Customer retention in the South African domestic passenger airline industry

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ABSTRACT

While domestic passenger airlines in South Africa continue to conduct their business in a very competitive environment, their passengers are becoming more consciously aware of competitor offerings and are thus beginning to demand and expect higher standards of service delivery. It is for this reason that domestic passenger airlines need to identify those service elements which are important to passengers and to satisfy their needs through the medium of high-quality service delivery.

Customers need to be convinced that they are receiving high-quality service delivery before a business can hope to start forming relationships with them. Businesses also need to build relationships with such customers before they can expect these customers to become loyal and so be retained as customers. In order to establish good relationships and create loyal customers, businesses can make use of the techniques of customer relationship management (CRM) and loyalty programmes such as frequent flier mile programmes.

The primary objective of the study was to investigate customer retention through customer loyalty in the South African domestic passenger airline industry. The study therefore aimed to determine whether the customer service elements provided by the domestic passenger airline influenced respondent satisfaction, whether this satisfaction influenced the respondents' formation of a relationship, and whether respondents who had already formed a relationship had remained loyal to the airline. If all these factors could be proved, it would indicate that respondents could be retained. The study included a literature review in which all these constructs were reviewed and described. A quantitative research method was then undertaken by means of questionnaires that were distributed to passengers flying with domestic airlines and who were departing from OR Tambo International Airport. Only those passengers who had travelled twice or more with the domestic airline in the twelve months prior to the survey were asked to complete the questionnaire. This was done so that loyalty and retention could be measured.

The results obtained from the 324 respondents who participated in the study were then discussed in terms of each of the constructs. By means of a factor analysis, four factors were identified that were important to respondents in the services that the domestic passenger airline offered them. Further analysis of the data indicated that respondents who had suffered a service failure with the domestic airline indicated that their relationship with the domestic airline had been either weakened or broken.

Respondents who stated that they were satisfied by the airlines' service offerings indicated that they had formed a long-term relationship with the domestic airline. Those respondents who had formed a long-term relationship with the airline indicated they had remained loyal to the domestic passenger airline on which they travelled most of the time. It was also determined that respondents would not remain unconditionally loyal to the domestic airline. Respondents indicated that they would not remain loyal to the domestic airline if other airlines were to offer better service, better loyalty programmes or significantly lower prices.

By taking these results into consideration, a framework for customer retention that can be used by the South African domestic passenger airline industry was proposed. This framework suggests what domestic airlines should do or should avoid doing in order to develop relationships with their passengers and so enhance the kind of passenger loyalty that is the ultimate cause of passenger retention.

Recommendations for future research include the possibility of extending such research to international studies so as to determine whether or not there are similarities or differences between how these factors affect domestic and international airlines. It was also suggested that a separate study should focus only on the CRM strategies implemented by domestic passenger airlines, and that a study should be undertaken to determine the influence of CRM on customer retention by domestic passenger airlines.

UITTREKSEL

Binnelandse passasierslugrederye in Suid-Afrika dryf handel in 'n baie mededingende omgewing. Terselfder tyd word passasiers meer bewus van mededingers se aanbiedinge en vereis hoër diensleweringsstandaarde. Om hierdie rede moet binnelandse passasierslugrederye die dienselemente wat vir passasiers belangrik is identifiseer en hulle behoeftes daarvolgens bevredig deur die lewering van hoë kwaliteit dienste.

Ondernemings moet eers kwaliteit diens aan hul klante lewer voordat hulle verhoudings met hierdie klante kan bou. Verder moet ondernemings ook verhoudings met klante bou voordat hierdie verbruikers lojaal sal wees en behou kan word. Om hierdie verhoudings te bou en om lojale klante te ontwikkel, kan ondernemings gebruik maak van klanteverhoudingsbestuur pogings en lojaliteitsprogramme soos die "frequent flier mile" program.

Die primêre doelwit van hierdie studie was om klanteretensie deur middel van klantelojaliteit binne die Suid Afrikaanse binnelandse passasierslugredery industrie te ondersoek. Hierdie studie probeer dus bepaal of die klantediens elemente soos deur die binnelandse passasierslugrederye verskaf, die respondent se tevredenheid beïnvloed; of hierdie tevredenheid die bou van verhoudinge met respondente beïnvloed; en of respondente wat 'n verhouding gebou het lojaal was teenoor die lugredery, wat sal beteken dat respondente behou kan word. Om dit te bewerkstellig, is 'n literatuurondersoek oor hierdie konstrukte gedoen. Daarna is kwantitatiewe navorsing gedoen deur die uitdeel van vraelyste aan passasiers wat op binnelandse vlugte van OR Tambo Internasionale Lughawe vertrek. Slegs passasiers wat twee of meer kere binne die twaalf maande voor die ondersoek met die binnelandse lugredery gevlieg het, is gevra om vraelyste te voltooi om sodoende lojaliteit en retensie te meet.

Die resultate van die 324 respondente is bespreek ten opsigte van elke konstruk wat ondersoek is. Deur middel van 'n faktorontleding, is vier faktore geïdentifiseer wat belangrik was vir respondente in terme van die dienste wat deur die binnelandse passasierslugredery verskaf word. Verdere ontledings van die data het aangedui dat respondente wat 'n dienstekortkoming met die binnelandse lugredery ervaar het, aangedui het dat hulle verhouding met die binnelandse lugredery verswak het of gebroke was.

Respondente wat tevrede was met die lugredery se diensaanbiedinge het aangedui dat hulle 'n langtermyn verhouding met die binnelandse lugredery opgebou het. Verder het respondente wat 'n langtermyn verhouding gevorm het aangedui dat hulle lojaal is teenoor die binnelandse passasierslugredery waarmee hulle die meeste van die tyd vlieg. Daar is ook bevind dat respondente nie onvoorwaardelik lojaal teenoor die binnelandse lugredery sal bly indien ander lugrederye beter diens, beter lojaliteitsprogramme, of aansienlike laer pryse bied nie.

Met inagneming van hierdie resultate, is 'n raamwerk vir klanteretensie in die Suid-Afrikaanse binnelandse passasierslugredery industrie voorgestel. Voorstelle is gemaak met betrekking tot wat die binnelandse lugrederye moet doen, of moet vermy, om verhoudinge met passasiers te bou en sodoende die lojaliteit van die passasier te versterk, wat tot passasier-retensie kan lei.

Aanbevelings vir toekomstige navorsing sluit in: die uitvoer van internasionale studies om te bepaal of daar ooreenkomste of verskille tussen plaaslike en internasionale lugrederye bestaan; 'n studie wat net fokus op die klanteverhoudingsbestuurstrategie wat deur binnelandse passasierslugrederye geïmplementeer word; en 'n studie wat fokus op die invloed van klanteverhoudingsbestuur op klanteretensie in die binnelandse passasierslugrederye.

LIST OF KEY TERMS AND DEFINITIONS

Within this study, various key terms will be used. The following outlines the key terms as used within this study together with a brief definition of each.

- A **customer** according to Doyle (2005:110), is the actual or intended purchaser of a product or service. In this study, customers refer to the airline passengers that fly with a specific domestic airline of South Africa.

- **Customer service** refers to the totality of all the encounters between a business and a customer. It is the result of the combined impact of all the points of contact between the business and its customers (Peck, Payne, Christopher & Clark, 1999:410). Customer service also refers to the activities of a business that are designed to increase the value of a purchased good or service and thereby strengthen customer satisfaction (Zikmund & d'Amico, 2001:331).

- **Customer satisfaction** can be defined as the consequence of a cognitive and affective evaluation, where customers compare a standard with actual perceived performance of the service provider (Lin, 2003:203).

- **Customer relationship management (CRM)** is a set of business practices designed to put a business in touch with its customers, in order to learn more, and to deliver greater value to each customer, with the overall goal of making each customer more valuable to the business. It is a business wide approach to understanding and influencing customer behaviour through meaningful communications to improve customer acquisition, customer retention, and customer profitability. Customer relationship management involves making managerial decisions with the end goal of increasing the value of the customer base through better relationships with customers, usually on an individual basis (Peppers & Rogers, 2004:6 & 33).

- **Loyalty** is defined as the behavioural outcome of a customer's preference for a certain product over time, even if suitable alternatives exist (McMullan & Gilmore, 2003:231).

- **Customer retention** enables businesses to increase revenue through increasing sales in volume and / or premium prices as well as reducing the expenses or costs of generating those revenues. Customer retention enables businesses to decrease the rate that customers defect from the business by treating customers so well that they lack any reason to defect to competitors (Ahmad & Buttle, 2001:36).

- The **passenger airline industry** according to Duetsch (1998:150), refers to the industry providing transportation for passengers between cities. In this study, the **domestic passenger airline industry** refers to the industry that provides aviation services to people flying on domestic airlines within South Africa's borders.

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Chapter 1

BACKGROUND AND INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

This chapter provides a background to the study and specifically aims to:

- Explain the problem on which the study is based, and provide a reasoned justification for undertaking the research;
- Describe the main constructs, studied with specific reference to customer service and satisfaction, customer relationship management and customer retention;
- Describe the context in which the domestic passenger airline industry of South Africa operates;
- Present the primary and secondary objectives of the study;
- Identify the propositions that are used in the study;
- Provide a summary of the methods of investigation that were used in the study, with specific emphasis on the literature and on the particular method of empirical investigation that was used. This includes a description of the research design, the sampling method, the research instruments, methods of data collection and data analysis, and
- Briefly describe what each chapter contains and how all the chapters fit together into a coherent whole.

1.2 PROBLEM STATEMENT AND SUBSTANTIATION

Modern customers are becoming ever more demanding when it comes to service delivery, and customers in general have come to expect ever higher standards of customer service and satisfaction. These expectations pose distinct problems for businesses because customers have come to assume that high quality products will automatically be accompanied by correspondingly high standards of customer service. This has created an environment in which businesses are compelled continuously to monitor the requirements of their customers and to make adjustments to their product offerings that will enable them to comply with the

ever more exacting demands and needs of their customers. These ever-increasing standards and expectations may be attributable either to the kind of conditions that customers have experienced abroad or to higher standards of service that are being offered by operators who are entering a particular industry for the first time. Whatever the reason, it has become apparent that customers' expectations rise during the intervals between their contacts with particular businesses (Jobber, 2004:462-463).

One of the ways in which businesses can satisfy the expectations of customers is through a standard of customer service that is equal to what customers expect. The activities that comprise customer service represent an important part of each businesses effort to create and maintain healthy customer relationships (Temporal & Trott, 2001:20). It should be emphasised at this point that customer services should be well established before any business can even begin to develop satisfactory customer relationships. Aggarwal (2005) and McClay and Whelan (2004) note that the establishment of a strong customer service culture in all sectors of a business is of paramount importance to the health of a business, and needs to be part of the attitude and mindset of everyone engaged in that business. It is necessary for customer services to be embedded within a particular business culture from the very inception of any business. Under such circumstances, customer relationship management (CRM) can only help to improve existing customer services.

