

Customer delight and market segmentation: An application of the three-factor theory of customer satisfaction on life style groups

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Abstract

There is increasing evidence that product and service attributes fall into three factors (basic, performance, and excitement factors) which affect overall satisfaction differently. This has been argued extensively in theory and has also been confirmed empirically. Researchers and practitioners have also recognized the importance of distinguishing these factors in order to manage customer satisfaction more effectively. Surprisingly, nobody has so far addressed the issue of market segmentation in this context. This paper reports an extensive empirical study which investigates the different roles of basic, performance and excitement factors in different market segments. The results clearly show that significant differences can be found among lifestyle segments. The implications of the findings are of central importance in both theory and practice.

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1. Introduction

Academics and practitioners have recognized that merely satisfying customers is not enough and that delighting customers is necessary to produce exceptional behavioural consequences such as loyalty or positive word-of-mouth (Oliver, Rust, & Varki, 1997). Customer delight has been defined as a positive emotional state resulting from having one's expectations exceeded to a surprising degree (Rust & Oliver, 2000). It is argued that only product or service perceptions that fall outside the "zone of tolerance" (Parasuraman, Berry, & Zeithaml, 1993) and exceed the customer's expectations lead to loyalty-driven profit. Some empirical studies found that the loyalty curve is relatively flat within the zone of satisfaction (fulfilment of expectations) and climbs rapidly as a result of delight or exceptionally high satisfaction (Dick & Basu, 1994;

Matzler & Pechlaner, 2001; Oliva, Oliver, & MacMillan, 1992). It is argued that a company whose customers are in the zone of satisfaction is not able to differentiate itself from its competitors (Berman, 2005).

Customer delight differs from customer satisfaction in that it relates to extraordinarily high satisfaction coupled with an emotional response such as joy. Not all product or service attributes are able to lead to customer delight (Berman, 2005; Matzler, Hinterhuber, Bailom, & Sauerwein, 1996). Product or service attributes that add utility beyond that which is expected and are unexpectedly and surprisingly pleasant are often called excitement factors, satisfiers, or value-enhancing attributes. A high level of novelty and exceptional entertainment in a ski resort or exceptionally good service in a restaurant can be such excitement attributes. They differ from product or service attributes that customers consider a "must" and which are not able to elicit satisfaction but merely prevent dissatisfaction. The cleanliness of a room or the freshness of the food in a restaurant can be examples of such basic requirements. Finally, some product or service features

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increase overall satisfaction linearly when performance improves. Such features have been labelled performance factors, hybrids or bivalent factors.

Hence, it is important to identify which product or service attributes increase satisfaction or lead to delight when their performance is improved and which attributes can only dissatisfy through their absence as their presence is expected by the customer.

According to the dominating expectation-disconfirmation paradigm (Oliver, 1980) satisfaction is formed by way of a cognitive comparison of perceived performance of a product or service and the expectations the customer had before the purchase. As expectations differ from customer to customer the product attributes that generate delight (as not expected) and those that merely prevent dissatisfaction (core benefits or basic criteria) should not be the same across market segments.

Providing product or service features that delight customers requires extra effort on the firm's part (Rust & Oliver, 2000), companies must carefully evaluate how to spend scarce resources on product or service improvements. What for one customer group might be a basic factor (e.g. transportation to the ski resort for tourists travelling without their own car), could be irrelevant to others. The health spa offer could be a must for one segment and an excitement factor for another one. Hence, it seems to be important to analyse the contribution of the single product or service features to overall satisfaction or customer delight on a segment level rather than on an aggregate level. In literature, this issue has not been addressed to date. Therefore, we intend to fill this gap by investigating whether basic, performance and excitement factors differ between market segments.

We first briefly review the literature on the three-factor theory of customer satisfaction and argue that differences between market segments need to be taken into account. Then, an empirical study is presented that investigates the differences in the satisfaction driver's contribution to overall satisfaction between five lifestyle groups. In the final section of the paper we discuss the implications of our findings.

2. Three-factor theory of customer satisfaction

Although customer satisfaction has an extensive research tradition of over three decades (Oliver, 1997), consensus on the three-factor structure of satisfaction has only recently been reached (Anderson, Fornell, & Mazvancheryl, 2004; Berman, 2005; Füller, Matzler, & Faullant, 2006; Oliver, 1997). The idea of three independent satisfaction factors that influence satisfaction in different ways was first formulated by Kano (1984) in the quality management literature, referring to Herzberg, Mausner, and Snyderman's (1959) two-factor theory of job satisfaction. It gained support in the 90s when some researchers studied service quality and satisfaction using the Critical Incident Technique (e.g. Johnston, 1995) finding that satisfiers,

dissatisfiers and hybrid factors contribute differently to overall satisfaction. This idea gained popularity after some popular writers adopted the idea (Gale, 1994; Vavra, 1997).

The three-factor theory (Matzler & Sauerwein, 2002) holds that three satisfaction factors can be distinguished:

- *Basic factors (dissatisfiers)* are minimum requirements that cause dissatisfaction if not fulfilled but do not lead to customer satisfaction if fulfilled or exceeded. There is an asymmetric relationship between factor-level performance and overall satisfaction as a low performance on these factors has a greater impact on overall satisfaction than high performance. The fulfilment of basic requirements is a necessity, but an insufficient condition for satisfaction. Basic factors are entirely expected. The customer regards them as prerequisites; they are taken for granted.
- *Excitement factors (satisfiers)* are the factors that increase customer satisfaction if delivered but do not cause dissatisfaction if they are not delivered. High performance on these factors has a greater impact on overall satisfaction than low performance. Hence, an asymmetric relationship also exists. Excitement factors are not expected, they surprise the customer and generate "delight".
- *Performance factors (hybrids)* lead to satisfaction if performance is high and to dissatisfaction if performance is low. In this case the performance-overall satisfaction relationship is linear and symmetric.

The three-factor structure of customer satisfaction has some important implications for practice (Berman, 2005; Matzler & Hinterhuber, 1998). It is argued that basic factors establish a market entry "threshold". If they are delivered at a satisfactory level, an increase in performance does not lead to an increase in customer satisfaction. Typically, performance factors are directly connected to customers' explicit needs and desires. They are typically clearly stated and articulated by the customer. Therefore, a company should be competitive with regard to performance factors. Excitement factors are unexpected and surprise the customer. As they generate "delight", a company should try to stand out from the rest with regard to these attributes.

Asymmetric effects as proposed by the three-factor theory have been found for products (e.g. Mittal, Ross, & Baldasare, 1998), services (e.g. Fuchs, 2004; Johnston, 1995; Matzler, Renzl, & Rothenberger, 2006) and business-to-business relationships (e.g. Matzler, Bailom, Hinterhuber, Renzl, & Pichler, 2004) using various methods such as the analysis of compliments and complaints (e.g. Cadotte & Turgeon, 1988), a special questionnaire developed by Kano (e.g. Kano, 1984; Matzler et al., 1996), the critical incident technique (e.g. Backhaus & Bauer, 2000; Johnston, 1995) and regression analysis (e.g. Anderson & Mittal, 2000; Matzler & Sauerwein, 2002). The three-factor theory has also been used to explain the formation of price

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