



## Customer value and customer loyalty: Is competition a missing link?



Shu-Ching Chen\*

College of International Management, Ritsumeikan Asia Pacific University, 1-1 Jumonjibaru, Beppu, Oita, 874-8577, Japan

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### ABSTRACT

This study is aimed at providing an insight into the effects of competition on customer value delivery for customer loyalty. Data were collected using a questionnaire on dyads of service employees and customers. The techniques of ANOVA, ordinary least squares, and logistic regression were used to analyze the dyad data in terms of research purposes. Results show that competition is a moderator of the relationship between customer value and customer loyalty from the consumer perspective. Also, competition is a predictor of customer loyalty from the employee perspective. Insights into this asymmetry in the view on competition between employees and consumers are found. Findings of the moderating effects of competition on the customer value-customer loyalty relationship suggest the significance of competition in the service encounter. In addition, this study found that the predictive validity of the loyalty model for consumers is significantly higher than that for employees. This finding suggests that the factors driving customer loyalty are better captured from the consumer perspective. Findings of the impact of competition on the consumer's experience of different types of value provide insights as to where to invest in generating customer value to achieve desired customer loyalty. This study also suggests to managers how service employees could be recruited and managed to achieve a service competitive advantage. This study extends our understanding of the customer value-customer loyalty relationship by uncovering the significant role of competition from a dyadic viewpoint.

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### 1. Introduction

A loyal customer is regarded as a type of competitive asset for an organization (Dekimpe et al., 1997). Customer loyalty has a tremendous impact on business profits (Oliver, 1999; Olsen and Johnson, 2003) for business survival and development, and also paves the way for an organization to achieve a sustainable competitive advantage (Grönroos, 2009; Gummesson, 2008). Keeping a long-term customer relation is a challenge for business practitioners and remains to yet be researched by scholars (e.g., Grönroos, 2009).

The contribution of customer value toward the maintenance of varied business relationships is well recognized (e.g., Bolton et al., 2014; Floh et al., 2014; Grönroos, 2000). Consumer's perceptions and evaluation of the value received in an ongoing relationship can have a definite impact on their intention to continually stay with, or to leave, an organization (Ravald and Grönroos, 1996). This further highlights the critical role of service employees in the delivery of customer value for achieving customer loyalty.

"Service encounters are human interactions" (Solomon et al., 1985, p.101). The interactions between service employees and consumers provide a basis for developing customer loyalty (e.g., Frow and Payne,

2007), as customer loyalty to a firm can derive from customer loyalty to the service employees (Bove and Johnson, 2009). While a service provider makes efforts to generate value to ensure that it stands out from its competition, the changes in competitive situations and actions taken by competitors emphasize the need for the service provider to consider the factor of competition in the service encounter.

Today, consumers can easily make a comparison among product or service alternatives for making their purchase decision if they want such as Googling of information about possible options (Bolton et al., 2014). A consideration of competition in services is important as it can trigger a virtual circle of the development of mutually beneficial business relationships between consumers and service providers. A service provider can be more productive in value creation and delivery in serving its customers better in order to stay competitive to retain those customers. Consumers can benefit from receiving better service alternatives and in turn may remain loyal to the best service provider they have access to. This highlights the possible influential factor of competition in the research on customer value and customer loyalty.

However, to the best knowledge of the author, the simultaneous interaction of customer value, customer loyalty and competition remains to be explored. This gap needs to be addressed as the moment of truth, the interactions between service employees and consumers, is critical for any business for success (Bitner et al., 1990). With the rapid development of service industry at global level and

\* Tel.: +81 977 78 1082; fax: +81 977 78 1123.

E-mail address: [schen@apu.ac.jp](mailto:schen@apu.ac.jp)

the significant contribution of customer value for customer loyalty for better business performance, it is important to understand the effect of competition on the formation of the relationship between customer loyalty and customer value in the service encounter. It can help the managers in the service outlets to understand how their service employees' perceptions of competition affect their performance in the delivery of customer value for customer loyalty; and understand how customers' perception of competition affects consumer perceived value in the service encounter for remaining loyalty in order to help them to do best in their business.

With the conception of competition in the service encounter and the knowledge of the significance of customer value for improving business performance, this study is aimed at providing an insight into the effects of competition on customer value delivery for customer loyalty. In this study, the variable of customer value is examined from varied dimensions, and the variable of customer loyalty is examined from the consumer's attitudes and behaviors, as suggested in past studies of customer value and customer loyalty (e.g., Dick and Basu, 1994; Melnyk et al., 2009; Oliver, 1999). With regards to the factor of competition, this study investigates its relevance to customer value and customer loyalty from the perspectives of both service employees and consumers. The variable of competition is examined in three ways: 1) The driving force of competition for customer loyalty; 2) the moderating effect of competition on the relationship between customer value and customer loyalty; and 3) the impact of competition at different levels on the efficacy of certain types of customer value for customer loyalty.