Stone and Woodcock (1996:10) maintain that effective customer relationship management enables a business to increase its rates of customer retention and the extent of customer loyalty. This is evidenced by the fact that loyal and satisfied customers maintain their contact with particular businesses over longer periods of time and purchase more frequently from such businesses. Customer relationship management also increases the degree of customer profitability because CRM lowers the cost of recruiting customers while simultaneously reducing the cost of lost sales since existing customers become more receptive to the marketing efforts of a particular business.

The aim of the study is to determine whether the customer relationship management efforts of a business can be enhanced through customer service and whether customers who have already formed a relationship with a business can be retained because of the loyalty that they feel towards a particular

business. In order to pursue this aim, it will be necessary first to describe and discuss the concepts of customer service, CRM, and customer retention so that an attempt can be made to determine the extent to which these elements influence one another.

1.2.1 CUSTOMER SERVICE AND CUSTOMER SATISFACTION

Perreault and McCarthy (2003:5) define customer satisfaction as the extent to which a business can fulfil customers' needs, desires, and expectations. In reality, however, it is not always possible for a business to fulfil customer expectations, which would possibly lead to customer dissatisfaction. Customer dissatisfaction of this kind may be caused by poor customer service. It may also be attributed to the fact that a business that once offered an acceptable level of customer service no longer meets the expectations of its customers – either because of a deterioration in existing customer services, or improvements in the standard of services offered by competitors, or even because of the changing tastes and expectations of the customers themselves (Rust & Zahorik, 1993:193).

According to the GAPs model devised by Quester, McGuiggan, Perreault, and McCarthy (2004:534), customer dissatisfaction can be attributed to one or more of five gaps in customer services that need to be filled if a company hopes to prosper. These five gaps are as follows:

- The business fails to understand what it is that its customers expect.
- Managers have difficulty in converting their understanding of what it is that customers expect into product and service specifications.
- There are significant discrepancies between customer-driven product and service standards and the standards that are actually being delivered by the business.
- There are differences between what the business has promised through the medium of its marketing communications and what is actually being delivered to customers.
- There is a difference between what customers expect and their perception of what they are actually getting.

Each of these gaps need to be bridged if a business hopes to move customers from their state of dissatisfaction to a desired level of customer satisfaction.

Customer satisfaction can be improved by creating better relationships with customers through offering improved service. By doing this, a business will be able to create a competitive advantage for itself in the face of competition from its rivals. It is essential therefore for businesses to deliver the highest quality of customer services if they hope to be able to compete in today's highly competitive service environment (McDonald, Christopher, Knox & Payne, 2001:192).

1.2.2 CUSTOMER RELATIONSHIP MANAGEMENT

Mullins, Walker, Boyd and Larréché (2005:11) point out that businesses have traditionally directed the focus of their marketing efforts to their transactions with individual customers. But the increasingly competitive atmosphere which characterises global markets suggest that it is now obligatory for businesses to turn their attention to building a continuing long-term relationship between themselves and each of their customers. It is the aim of customer relationship management to do this by underwriting and supporting the *entire* relationship that a business has with each of its individual customers (Österle, Fleisch & Alt, 2001:99).

It is Jobber's (2004:796-804) contention that CRM involves moving away from merely attracting new customers towards the retention of existing customers and the optimisation of the quality of the business that they conduct with these customers. The actual quality of the relationships with customers formed through CRM will often determine the length of the relationship since not all businesses or service providers have the potential to develop long-term relationships with customers. The following conditions suggest potential areas in which customer relationship management activities can be used with optimal effect:

- In conditions where the desire for service on the part of the customer is either ongoing or periodic.
- In conditions where the customer controls the selection of a service provider.
- In conditions where the customer has alternatives from which to choose.

CRM, if well applied, has the ability to confer a variety of benefits on both businesses as well as their customers. Van Zyl (2005:72) and Jobber (2004:796-804) state that the said benefits for businesses include increased volumes of purchases, lower costs, lifetime value for customers, obtaining sustainable

competitive advantages among rivals, the dissemination of word-of-mouth recommendations by customers, an increase in levels of employee satisfaction and an increase in the rate of employee retention. The formation of relationships with customers also enables businesses to compile accurate profiles of their customers. This information enables businesses to develop websites on which customers can find whatever information they need and where they can place orders for whatever products and services they need. The benefits of CRM from the point of view of customers include risk and stress reduction, a higher quality of service, the avoidance of switching costs, as well as various social and status benefits. Faulkner (2003:3) and Weinstein (2002:267) explain that when customers develop relationships with businesses, they are likely to create an emotional bond with the business concerned, to recommend it to friends or colleagues, and to remain loyal to the business over a considerable period of time. It is therefore far more beneficial for businesses to retain their current customers and to invest in them rather than to devote valuable resources to campaigns designed for the purpose of finding and recruiting new customers.

1.2.3 CUSTOMER RETENTION

Once a business has actually formed relationships with customers, it will need to consider what it intends to do to retain their customers and to keep them loyal and satisfied. Among such customer retention efforts is the need to ensure that the *right* customers will be targeted for retention. Once this has been done, a business needs to consider the means that it will use to bond with such customers, the development of internal marketing programmes, the fulfilment of promises it has made to customers, the nurturing and expansion of existing confidence among customers, the restoration of services in crisis situations so that customer confidence can be maintained in the face of any future expectation of service failure, and a consideration of whatever improvements can be made to the service system so that avoidable service failures will not occur again in the future (Jobber, 2004:796-804).

Ahmad and Buttle (2002:150) explain the value of services marketing by pointing out that if businesses are able to provide customers with quality services, if they are able to satisfy their customers' needs and if they take care to build up mutually enriching relationships with their customers, they will be in the strongest possible position to retain whatever customers they have acquired. Gerpott,

Rams and Schindler (2001:252-253) note that the conceptual and empirical specification of customer retention varies a great deal between academics and practitioners. These discrepancies are caused by the way in which academics and practitioners separate customer retention from its related constructs of customer loyalty and customer satisfaction. But since customer satisfaction has a direct influence on customer loyalty, it remains an indispensable element in all efforts to retain customers.

It can be argued that customer retention has been the subject of only a limited amount of research, there are some notable exceptions to this in the studies undertaken by Crosby and Stephens (1987), Reichheld and Sasser (1990), and Rust and Zahorik (1993) (Hennig-Thurau & Klee, 1997:741).

1.2.4 THE RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND CUSTOMER RETENTION

The phenomenon of customer satisfaction has received an increased amount of attention from academics from between the 1970s until the early 1990s. This is evidenced by the more than 1 200 journal articles that have been published in the area of customer satisfaction research during this period (Perkins, 1991). Since that time, customer satisfaction has been treated as the required foundation for relationship building and customer retention (Rust & Zahorik, 1993:211-212).

The link between customer satisfaction and the long-term loyalty and retention of customers has been formulated by marketing practitioners and scholars such as Naumann and Giel (1995), Quartapelle and Larson (1994), Engel, Blackwell and Miniard (1993), Kotler (1994), and Woodruff (1993). And yet customer retention was treated by these academics only as the starting point of the process rather than the central issue at stake. There have been many researchers who have made the assumption that customer satisfaction will exert a favourable influence on customer retention rates. It is in these circumstances that only a few researchers have devoted themselves to the question of the exact nature and extent of the relationship between customer satisfaction and customer loyalty and retention (Henning-Thurau & Klee, 1997:738). It was Ranaweera and Prabhu (2003:374-375) who suggested that customer satisfaction alone would not automatically result in customer retention. They suggested that a business should

rather use customer satisfaction to create customer loyalty, which would, in turn, increase rates of customer retention.

1.2.5 AIRLINE INDUSTRY

Since South Africa re-entered the international arena in the mid-1990s, there has been a large increase in the number of airline passengers who fly internationally and domestically. This has, in turn, led to an increase in the number of international airlines that fly to and from South Africa – from only 21 in 1991 to around 47 in 2008 (ACSA, 2008a).

In the last few years, the importance of domestic tourism within the borders of South Africa has been rediscovered. Domestic tourism is vital in a richly diverse country such as South Africa because it fosters the development of local communities. In 2000, South Africans were urged by the Department of Travel and Tourism to visit destinations within their own country by means of a campaign that used as its theme the words: "Preserve, Discover, and Rediscover Your Country" (WTTC, 2002:18-19 & 37).

The following tables and figures indicate the importance of domestic passenger air travel in South Africa from between February 2002 and March 2007. Table 1.1 indicates the number of passengers who arrived at South Africa's airports between February 2002 and March 2007. It can be seen that domestic arrival passengers amounted to 72.1% of the total number of passengers who arrived at South Africa's airports from between February 2002 and March 2007 (a total of 46 678 977 domestic passengers).

TABLE 1.1 PASSENGER ARRIVALS IN SOUTH AFRICA FROM BETWEEN FEBRUARY 2002 AND MARCH 2007

Airport	Domestic	International
OR Tambo International	20 057 163	15 160 892
Cape Town International	12 339 788	2 801 266
Durban International	8 150 018	67 552
Port Elizabeth	2 847 605	N/A
East London	1 207 082	N/A
George	1 106 472	N/A
Bloemfontein	622 815	N/A
Kimberly	242 104	N/A
Upington	73 773	N/A
Pilansberg	32 157	2 669
Total	**46 678 977**	**18 032 379**

Source: (ACSA, 2008b).

Table 1.2 indicates the departures from different airports in South Africa from between February 2002 and March 2007. It can be seen that domestic departures comprised 72.0% of the total number of departures in South Africa (a total of 47 169 257 domestic passengers).

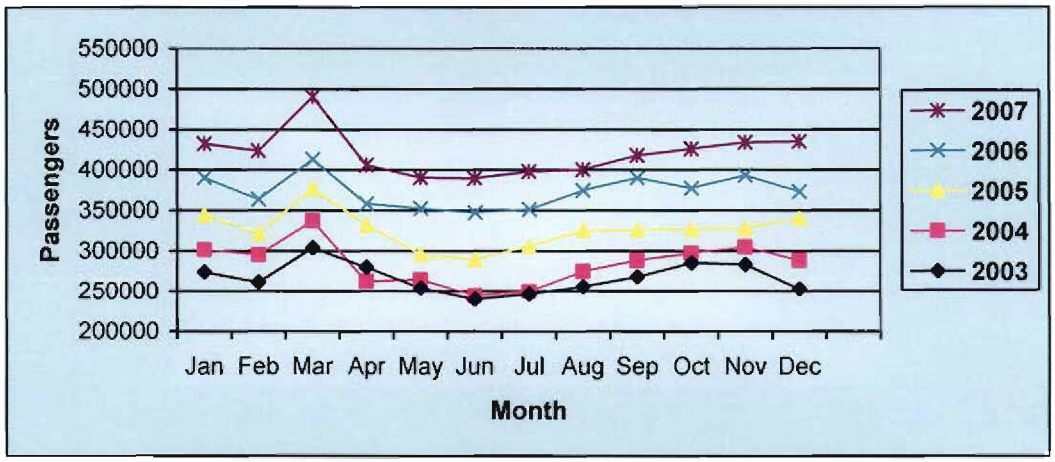
TABLE 1.2 PASSENGER DEPARTURES IN SOUTH AFRICA FROM BETWEEN FEBRUARY 2002 AND MARCH 2007

Airport	Domestic	International
OR Tambo International	20 166 693	15 427 256
Cape Town International	12 494 632	2 794 469
Durban International	8 273 110	78 447
Port Elizabeth	2 861 487	N/A
East London	1 249 806	N/A
George	1 147 923	N/A
Bloemfontein	633 568	N/A
Kimberly	239 518	N/A
Upington	70 848	N/A
Pilansberg	31 672	3 540
Total	**47 169 257**	**18 303 712**

Source: (ACSA, 2008b).

