized.

This study was mainly conducted on customers who had purchased the product and received first service. Only those who agreed to participate in this study received questionnaire. Confidentiality was guaranteed. Over a period of two months, 642 survey were distributed and 572 completed usable questionnaires were received with response rate of 89%

The questionnaire consists of five dimensions, Service Customization (Scale adopted from Ball 2006), Service Quality (Source adopted from Brady, 2005 and Zeithaml 1996). Customer Satisfaction, Customer Loyalty and Customer Trust (Scale adopted from Fornell, 1996, Ball (2004, 2006))
5. ANALYSIS AND RESULT

5.1. Correspondence Analysis

*Correspondence analysis* is a statistical technique that provides a graphical representation of Customization with Service Quality, Customer Satisfaction, Customer Loyalty and Customer Trust.

![Figure 1](image1)

![Figure 2](image2)

![Figure 3](image3)

![Figure 4](image4)

The above diagram shows that all the dimensions were closely related. The distance between the dimensions was more or less similar or equal.
5.2. Interrelationship between Dimensions

<table>
<thead>
<tr>
<th></th>
<th>Customization</th>
<th>Service Quality</th>
<th>Satisfaction</th>
<th>Loyalty</th>
<th>Trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customization</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Quality</td>
<td>.859</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Satisfaction</td>
<td>.789</td>
<td>.823</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loyalty</td>
<td>.740</td>
<td>.698</td>
<td>.746</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>.777</td>
<td>.684</td>
<td>.655</td>
<td>.693</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Customization found to be highly correlated with service Quality (.859), Customer satisfaction (.789), Customer Loyalty (.740), and Trust (.777). Service Quality and Satisfaction was highly (.823) correlated, also with loyalty (.698), and trust (.684). Customer satisfaction was highly correlated with both customer loyalty (.746) and Customer trust (.655). Customer loyalty and trust found to be highly correlated (.693). All the dimensions founds to be highly correlated and significant at (0.001) level.

5.3. MODELING SERVICE CUSTOMIZATION DIRECT AND INDIRECT EFFECT TOWARDS SERVICE QUALITY, CUSTOMER SATISFACTION, CUSTOMER LOYALTY AND TRUST

The above path analysis shows the relationship between customization with service quality, Customer satisfaction, Customer Loyalty and Trust both directly and indirectly. Before modeling the paths, the selected dimensions were checked with confirmatory factory analysis to ensure the single dimensionality. The selected 5 dimensions emerged with single dimension and explained above 60% of variance out...
of the total variance explained. The reliability and validity of the data were checked and attained needed cut-off criteria.

In the path model, service customization was considered as the input dimension or antecedents for customer service evaluation dimension service quality. Satisfaction is considered as the out dimension of service quality. In the path model, the resultant dimensions are customer loyalty and trust. The path model attained all model fits as per required criteria.

**Regression Weights**

<table>
<thead>
<tr>
<th>Hypotheses Statements</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality &lt;--- Customization</td>
<td>.751</td>
<td>.016</td>
<td>46.251</td>
<td>***</td>
</tr>
<tr>
<td>Satisfaction &lt;--- Customization</td>
<td>.362</td>
<td>.045</td>
<td>8.025</td>
<td>***</td>
</tr>
<tr>
<td>Satisfaction &lt;--- Service Quality</td>
<td>.740</td>
<td>.052</td>
<td>14.338</td>
<td>***</td>
</tr>
<tr>
<td>Loyalty &lt;--- Customization</td>
<td>.423</td>
<td>.039</td>
<td>10.962</td>
<td>***</td>
</tr>
<tr>
<td>Loyalty &lt;--- Satisfaction</td>
<td>.389</td>
<td>.033</td>
<td>11.724</td>
<td>***</td>
</tr>
<tr>
<td>Trust &lt;--- Customization</td>
<td>.622</td>
<td>.035</td>
<td>17.901</td>
<td>***</td>
</tr>
<tr>
<td>Trust &lt;--- Loyalty</td>
<td>.264</td>
<td>.033</td>
<td>8.017</td>
<td>***</td>
</tr>
</tbody>
</table>

The above regression weights table explains that Service customization creates very high positive impact with service quality (.751) followed by trust (.622) and loyalty (.423). Among the four dependent dimensions of service customization, customer satisfaction received low positive impact from service customization. The direct impact of customization towards service quality, customer satisfaction, Customer trust and loyalty was highly significant.