## 2. Theoretical background

### 2.1. Customer loyalty

Past studies suggest that customer loyalty can be defined from an expression of psychological (attitudinal) and process (behavioral) loyalty in a relationship between an actor and another entity, in the presence of alternative entities (e.g., Dick and Basu, 1994; Melnyk et al., 2009; Oliver, 1999). In this study, customer loyalty is defined as a consumer's loyal attitude and behavior toward a specific service firm, despite competitors providing alternative services in the market.

The intense competition in the retail market emphasizes the need to retain existing customers (Sirohi et al., 1998). Retaining the loyalty of existing customers is regarded as a strategy to maintain a competitive advantage (Grönroos, 2009). Keeping a loyal customer also costs less than creating a new one (Reichheld, 2001). In addition, several positive benefits can originate from the behavior of loyal customers; lower degree of searching for alternatives (Macintosh, 2002), favorable word-of-mouth (Reinartz and Kumar, 2002), greater stability regardless of competitor efforts (Bove and Johnson, 2009), and more tolerance of minor mistakes (Blackman, 1985). Avoiding customer attrition should, therefore, motivate service providers to make greater efforts to keep existing customers.

The boundary-spanning role of the service employee has a decisive influence on the customer's perceptions of the organization, which is vital to business success (e.g., Bove and Johnson, 2000; Frow and Payne, 2007; Yim et al., 2008). The interactions between customers and service employees can lead to the customer remaining loyal; or not; to the organization (Bove and Johnson, 2000, 2006). Moreover, past studies suggest that the best strategy to win loyal customers is to deliver customer value during the exchange (Weinstein and Pohlman, 1998). An employee's value delivery efforts at the time of the service encounter can have a decisive influence on customer loyalty. Indeed, most studies of the drivers of customer loyalty highlight customer value as a significant driving force. Customer value has been empirically found to be an antecedent of

loyalty (e.g., Parasuraman and Grewal, 2000), a powerful predictor of purchase intention and willingness-to-buy (e.g., Zeithaml, 1988), motivation for patronage (e.g., Holbrook, 1994), and repeat purchase behavior (e.g., Parasuraman and Grewal, 2000).

### 2.2. Customer value

Customer value is regarded as being "...the fundamental basis for all marketing activity" (Holbrook, 1994, p.22). The term *value* refers to a preference judgment by consumers (Taylor, 1961). Customer value has been defined in many different ways. For example, Chen and Quester (2005) use an integrated approach based on past studies (e.g., de Ruyter et al., 1998; Holbrook, 1994; Weinstein and Johnson, 1999; Zeithaml et al., 1996) to conceptualize customer value. They describe customer value in terms of rational and experiential perspectives in an effort to capture the extrinsic and intrinsic aspects of customer value in the service context. This study adopts their combined view on customer value in light of the research purposes. Customer value is defined as an object's overall evaluation of value in relation to extrinsic and intrinsic aspects, and based on a comparison of perceived benefits with perceived costs from both the rational and experiential perspectives.

Customer value has been considered a source of competitive advantage for organizations (Webster, 1988; Woodruff, 1997). Customer value is generated and created in a reciprocal process between two parties in a business relationship (Grönroos, 2011), and is evaluated from the perspective of the consumption experience of consumers (e.g., Agustin and Singh, 2005; Anderson et al., 2006; Bolton et al., 2014; Floh et al., 2014). All organizations can be seen as service businesses (Grönroos, 1997). An organization developing a unique competitive advantage can expect better long-term business performance (e.g., Porter, 1985). Customer value is a multidimensional construct (Sañchez et al., 2006). Providing various value added services is stressed as a means to differentiate and reinforce an organization's competitiveness (Chen and Quester 2005; Grönroos, 2009; Slater, 1997). Customers' experience of different types of customer value in service may have different influences on an organization's business performance, such as in the area of customer loyalty.

Since the value perceived and preferred by consumers can be varied (Ganesh et al., 2000), several dimensions of customer value should be considered in business practices. Chen and Quester (2005) proposed eight dimensions of customer value, generated from an identical view on customer value between service employees and consumers through dyadic data collection from both parties in a service setting. They conducted focus group interviews with service employees to learn what value they implement in customer service, as well as with consumers to learn what customer value they appraise from their perceptions of service employee performance. The eight types of customer value include service quality, servicescape, service episodes, service experience, service equity, service risk avoidance, social-psychological interaction, and consideration of service alternatives. This study adopts these eight types of value to measure customer value, as they meet the need of this study to acquire a suitable measurement system developed in a similar research context. Another reason to use this measure in this study is due to an unanswered question about the contribution of each type of customer value toward customer loyalty. An exploration of the answer to this question would uncover the importance of certain types of customer value for customer loyalty in an interactive business relationship.

### 2.3. Competition

Competition is everywhere in markets and within an organization. Competition is a significant global term for businesses.

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