Figure 1.1 graphically illustrates the number of passenger arrivals per month at OR Tambo International Airport in Johannesburg (which makes up 43.0% of all domestic arrivals in South Africa) from between January 2003 and December 2007.

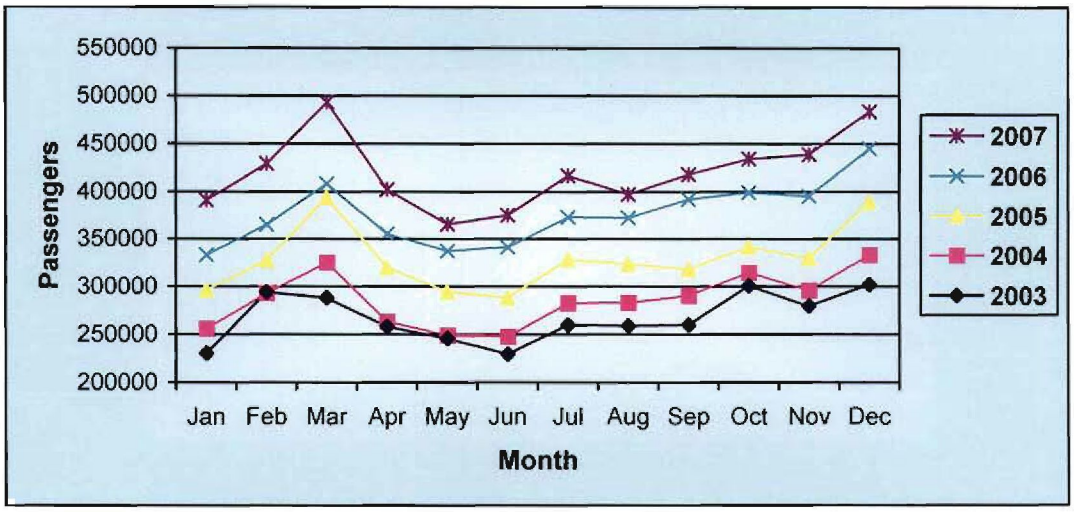
FIGURE 1.1: PASSENGER ARRIVALS (OR TAMBO INTERNATIONAL AIRPORT) FROM BETWEEN JANUARY 2003 AND DECEMBER 2007 – DOMESTIC



Source: (ACSA, 2008b).

Figure 1.2 illustrates the number of domestic departures from OR Tambo International Airport per month (42.8% of total domestic departures in South Africa) from between January 2003 and December 2007.

FIGURE 1.2: PASSENGER DEPARTURES (OR TAMBO INTERNATIONAL AIRPORT) FROM BETWEEN JANUARY 2003 AND DECEMBER 2007 – DOMESTIC



Source: (ACSA, 2008b).

The tables and figures above indicate that OR Tambo International Airport carries the bulk of the domestic arrivals and departures in South Africa. It was for this reason that this airport was chosen as the site for the present research.

Bejou and Palmer (1998:7) note that the passenger airline industry was one of the earliest industries to make customer relationship management approaches a major part of their business practice. It is noteworthy that the characteristics of the products offered by airlines readily lend themselves to a CRM approach because they conduct a small number of high-value transactions for which customer details are routinely recorded for a variety of promotional, accounting and operational reasons.

Unfortunately, however, as Boland, Morrison, and O'Neill (2002:1 & 4) point out, the passenger airline industry has failed to recognise and adopt CRM as a holistic strategy, and have preferred simply to regard it instead as being synonymous with their existing frequent flier programmes. One of the primary goals of CRM is to make a business service to a customer unique by means of personalisation. And yet, in the airline industry, many services are indistinguishable from one airline to another.

The discussion above has at least confirmed that it is essential to provide customers with good service and to satisfy their needs and expectations. This study aims to determine the extent to which customer service and satisfaction can contribute towards increases in rates of customer loyalty and retention. One of the aims of this study will also be to determine the extent to which customers who have already formed a relationship with a particular domestic passenger airline remain loyal to that airline, and whether or not customers can be retained.

1.3 RESEARCH OBJECTIVES

The following primary and secondary objectives were set for this study:

1.3.1 PRIMARY OBJECTIVE

The primary objective of this study is to investigate customer retention through customer loyalty in the South African domestic passenger airline industry.

1.3.2 SECONDARY OBJECTIVES

The following secondary objectives were devised as a means to achieve the primary objective:

1) Conduct a literature review to identify the service elements that are important to domestic airline passengers.

2) Determine if passengers view the importance of service elements differently.

3) Determine if passengers are satisfied with the service elements offered by the domestic airline.

4) Determine whether or not passengers have formed a relationship with the domestic airline.

5) Determine if passengers are loyal to the domestic airline.

6) Determine how airlines' CRM efforts are viewed by passengers.

1.4 RESEARCH PROPOSITIONS

The literature review, the description of the problem statement and its subsequent substantiation indicate that it will be the central aim of this thesis to attempt to provide credible evidence to support the following statement:

Effective customer service can lead to customer satisfaction which contributes to the effectiveness of customer relationship management that in turn aids in creating loyal customers which can be retained.

The propositions that can be extracted for the study are as follows:

P_1: Different customer segments view the importance of service elements differently.

P_2: Satisfied customers will form a relationship with the domestic airline.

P_3: Customers who have formed a relationship with the domestic airline will remain loyal.

P_4: The effectiveness of domestic airlines' CRM efforts to create customer loyalty and retention is influenced by customers' satisfaction, relationship with the domestic airline, and loyalty towards the domestic airline.

1.5 METHOD OF INVESTIGATION

This section describes the research methodology used in this study. Specific emphasis is placed on the analysis of the available literature and on specific methods of empirical investigation.

1.5.1 AN ANALYSIS OF THE LITERATURE AND SOURCES

The literature review for this study focused on various aspects of customer service, customer satisfaction, customer relationship management, and customer retention. Further research was directed towards the domestic passenger airline industry. The literature review consisted mainly of an analysis of secondary sources such as books, periodicals, and Internet sources such as the websites of the Airports Company of South Africa and other national airline companies. The literature review aided in acquiring a thorough understanding of the problem that was being investigated and to prepare a suitable research instrument.

From a preliminary literature search on International studies done on customer retention and CRM, the following studies were observed:

- A study by Arrondo, Berné, Múgica and Rivera (2002) in which the authors concentrate on the formation of customer loyalties in a Spanish food retail market.
- A study of the banking sector undertaken by Kassing (2002) and by Rust and Zahorik (1993) in the USA, and by Clark in the United Kingdom (1997).
- Studies in North-West Russia studies in the following nine sectors: telecommunications, processed food, household appliances, banking, health sector, public transport, postal services, retail clothing and media (Murgulets, Eklöf, Dukeov & Selivanova, 2001:1037).
- A study in New Zealand by Too, Souchon and Thirkell (2001) that examined the relationship between marketing and loyalty in the retailing sector. Another

study of a retailing business conducted by Richard and Adrian in the USA (1995).

- Research into customer retention in the life insurance industry in a study by McGahan and Ghemawat in the USA (1994). Other studies that have investigated the insurance industry include one that was conducted by Verhoef in Germany (2003).

While most of these international studies focused on customer relationship management, only a few delved more deeply into issues of customer loyalty and retention.

Very few studies into customer loyalty and retention have been undertaken in South Africa. The studies that have been undertaken in South Africa include research into the financial, retail, motor vehicle, and dental sectors. No research into customer retention in the airline industry has been completed in South Africa. Outside South Africa, studies of customer retention and CRM within the airline industry have been undertaken by (1) Bejou and Palmer (1998), who researched airlines in the South-Eastern USA, (2) Boland *et al.* (2002), whose study focused on international airlines in the United States, and (3) a study undertaken by Gilbert and Wong (2003), whose work concentrated on passenger expectations among passengers who made use of airline services based in Hong Kong. Bejou and Palmer (1998:8) made the point that the airline industry is an important industry for researching loyalty and retention because the particular nature of the services provided by airlines offer researchers in valuable opportunities for observing incidences of service failure and customer dissatisfaction, and because many airline companies regard customer service as an integral part of their loyalty programme because of their frequent flier miles facilities.

1.5.2 AN EMPIRICAL INVESTIGATION

Empirical research was chosen as the instrument most suited to the achievement of the secondary objectives and the primary objective of the study. The empirical investigation included discussion, the research design, a sampling method, research instruments, methods of data collection, and procedures for data analysis, all of which will be briefly described. Chapter 6 offers a more detailed explanation of the information presented in this chapter.

1.5.2.1 Research design

Any **quantitative** research design can draw on elements of exploratory, descriptive, or causal research. In this study, descriptive research was used as the basis for the research design because the required conclusions were dependent on an ability to determine the frequency with which various phenomena or events occur and the relationship between two or more variables (Churchill & Iacobucci, 2002:91).

The descriptive part of the research consisted of a cross-sectional analysis which was conducted by means of a sample survey that made use of questionnaires as research measuring instruments to gather the required quantitative data (see section 1.5.2.2 and 1.5.2.3). The descriptive research method allows for the characteristics of the chosen sample to be described. In this research, this meant that the respondents' answers could be used to determine which of the elements of customer service provided by the passenger airline industry were deemed to be satisfactory, and which elements the airline would have to improve. The descriptive research method thus enabled clear indications to be obtained from respondents about whether or not they wished to form a relationship with the passenger airline concerned, and, consequently, the particular elements and services which airlines would have to put in place if they wanted to retain the loyalty these customers.

1.5.2.2 Sample for the study

Since this study deals with the domestic passenger airline industry of South Africa, the population for the study included all domestic airline passengers flying from domestic departures at OR Tambo International Airport to any other domestic airport.