The service evaluation dimension service quality creates positive impact towards customer satisfaction. In turn satisfaction creates positive impact towards loyalty. The resultant dimension loyalty creates positive impact towards trust. All the paths were positive and significant.

**Squared Multiple Correlations**

<table>
<thead>
<tr>
<th></th>
<th>Estimate</th>
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</thead>
<tbody>
<tr>
<td>Customization</td>
<td>.000</td>
</tr>
<tr>
<td>Service Quality</td>
<td>.739</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>.703</td>
</tr>
<tr>
<td>Loyalty</td>
<td>.617</td>
</tr>
<tr>
<td>Trust</td>
<td>.635</td>
</tr>
</tbody>
</table>

- It is estimated that the predictors of Service Quality explain 73.9 percent of its variance. In other words, the error variance of Service Quality is approximately 26.1 percent of the variance of Service Quality itself.
A Study on Service Customization Impact Towards Customer Satisfaction, Loyalty and Trust

- It is estimated that the predictors of Satisfaction explain 70.3 percent of its variance. In other words, the error variance of Satisfaction is approximately 29.7 percent of the variance of Satisfaction itself.

- It is estimated that the predictors of Loyalty explain 61.7 percent of its variance. In other words, the error variance of Loyalty is approximately 38.3 percent of the variance of Loyalty itself.

- It is estimated that the predictors of Trust explain 63.5 percent of its variance. In other words, the error variance of Trust is approximately 36.5 percent of the variance of Trust itself.

**Indirect Effects**

<table>
<thead>
<tr>
<th></th>
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<th>Satisfaction</th>
<th>Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Quality</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>.555</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>Loyalty</td>
<td>.357</td>
<td>.288</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td>Trust</td>
<td>.206</td>
<td>.076</td>
<td>.103</td>
<td>.000</td>
</tr>
</tbody>
</table>

- The indirect (mediated) effect of Customization on Satisfaction is .555. That is, due to the indirect (mediated) effect of Customization on Satisfaction, when Customization goes up by 1, Satisfaction goes up by 0.555. This is in addition to any direct (unmediated) effect that Customization may have on Satisfaction.

- The indirect (mediated) effect of Customization on Loyalty is .357. That is, due to the indirect (mediated) effect of Customization on Loyalty, when Customization goes up by 1, Loyalty goes up by 0.357. This is in addition to any direct (unmediated) effect that Customization may have on Loyalty.

- The indirect (mediated) effect of Service Quality on Loyalty is .288. That is, due to the indirect (mediated) effect of Service Quality on Loyalty, when Service Quality goes up by 1, Loyalty goes up by 0.288. This is in addition to any direct (unmediated) effect that Service Quality may have on Loyalty.

- The indirect (mediated) effect of Service Quality on Trust is .076. That is, due to the indirect (mediated) effect of Service Quality on Trust, when Service Quality goes up by 1, Trust goes up by 0.076. This is in addition to any direct (unmediated) effect that Service Quality may have on Trust.

- The indirect (mediated) effect of Satisfaction on Trust is .103. That is, due to the indirect (mediated) effect of Satisfaction on Trust, when Satisfaction goes up by 1, Trust goes up by 0.103. This is in addition to any direct (unmediated) effect that Satisfaction may have on Trust.

6. CONCLUSION

Only very few research investigated the possible impact of customization towards customer outcomes. It is significant to notice that customization creates positive impact towards the service evaluation dimensions like service quality and customer satisfaction. Customization also creates direct positive impact towards customer outcomes like trust and loyalty. This study suggest that sales and service companies like HUL, should continuously focus on service customizing during happening of
sales to ensure customers specific needs are met. Interesting this study identified that service customization creates higher direct impact than indirect impact towards Service quality, Customer Satisfaction, Customer Loyalty and Trust. Customization is the most promising way of differentiating from competitors.

REFERENCES