A pilot study was undertaken before the main study was launched. This involved the completion of the questionnaire by 30 individuals selected randomly from the population (see the Pilot Study Questionnaire in Appendix A). The pilot study enabled ambiguities in the questionnaire to be identified and further aided in determining the categories that could be used in the closed questions that would form the basis for the editing and coding of the questionnaire (Steyn, Smit, du Toit & Strasheim, 1999:47). The data for the pilot study was obtained from

questionnaires that were distributed to randomly selected people who had flown on domestic flights and who had flown twice or more with the same domestic airline in the year preceding the study. The pilot study respondents could therefore be regarded as representative of the respondents who would later participate in the main study. This depended on the assumption that the respondents in the pilot study were sufficiently similar in their attitudes and characteristics to respondents who would later participate in the main study. An appreciation of the characteristics of the passengers who participated in the pilot study subsequently contributed towards the development of the final questionnaire.

The objectives of the pilot study were:

- to test the questionnaire to ensure that accurate data could be obtained from the main study, and
- to identify and remove elements of ambiguity from the questionnaire. (This is achieved by observing whether or not all respondents understand and interpret the questions in the same way.).

The sample for the main study was identified by means of a **non-probability** sampling method. Shao (2002:369) explains that *non-probability sampling* refers to a sampling technique in which researchers mainly rely on their own judgement when selecting sampling units. It is clear that this method does not accord all sample an equal chance of being included in the sample. This means that findings which depend on non-probability sampling techniques cannot be predicted across an entire population. Aaker, Kumar and Day (2003:387) point out that non-probability sampling methods are useful to researchers when they are limited in terms of the time and financial resources that are available to them. The non-probability sampling method used in this study was that of a **convenience sample**. Zikmund (2003:426) explains that the convenience sampling method allows researchers to obtain sampling units that are available and convenient, and so it is used when researchers need to obtain data quickly and inexpensively.

Although it was originally planned to make use of a stratified random sampling method, challenges and difficulties experienced in the data collection process compelled the adoption of a convenience sampling method. Even though prior

permission had already been obtained to distribute questionnaires at the departure terminal of OR Tambo International Airport just before the passengers boarded their flight, the fieldworkers could only be accommodated at the airline counter where passengers booked in for their flights. Each domestic airline was asked to reveal the number of passengers that fly with their airline because this information was needed to calculate the sample size for each stratum. But since all the airlines that were contacted declined to share this information, the size of each stratum could not be calculated. It was mainly because of these problems that a convenience sampling method had to be used. Although this sampling method had to be used, it was aimed to obtain a variety of respondents from each domestic airline so that data relevant to each domestic airline could be accumulated. Aaker *et al.* (2003:387) point out that although it is more beneficial to use a probability sampling method, non-probability sampling designs are often quite justifiable and effective in the results that they produce.

Respondents flying with the following domestic airlines were included in the sample:

- 1-time
- Kulula.com
- Mango
- Nationwide
- South African Airways
- SA Express
- SA Airlink

Although Nationwide ceased operations on the 29th of April 2008 due to a 30% increase in fuel costs as well as a decrease in passengers (Nationwide, 2008 and The Times, 2008), the domestic airline was still operational at the time of the study. For this reason, the results obtained from Nationwide were retained in the study.

1.5.2.3 Research instrument

The research instrument selected for this study was a questionnaire (see Appendix B for the questionnaire that was used in the main study). The

questionnaire was pre-tested during the pilot study, and revisions were made to some of the questions in the questionnaire as a result of the responses obtained. The questionnaire made use of both open and closed ended questions, and was designed to gather data pertaining to the reasons why respondents selected particular domestic airlines, the importance of service elements to respondents, and the extent to which respondent felt satisfied about the service elements that were offered by the airline. The data also sought to determine whether or not respondents had experienced any kind of failure in the services provided by the domestic airline concerned; how such failures had affected their relationship with the airline; their views on the CRM efforts of the domestic airline; whether or not they had actually formed a relationship with the domestic airline, and whether or not they had remained loyal to the domestic airline. The questionnaire was also designed to capture demographic information about respondents.

1.5.2.4 Collection of data

The questionnaire was distributed to passengers by fieldworkers after the passengers had checked in for their domestic flight. The fieldworkers asked passengers a screening question to determine how often they had flown with the airline (this information was needed to determine retention rates). Only those passengers who had flown twice or more in the twelve months preceding the study were asked to complete the questionnaire. A total of 324 useable questionnaires were obtained.

1.5.2.5 Data analysis

The data obtained from the questionnaires was analysed by means of descriptive statistics, cross-tabulations, factor analysis and effect sizes. The data in the study was analysed using the SAS, SPSS and STATISTICA statistical programmes (SAS Institute Inc, 2007; SPSS Inc, 2006; and StatSoft, Inc, 2006) in consultation with the Statistical Consultation Services (SCS) of the North-West University (Potchefstroom campus) (see Appendix C).

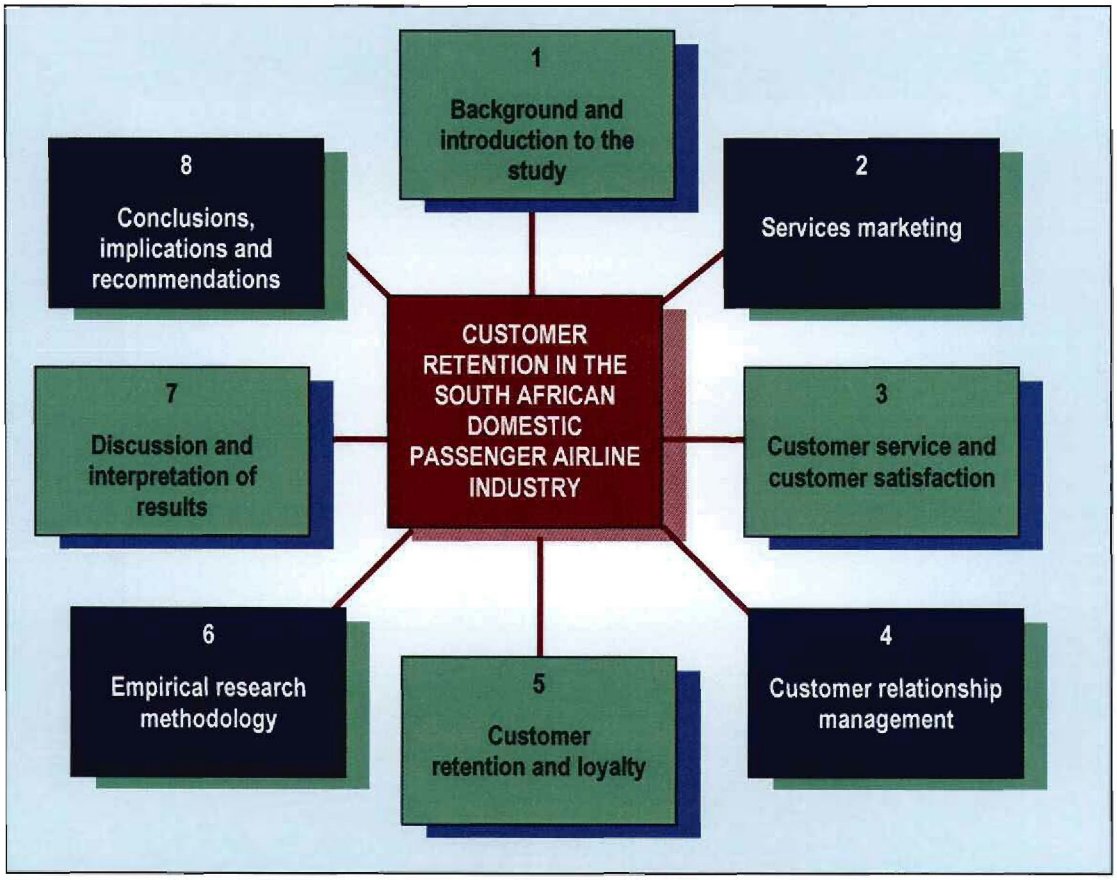
1.6 CHAPTER DIVISION

A brief description of the main elements and focus points of the study is set out below. A schematic representation of the chapter outlay is depicted in figure 1.3.

1. Background and introduction to the study

This introductory chapter identifies the main reasons for undertaking the study and offers a general outline of the study that provides the reader with a concise view and overall understanding of the research. The problem statement is discussed, as are the primary and secondary objectives, and the propositions of the study are set out. Finally, the research methodology used in the study is summarised.

FIGURE 1.3: SCHEMATIC REPRESENTATION OF CHAPTER OUTLAY



2. Services marketing

An understanding of the provision of customer service has to be preceded by an identification and explanation of how services marketing developed. The chapter therefore explains the background against which services marketing developed as well as the characteristics of these services that make them unique in marketing. The phenomenon of service encounter is also discussed as well as the importance of service quality.

3. **Customer service and customer satisfaction**

Before a relationship of value can be formed with any stakeholder (and with the customer in particular), it is necessary to provide customer service. For this reason, this chapter focuses on the formation of customer expectations and how these expectations influence the perception of quality and satisfaction. A discussion of the customer life-cycle, customer needs and expectations, customer value and customer focus provide the necessary background for evaluating and appreciating the importance of customer service and satisfaction.

4. **Customer relationship management**

The third literature study chapter clarifies the role of CRM in providing customer service and customer satisfaction. Customer relationship management offers a variety of benefits to both the business and the customer, and although building up long-term relationships with customers takes time, benefits such as creating loyalty in loyal customers and increasing profits can be realised.

5. **Customer retention and loyalty**

Chapter 5 reviews the factors that affect customer retention and customer loyalty and that determine the link between retention and loyalty. This chapter discusses customer retention in terms of its benefits, approaches, and improvement, and then discusses customer loyalty in terms of its definition, benefits, types, and loyalty schemes.

6. **Empirical research methodology**

Chapter 6 provides insights into the marketing research process by identifying a problem statement, creating a research design, choosing a research method, the procedure involved in selecting a sample, the collection of data, data analysis and the reporting of results. The empirical research methodology that was used in this study is described for each step.

7. **Discussion and interpretation of results**

Chapter 7 presents the research findings of the study. The statistical methods that were used for interpreting the data are presented, and the results that were obtained from each section in the questionnaire are

described. Finally, the main findings pertaining to the research propositions are presented.

8. Conclusions, implications and recommendations

This chapter concludes the study by presenting specific major findings and recommendations in the light of the results that were obtained. It also outlines the link between the secondary objectives of the study, the questions in the questionnaire, and the main findings relating to the secondary objectives. A framework for creating customer retention in the South African domestic passenger airline industry is presented by combining the results obtained in the study. The chapter concludes with a statement of the limitations of the study and recommendations for future research.

1.7 CONCLUSION

This chapter described the background of the research problem and the reasons why the study was undertaken. A brief description of the research methodology used in the study was presented. While it may be concluded from the problem statement that the airline industry is dependent upon the retention of passenger loyalty, airlines still often fail to recognise the role and importance of customer service and relationship building in creating customer loyalty and retention. This study therefore aims to elucidate the extent to which customer satisfaction influences the building up of relationships with domestic airlines, as well as customer loyalty and customer retention.

Chapter 2

SERVICES MARKETING

2.1 INTRODUCTION

The focus of this chapter is to determine the impact and importance of services on the marketing and the functioning of businesses. The particular focus of this chapter will be to pay attention to the marketing of services – and not to the marketing of physical goods that are accompanied by elements of service.

The main outcomes of this chapter will be to:

- Explore how the service sector emerged;
- Discuss how services marketing developed over time;
- Explain a model overview of the development of the services marketing field;
- Identify what is meant by the terms "services" and "services marketing";
- Explain how traditional marketing procedures need to be adapted so that they include services;
- Indicate how services are classified by identifying the different service classification schemes;
- Discuss four distinguishable characteristics of services, namely, intangibility, inseparability, heterogeneity and perishability;
- Explain the implications of services for marketers;
- Discuss the service encounter by determining the elements involved in services marketing through the services marketing triangle, service design, service quality as well as decision-making areas;
- Identify the future of services, and
- Discuss how services marketing influences the airline industry in particular.

2.2 THE EMERGENCE OF THE SERVICE SECTOR

According to Cunningham, Young and Lee (2005:43), the service sector emerged as businesses began to compete with one another to gain a competitive advantage in the marketplace. Businesses achieved this kind of competitive

advantage by differentiating themselves from their competitors by augmenting their product offerings with services of various kinds. Even manufacturers began to realise that their products could be made more competitive by the addition of services (Cunningham, Young & Lee, 2005:43).

In spite of this trend, the service sector did not emerge immediately. As Van der Zwan and Bhamra (2003:344) explain, the replacement of the industrial sector by the service sector was a gradual process. The emerging predominance of the service sector over the industrial sector occurred mainly as a result of the evolution of the product process itself. As businesses became more competitive, they began to incorporate services into their product offerings as a way of gaining a competitive advantage over their rivals.

Olorunnino and Hsu (2006:107) and Doyle (2005:285) are of the opinion that the service sector is currently the fastest growing sector in the world. As services became an integral part of the production and distribution of tangible products, more and more services were outsourced to external service suppliers. This has led to a situation in which the service industry accounts for two-thirds of the Gross National Product (GNP) in the more advanced econornies of the world.

The emergence, development and growth of services marketing has contributed to a vital new emphasis to the marketing industry as a whole.

2.2.1 THE DEVELOPMENT OF SERVICES MARKETING

Brown, Fisk and Bitner (1994:21-22) note that services marketing was influenced by, and also influenced, other disciplines such as those connected with operations and human resources management. The interdisciplinary nature that services marketing acquired in the course of its development has contributed to even further expansion in the development of services marketing as a discipline. Services marketing has, in fact, been refined and developed by the contribution of academics and researchers from a variety of disciplines throughout the world, and it has been decisively affected by changes that have occurred in the economy of the United States of America during the past four decades.

These changes in the economy of the United States of America have been described by Rust, Zahorik and Keiningham (1996:4-8) in the following way:

- What one might call the "internationalisation" of activities and enterprises has become possible because of developments in technology, global communication, automation and the relatively low costs of transportation that have been characteristic of the past few decades. These factors made it possible for developed countries where labour costs are high to outsource their manufacturing operations to third-world economies where wage rates were much lower. Although it was relatively easy to outsource manufacturing operations to foreign economies, it is (or used to be) difficult to export the service sector of the economy to foreign countries. This meant, in effect, that the service sector assumed greater and greater prominence in the economies of the developed nations.

- Exponential improvements in telecommunication and information processing technologies that have given rise to new industries have resulted in the restructuring of the economy of developed countries. The specialisation required to operate these new technologies has made it more profitable for businesses to purchase such services from outside suppliers rather than to attempt to implement them in-house. The service sector has been radically transformed and expanded by this process of the outsourcing of activities.

- The authors continue by stating that the deregulation of service industries by the United States government led to still further developments in services marketing. Before such deregulation occurred, most service industries (including banking, airlines, insurance and telecommunication) were restricted by law from developing new products or targeting new markets. But once these industries had been deregulated, there was an enormous increase in demand for services marketing expertise that is specifically tailored to meet the needs of specific situations and particular conditions.

- Before a more general awareness of the new meaning and significance of services marketing had taken root in the public mind, professional groups such as lawyers and doctors were strongly resistant to marketing since they believed it only incorporated advertising and promotion. However, due to the saturation of markets, as well as other economic factors, these professionals too were forced to start marketing in order to be more competitive, and so to survive. The eventual result was that most of these professional groups and associations embraced the full range of marketing activities because it became

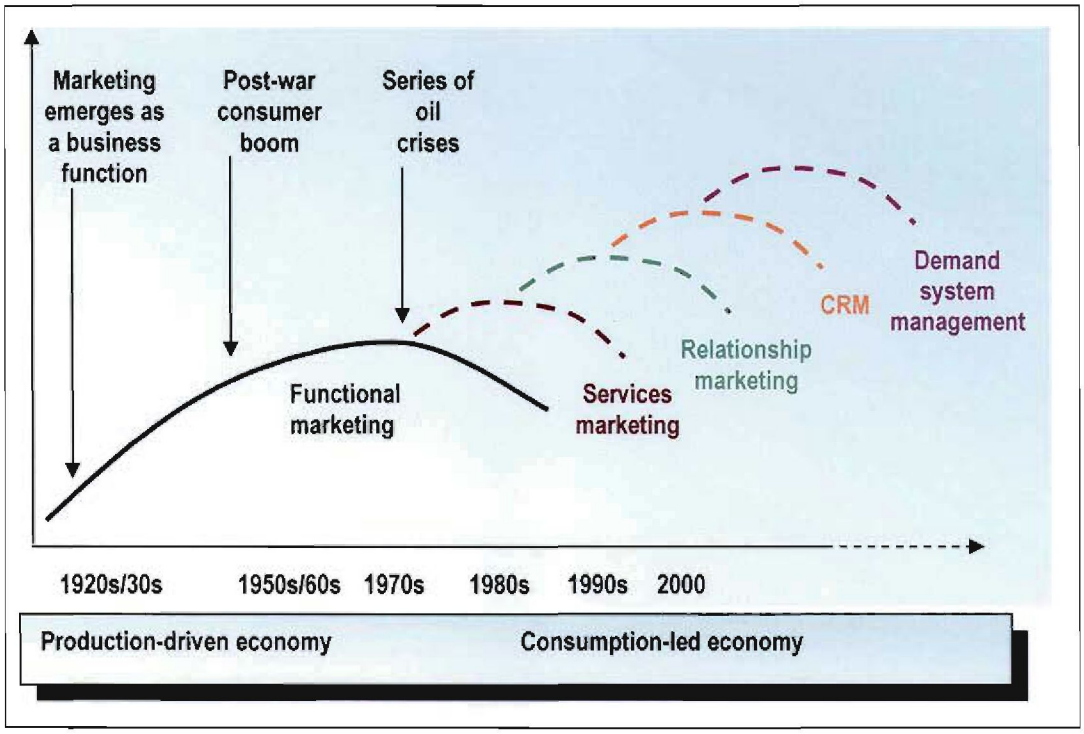
evident that they were essential for professional survival. The result of this acceptance has been a corresponding growth and development in services marketing.

- Manufacturing businesses also began to realise that the support services that they had developed in-house were of value to outside businesses. Once they had become aware of the financial value of the in-house support services that they developed, manufacturing enterprises began to sell their computing and data processing capabilities, sales force training programmes, facility management skills, and other internally grown skills to other businesses.

- Although services were part of the United States economy as early as the 1940s, marketing still concentrated primarily on the sale of physical goods, and services remained as a minor component of most business operations. Van der Zwan and Bhamra (2003:341) demonstrated the role performed by services marketing by analysing company literature from before the 1980s. Their finding was that such literature neither identified nor recognised the uniqueness or importance of services in the modern sense. It is only in the last two or three decades that services marketing have been widely accepted by academics and practitioners alike. Once this happened, new marketing paradigms were developed to reflect the uniqueness of services – a uniqueness that remained unrecognised in the traditional understanding of goods-oriented marketing.

Figure 2.1 below illustrates how marketing as a business function emerged in the 1920s and 1930s. It illustrates how marketing evolved over time from a traditional goods-orientation stance to include other marketing disciplines such as services marketing, relationship marketing (RM) and customer relationship management (CRM).

FIGURE 2.1: THE MARKETING LIFE-CYCLE



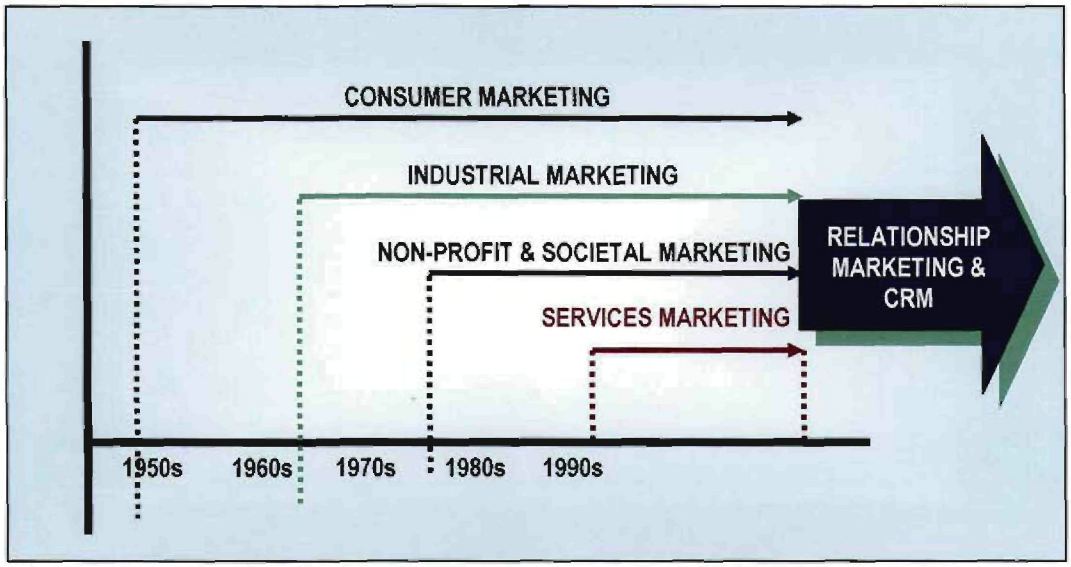
Source: Baker (2003:16).

Baker (2003:14-16) explains that it is American consumer goods industries that have set both the rate and the extent of mass marketing. These businesses regarded the market as a mechanism for achieving increased sales and profits. These increasing sales were, however, curbed because of a series of oil crises in the 1970s. Because of this decrease in international economic activity as well as high inflation rates in the United States, consumer spending habits began to change. Suppliers then realised that if they wanted to continue to prosper in the conditions of the economic environment of the time, businesses would have to take a very careful look at exactly what it was that they were offering their consumers. The result of this reassessment was that businesses realised that they would have to make their products more appealing. In the consequent effort to make their products more attractive and saleable, many businesses augmented their products by incorporating a service element. The growth, expansion and development of such services elements eventually led to the development of the services marketing sector. Businesses that were functioning in mature markets where the growth rate had become slow or even static found it difficult to retain their market share. Baker (2003:14-16) notes that such businesses coped with the crisis by developing the aim of retaining their existing customers by developing their relationships with these customers. This led to a shift in marketing emphasis

away from customer acquisition toward customer retention – a shift in emphasis that became incorporated in the principles of Relationship Marketing (RM). Relationship marketing, unlike traditional transaction marketing, recognised that transactions were not isolated events and that it was necessary for companies to develop, maintain and nurture a "relationship" between buyer and seller. The increasing acceptance of RM during the 1990s and the continuing developments in technology and in information technology ultimately led to the convergence of database marketing and customer service delivery. This resulted in the concept of "Customer Relationship Management" (CRM). The theory behind CRM is that customer relationships should be based on an integrated business process that consolidates individual customer data from various sources. The purpose behind Customer Relationship Management's practice of using information technology to monitor customer transactions and so identify patterns in purchasing behaviour, is ultimately to reinforce the efficiency of customer retention strategies.

Figure 2.1 depicts the evolution of marketing as a business function through the marketing life-cycle. But marketing itself also exerted a distinctive influence on various sectors. McDonald *et al.* (2001:51) describe how the marketing field has progressed since the 1950s across various sectors (this is illustrated in figure 2.2). During the 1950s, "marketing" meant the marketing of physical consumer goods. In the 1960s, however, marketing interest began to be directed toward industrial markets. In the 1970s, economists began to take a profound interest in non-profit or "societal marketing". And services marketing only really began to attract significant attention during the 1980s. Until then it had been an activity that had been accorded very little attention in the overall context of the economy. It was in the 1990s that a strong emphasis began to be placed on relationship marketing, and this in turn was followed a few years later by the emergence of customer relationship management.

FIGURE 2.2: THE CHANGING FOCUS OF MARKETING



Source: McDonald *et al.* (2001:51).

The following section describes how services marketing evolved and how the importance of services marketing came to be recognised. Fisk, Brown and Bitner (1993:66-75) identify three phases in the development of services which they characterise respectively as *the crawling out* phase, *the scurrying about* phase, and *the walking erect* phase. Although these phases seem to be logically and practically consecutive, Gummesson (1993:93) challenges this analysis by contributing his notion of *the hermeneutic spiral* to the development of services marketing. The concept of the hermeneutic spiral explains that the phases in the development of services marketing development are synchronised, and that services marketing only came into existence at the time because of the breakdown of existing paradigms. This breakdown of preconceptions that were widely accepted during the early 1960s were necessary for the development of any ideas or paradigms. Some general observations about each of these three phases, and the most important contributions made by each of them, will be discussed in what follows.

2.2.1.1 Phase 1: Crawling out (pre-1980)

The first phase in the development of services marketing was the phase during which academics debated the question of whether the marketing of services should be different from the marketing of products (Glynn & Barnes, 1995:5).

A) General observations

According to Bartels (1988), in Fisk *et al.* (1993:66), the earliest forms of marketing were devoted to the sale of agricultural products. Since then, the scope of marketing has become so wide that it includes the sale of all physical goods. Because the primary meaning of marketing for such a long time meant the marketing of physical goods, marketing literature rarely challenged the accepted wisdom that marketing meant the marketing of physical goods. Berry and Parasuraman (1993:14) confirm this observation. They point out that before services marketing developed into a separate field of marketing, marketing nearly always meant the marketing of agricultural and physical goods and that the concept of marketing services was correspondingly neglected. Although there was great interest in the possibilities inherent in applying the services marketing before the 1980s, only a few industries (such as the banking sector) actually used services marketing applications in the day-to-day running of their businesses.

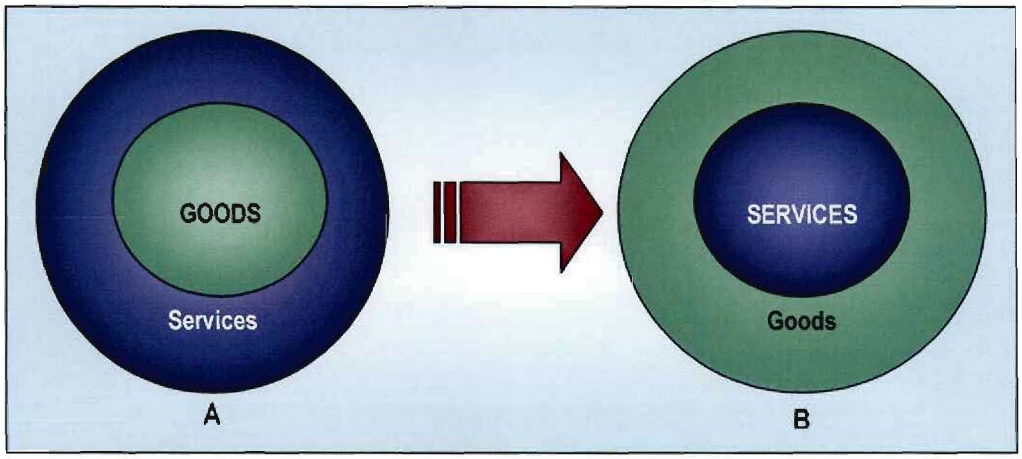
B) Contributions

Fisk *et al.* (1993:68-69) note that the most important academic contribution during this phase came from Rathmell who initiated the debate about how to define marketing services, and it was he who contributed most to our modern understanding that the marketing of services differs radically from the marketing of physical goods. But it was not only academics who appreciated the need for services marketing. Shostack, then vice-president of Citibank, wrote an article entitled "Breaking free from product marketing", in which he criticised academic marketing experts for ignoring the marketing of services. In his article, Rathmell (1966:32-36) argued strongly for marketers to direct more attention to the service sector. This groundbreaking article contributed to a clearer understanding of the differences between goods and services by clarifying the differences in how goods and services are marketed. In her article, Shostack (1977:73-80) describes how the traditional approach to marketing had been developed specifically for the marketing of physical products and how it needed to be adapted to the marketing of services. Her article analyses how the very vocabulary of marketing had been developed largely for the marketing of physical products and was therefore deficient in terms that are used in the marketing of services. The main question that

Shostack raised in the article was: "Could marketing itself be myopic in having failed to create relevant paradigms for the service sector?" Shostack's article emphasised the need to differentiate the marketing of services from other kinds of marketing, both in academic discourse and in practical application.

Because of these pioneering articles by Rathmell and Shostack, the primary emphasis on the marketing of physical goods was revised to include a strong emphasis on the importance of the marketing of services. Gummesson (1993:79) also emphasised the need to reconsider the traditional focus on the marketing of physical goods so that the marketing paradigm would accord equal importance to the marketing of services. Figure 2.3 illustrates how Gummesson inverted the traditional understanding of marketing. While the original concept of marketing was focused on goods and manufacturing with services as peripherals (figure 2.3 A), Gummesson suggested that the central focus of marketing should be on the sale of services to customers – with the inclusion of goods as *possible* components in the total package offered to the customer (figure 2.3 B).

FIGURE 2.3: SHIFTING FROM A FOCUS ON GOODS TO A FOCUS ON SERVICES



Source: Gummesson (1993:79).

2.2.1.2 Phase 2: Scurrying about (1980 – 1985)

The second phase in the development of services marketing, as identified by Fisk *et al.* (1993:63), builds on the "crawling out" phase, and is called the "scurrying about" phase. It was during this phase in the development of service marketing that academics came to acknowledge that services marketing was different from product marketing and that it therefore required much more attention and the

creation of a separate discipline. It was also during this phase that the pioneering literature that had been created and disseminated during the first phase of services marketing development (i.e. in the years before 1980) was augmented, refined and developed. This period of development was characterised by an increasingly sophisticated identification of what services marketing and its practical applications entail.

A) General observations

Both Glynn and Barnes (1995:9) and Brown *et al.* (1994:28) describe how the emergence of the "scurrying about" phase in the United States of America coincided with the deregulation of the service industries (such as the airline industry) and with a growing intensity of interaction between academic experts in the field and practitioners at conferences held on the subject of services marketing by the American Marketing Association (AMA). It was largely as a result of the deregulation of the airline industry that airlines became aware that marketing as a field of endeavour had shifted from being merely important to being vital to the success of the business. The deregulation of service industries therefore led to the necessity for a better understanding of how market services operate, and this in turn led to an intensive and invaluable cross-fertilisation of the knowledge acquired by managers working in the field and that of academics who were specialising in the theoretical aspects of the discipline.

B) Contributions

Fisk *et al.* (1993:71-74) suggests that the AMA's Services Marketing Conferences of 1981, 1982, 1983 and 1985 were crucial in engendering an ever-more widespread appreciation of the need for and importance of services marketing. It was also this time that various academic journals that specialised in services marketing were established. These included the *Services Industries Journal* and the *Journal of Professional Services Marketing.* It was also during this phase in the development of services marketing that various textbooks on the subject of services marketing appeared for the first time. The articles on services that appeared in the Journal of Marketing at this time were instrumental in conveying insights about services marketing to the marketers

themselves and in further strengthening the position of services marketing as a new and valuable discipline. Among these articles were the following:

- "Classifying services to gain strategic marketing insights", by Lovelock (1983). This article proposed a typology or classification scheme for services that creatively expanded the narrow understanding of the boundaries of the discipline that had hitherto been accepted by the industry. Each of the schemes offered by Lovelock offered insights into how the nature of services can affect marketing strategies and tactics.

- "Problems and strategies in services marketing", by Zeithaml, Parasuraman and Berry (1985). This article offered a conceptual framework that summarised the unique characteristics of services.

- "A conceptual model of service quality and its implications for future research", by Parasuraman, Zeithaml and Berry (1985). It was in this article that the authors presented their Gaps Model of service quality, and reported on an exploratory investigation into quality in service businesses. This article was influential in getting service quality to be accepted as a primary focus of services marketing.

- "A role theory perspective on dyadic interactions: The service encounter", by Solomon, Surprenant, Czepiel and Gutman (1985) . The authors used this article to present their reflections on the critical components of service encounters. It was here that these authors proposed the notion that it is the mutual interaction between a service provider and a customer that creates an important element in the customer's overall level of satisfaction.

2.2.1.3 Phase 3: Walking erect (1986 to the present)

Services marketing was ultimately identified as a specific field within marketing during the "walking erect" phase. It is during this phase that services marketing has been widely accepted as a serious and necessary discipline by both academics and practitioners (Brown *et al.*, 1994:31).

A) General observations

According to Glynn and Barnes (1995:14-17), the walking erect phase has resulted in services marketing being widely accepted in the discipline of marketing. This phase had also witnessed the production of a great number of empirical investigations in the field that have augmented the steadily accumulating body of literature that already exists on the subject. The emergence of services marketing and its uses and applications within other disciplines has given services marketing literature a strongly cross-functional complexion as it continues to interact with disciplines other than marketing. There are also a large number of additional topics that have appeared in services marketing literature that are being given increased attention by both academics and practitioners. They include vitally important topics such as *service quality, service encounters, service design, customer retention, relationship marketing* and *internal marketing*. During this phase, services marketing established its own unique identity, and, in so doing, it has already made distinguished contributions to the development of management science in general. Zeithaml, Bitner and Gremler (2006:11) and Gummesson (1993:94) point out that services marketing has become an important element within current management thinking. Marketers working in the services sector as well as practitioners continue to contribute a great deal of attention and resources to expanding and addressing the needs of the service business because they now have a clear understanding of precisely how important services marketing is in any industry.

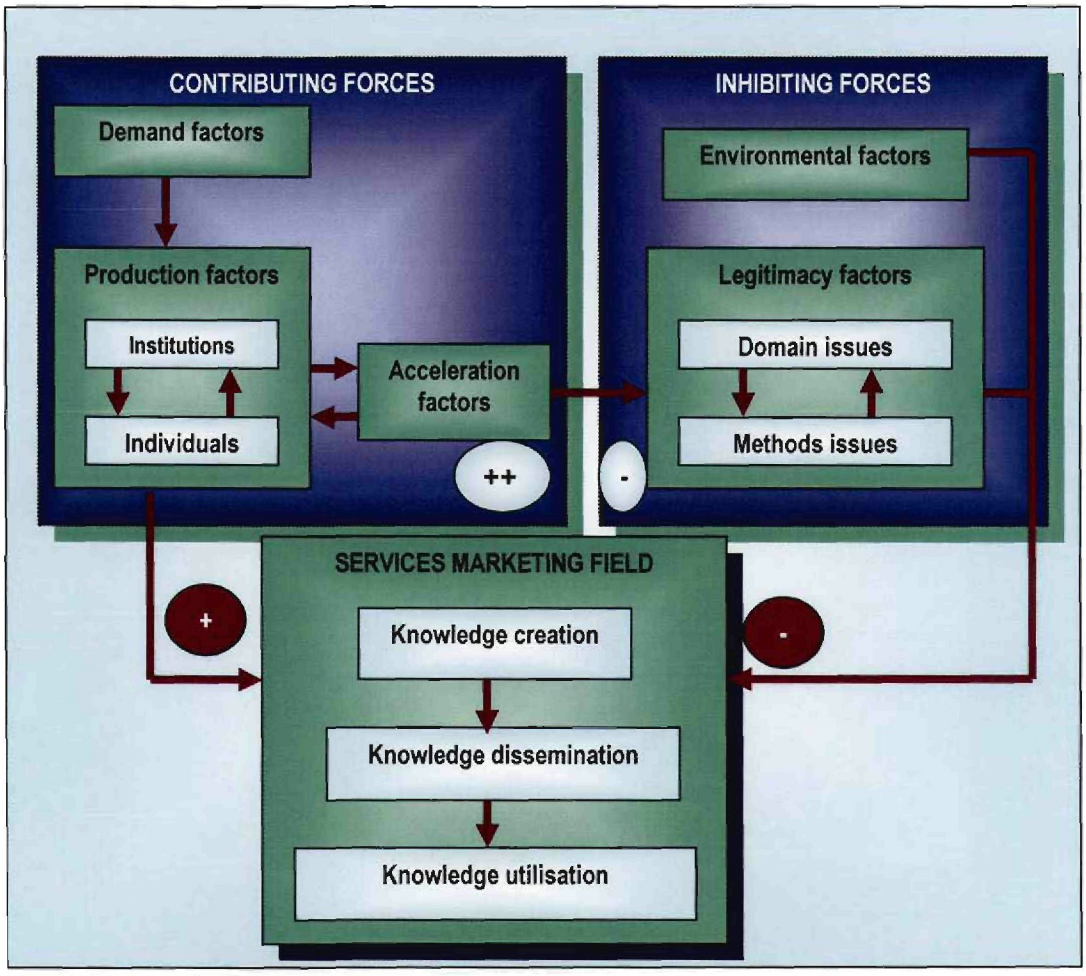
B) Contributions

Many books and journal articles have been written on this subject in this "walking erect" phase. Two additional journals devoted to the field of services marketing have also appeared during this phase. They are the *Journal of Services Marketing* and *The International Journal of Service Industry Management* (Fisk *et al.*, 1993:74).

2.2.2 THE DEVELOPMENT OF THE SERVICES MARKETING FIELD – MODEL OVERVIEW

Berry and Parasuraman (1993:13-14) are of the opinion that services marketing developed academically during this time because it filled a vital need in modern marketing practice. It has already been noted above that services marketing did not exist as a formal academic field during the "crawling out" phase. But during the "walking erect" phase, services marketing has become a fast-growing sub-discipline of marketing. In the model below (figure 2.4), Berry and Parasuraman present both the forces that contributed to the development of the field as well as the forces that inhibited the development of this new field of study.

FIGURE 2.4: A MODEL THAT SHOWS THE FORCES THAT INFLUENCED THE DEVELOPMENT OF THE SERVICES MARKETING FIELD



Source: Berry and Parasuraman (1993:16).

Schoen (2002:15) states that the model developed by Berry and Parasuraman shown in figure 2.4 has three main components, namely, contributing forces,

inhibiting forces, and the services marketing field itself. The components of the services marketing field are shown in terms of three sequential stages that are relevant to the development or growth of any discipline. The model therefore focuses on the forces that either contribute to or inhibit the creation, dissemination and utilisation of knowledge in the context of the development of services marketing. The model groups the contributing forces into either "demand factors" or "production factors", and describes the inhibiting forces are those influences that hindered – and may indeed still be hindering – the growth of the services in the marketing field.

2.2.2.1 Contributing forces in the development of services marketing

The contributing forces that have led to the growth and development of services marketing are discussed in the model developed by Berry and Parasuraman (1993:17-18), and they include the following:

A) Demand factors

Demand factors here refer to the influences of the external marketplace that created a need for more precise and effective knowledge about services marketing. These factors are those elements that have stimulated the growth of services marketing (discussed in section 2.2.1) such as the deregulation of service industries, and increased competition among sellers. This increase in competition has played an essential role in creating a demand for more detailed and effective information about services marketing. Managers needed this kind of knowledge and information so that they could differentiate their services from the services being offered by their competitors' competition. They needed it so that they could enhance the value that surrounded their product, so that they could improve the quality of service that they offered to their customers, and so that they could be in a better position to retain customers.

B) Production factors

Berry and Parasuraman (1993:17-18) point out that production factors are the sources from which knowledge about services marketing is derived. Production factors include *institutions*, such as professional societies and

research funding sources that provide essential infrastructure in building a field of study; and *individuals*, such as academic researchers who utilise the infrastructure to ensure the growth of services marketing. Figure 2.4 indicates that there is a mutual interaction between institutions and individuals since the effectiveness of the one relies on the effectiveness of the other.

C) Acceleration factors

Acceleration factors refer to those developments, events, and publications that encourage the growth of a new discipline. These factors promote legitimacy because they are the proximate cause of vital and influential conceptual breakthroughs and because they stimulate other academics and practitioners to become involved in the development of the discipline. Phillips and Phillips (1998:329) add that acceleration factors stem from the interaction between institutions and individuals and because they play an influential role in the growth of the services marketing field. These factors are termed "acceleration factors" because of their "multiplier" effect on the field's development. The double-plus sign in figure 2.4 represents the direct influence that the acceleration factors have had on the development of services marketing. These acceleration factors, have been vital in stimulating the involvement and commitment of institutions and individuals. Acceleration factors also play a role in weakening and dissipating the inhibiting forces which are the third component of the model.

2.2.2.2 Inhibiting forces in the development of services marketing

The inhibiting forces that play a negative role in influencing the growth and development of services marketing are described by Berry and Parasuraman (1993:17-18), and they include the following:

A) Environmental factors

Inhibiting environmental factors include insufficient resources (such as budgetary constraints) in academic institutions, which have the effect of hampering research in the new discipline; a lack of instructional materials (such as textbooks) for marketing courses, and insufficient interaction between academics and executives.

B) Legitimacy factors

Inhibiting legitimacy factors have an effect on academic credibility and include both domain and method issues. The *domain issues* in this case refer to a belief among certain academics that the field of services marketing is too interdisciplinary to be considered as "marketing". Other domain issues include the belief that valid research into services is problematic because of the intangible nature of services. Certain academics are also of the opinion that there is no need for a separate services marketing field. The *methods issues* in this case include the frequency of studies that are unsupported by a strong theoretical foundation in services marketing literature, together with an insufficiency of analytical research in services marketing studies. The interplay between the domain and methods issues in this model indicates that each of these forces influences the others (Berry & Parasuraman, 1993:17-18).

In order to obtain a valid and comprehensive understanding of the services marketing field and its development, it is necessary first to understand the various concepts and meaning associated with services and services marketing.

2.3 SERVICES AND SERVICES MARKETING

The previous section described how the field of services marketing developed over a period of time. It is now important to examine exactly how services are defined, classified and characterised because it is only by understanding this that it is possible to appreciate extent to which services form an integral part of the services marketing field.

2.3.1 DEFINITION OF SERVICES AND SERVICES MARKETING

The following section offers various definitions for services and services marketing.

2.3.1.1 Definition of services

The following definitions of services can be found:

- According to Berry, in Lovelock (1983:10), a service can be described as a "deed, act or performance". Zeithaml *et al.* (2006:4) and Hutt and Speh

(2004:330) define services as "deeds, processes, and performances", while Clark, Rajaratnam and Smith (1996:15) define services as deeds, performances and efforts. Gilmore (1997:185) supplements the understanding of these definitions by noting that services may be defined as the integration of performances and processes. This can be taken to imply that services involve interactions among customers, and that they are predominantly intangible.

- Nicoulaud (1988:55) provides a rather more broad definition when he describes services as those independent and intangible activities that might not necessarily be associated with the sale of a tangible product or any other services that provide customer satisfaction.

- Rust *et al.* (1996:7) incorporate the elements of the definitions quoted above by describing a service as "any act or performance that one party can offer to another that is essentially intangible, and does not result in the ownership of anything. Its production may or may not be tied to a physical product". Payne (1993:60) states that a service can be described as an intangible activity that involves interactions with customers or their property, but that does not result in any transfer of ownership.

- A service can further be described as a process which consists of various intangible activities that normally occur in the form of interactions between customers and service employees (Grönroos, 2004:46).

The following definition synthesises all the elements from the definitions quoted above: *A service* is *an intangible activity – an action, performance or process – which customers cannot feel or touch but which adds value to the customers' experience of the offering. Services involve interaction among customers but do not result in any transfer of ownership, and their production may not necessarily be associated with any physical (tangible) product.*

2.3.1.2 Definition of services marketing

Various definitions of services marketing can be found. Among them are the following:

- Services marketing has been defined as marketing that is based on building relationships and value (Anon, 2005).

- Grönroos (1993:6) offers a broader and more comprehensive explanation of services marketing that includes the following:

  (1) The ability to understand the utility that customers receive by consuming the offerings provided by the business. The business needs to understand how these services (alone or with other physical goods) add to the utility received. Therefore, it is necessary for the business to determine how consumers perceive quality and how it changes over time.
  (2) The ability to determine how the business will provide this utility and quality. This can be done by using personnel, technology and physical resources, systems and customers.

- According to Doyle (2005:221), services marketing involves the marketing of something that is intangible and which is usually consumed at the point of delivery.

These definitions suggest that services marketing is *that discipline of marketing which aims to provide consumers with value and utility by building relationships and delivering intangible offerings.*

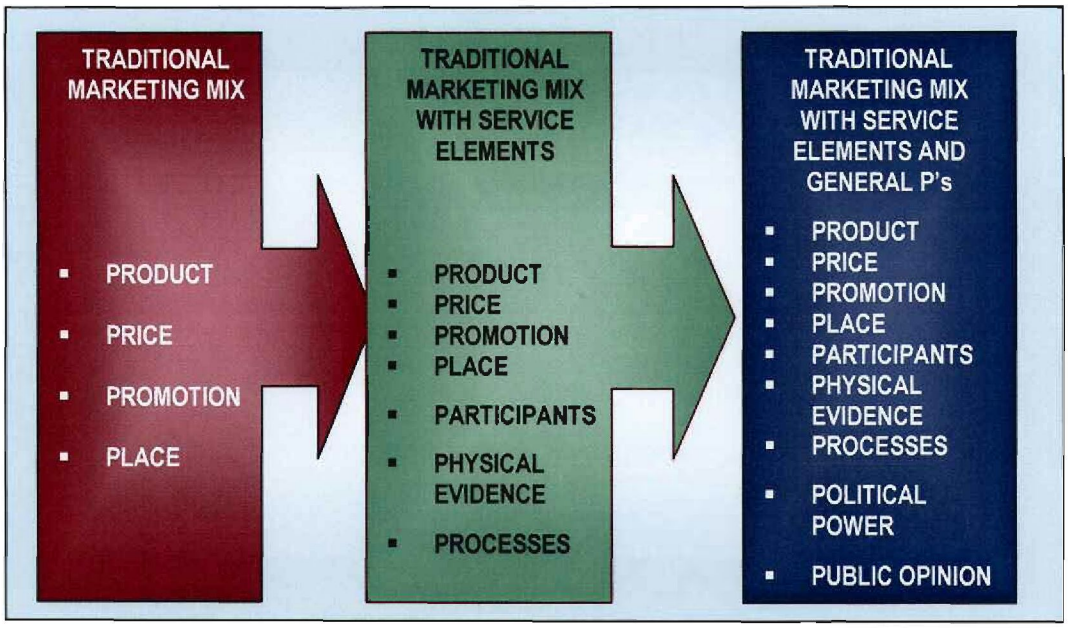
2.4 THE MARKETING MIX FOR SERVICES

Kotler (1997:92) defines "the marketing mix" as those marketing tools that businesses use to pursue their marketing objectives in the target market.

Gummesson (1993:81) and Mudie and Cottam (1993:6) explain that the traditional marketing mix comprises of the 4 Ps, namely, product, price, promotion and place. This marketing mix has been criticised because it does not include any element of services. For that reason, the marketing mix has been expanded to include three additional service elements that include participants (service personnel and customers), physical evidence (appearance, layout of service setting and brochures) and processes (policies, procedures, employee discretion and customer involvement). This more comprehensive definition of services marketing changes the 4 Ps into the 7 Ps. In addition to these, Kotler (1986:120) included

two general elements namely, *political power* and *public opinion*, which made space in the definition of services marketing for the development of mega-marketing. Figure 2.5 illustrates the progression of the elements of the marketing mix from the original, traditional 4 Ps to the 7 Ps (that included the service elements), and finally to the definition that included mega marketing elements (which all add up to the traditional marketing mix element with the addition of service and the other two Ps suggested by Kotler).

FIGURE 2.5: THE DEVELOPMENT OF THE MARKETING MIX



Source: Adapted from Drummond and Ensor (2005:11).

2.4.1 PRODUCT

Lancaster and Reynolds (2005:42) note that it is the product or service that remains the foundation of the marketing mix. The product or service should always be considered as the starting point for any marketing strategy because, without it, there is nothing to promote, price or distribute. Drummond and Ensor (2005:9) point out that products fulfil the needs of customer. A provider of products needs to make various product decisions, and these include functionality, the range of products being offered, their brand names, packaging, service and support. The product is usually the critical in central element in the mix, and all other decisions related to the product and are made in terms of the distinctive features of the product.

Berkowitz, Kerin, Hartley and Rudelius (1992:646-647) suggest that three aspects of the product/service component of the marketing mix warrant special attention. These three aspects are exclusivity, brand name and capacity management.

- **Exclusivity**

  Exclusivity can be described as a desirable dimension in a product such as its ability to be patented. A product's ability to be patented derives from its uniqueness. A major difference between products and services is that services cannot be patented.

- **Brand name**

  One of the most important aspects of the marketing of goods is the branding strategy used. But since services are intangible, the brand name of the business itself becomes a matter of vital importance because it provides a dependent means for describing the service that is provided.

- **Capacity management**

  A key distinction between goods and services is the inseparability of services. The customer has to be present during the delivery of the service. This makes it important to manage the demand for the service concerned. Service providers need to manage the availability of the offering so that (1) demand over time will fit smoothly with capacity, and (2) it can be assured that the assets of the business will be used in ways that maximise the return on investment (Berkowitz *et al.*, 1992:646-647).

2.4.2 PRICE

According to Lancaster and Reynolds (2005:42), price is important because of the direct impact that it makes on consumers, the business itself and the economy in general. Because price is an indicator of the quality of the offering in the eyes of the consumer, it is often an important factor in decision-making. For the business, the selling price (fees or fares for services) represents the way in which costs can be covered and the extent of the profit that can be made.

2.4.3 PROMOTION

Berkowitz *et al.* (1992:650-652) describe that the value of promotion (and of advertising in particular) for many services is to demonstrate to potential customers the benefits that will accrue from purchasing the service. Service providers need to emphasise factors such as availability, location, consistent quality, as well as efficient and courteous service in the promotional strategy. In most cases, the promotional requirements for services are similar to those that are needed for products. Publicity, however, is a factor that is more often associated with the promotion of services. The promotional element of the marketing mix allows a business to communicate with the desired target market. There are various promotional elements that can be used by a business. These include advertising, public relations, direct mail, Internet marketing and sales promotion. The aim of promotion is to make the target market aware of the product offering by developing a long-term relationship which is fostered by continually communicating the value the product or service that is being offered to the customer.

2.4.4 PLACE

Drummond and Ensor (2005:9) and Berkowitz *et al.* (1992:649) describe place (or distribution) as a major factor in developing service marketing strategy because of the inseparability of services from the provider. The purpose of distribution is to make the product available to consumers. Intermediaries are rarely involved in the distribution of services since the consumer has to be present at the place where the service is offered. Rix (2004:277) states that the most important requirement in the distribution of services is to bring the service supplier and the customer together. Since customers need to be present at the place where the service is produced, a convenient and suitable location is essential for the success of service businesses. The service supplier therefore needs to be located in a place or area where the customer can gain unimpeded access to the business. Certain service businesses have been able to overcome the problem of location by using the Internet as an effective business "location". Many service businesses operate by providing online information, and by offering clients facilities for purchasing and other services on line.

Nickels and Wood (1997:421) note that a customer has to be present during the production of the service when service is being marketed. For this reason, the

marketing channels used in the marketing of services are usually very short. These shorter channels benefit the customer because they make the purchasing, production, and consumption of services faster and more convenient for the customer.

2.4.5 PARTICIPANTS

The participants who were described as part of the services marketing mix above refer to all the people, such as employees and customers, who are involved in the service interaction. Jobber (2004:816) suggests that the inseparability of services confers on employees a critical of ability to influence customer perceptions of quality. It is absolutely vital for the employees of a service provider to be courteous, efficient and motivated if they wish to ensure the retention of the business's customers. An important marketing element of services is to set standards that will operate to improve the quality of service provided by employees. Without adequate training and rational control, employees tend to be variable in their performance. This kind of variability ultimately produces inconsistencies in the quality of service.

Drummond and Ensor (2005:10) believe that because services are people-based, the quality of the services that are provided depends squarely on the people who provide those services. It is the skills, attitude and motivation of a business's employees that determine whether the interaction between consumers and employees will be positive or negative, attractive or alienating. Employees therefore need to be thoroughly trained and grounded in the proper method to deal with problems, and they need to be empowered with whatever skills will enable them to offer quality service and favourable customer experiences.

2.4.6 PHYSICAL EVIDENCE

Jobber (2004:816) describes physical evidence as the environment in which the service is delivered and as any tangible goods that facilitate the performance and communication of the service. Drummond and Ensor (2005:10) state that because of the intangibility of services, customers are constantly alert for guarantees that they will receive the required benefits and quality. Customers are apt to identify physical evidence elements such as ambience, fixtures and fittings, appearances, and the attitudes of staff as indicators of the likelihood or otherwise of satisfaction.

2.4.7 PROCESSES

Processes, according to Drummond and Ensor (2005:10), Lancaster and Reynolds (2005:41) and Jobber (2004:816), are the procedures, mechanisms and flow of activities by which a service is acquired. Processes are used to deliver the service to consumers. They constitute the facilitation element of the service offering and they are the means by which a business deals with customers at the point of contact.

2.4.8 POLITICAL POWER

Kotler (1986:120) notes that it is vitally important for the marketer to obtain the support of industry officials, legislators, and government bureaucrats in order to enter and operate in the chosen target market. A business should therefore be able to identify whoever has the power and authority to exert a beneficial influence on the operation and future prospects of the business. Marketers need to be skilled in lobbying and negotiating so that they will have the capacity to build sound relationships with people in positions of power and thus obtain whatever response it is that they need from these people.

2.4.9 PUBLIC OPINION

Kotler (1986:120) adds this final element to the marketing mix. Public opinion or public relations represents a pull strategy whereas political power represents a push strategy. While it takes time to develop public opinion, a favourable public opinion can be of immense benefit to a business in the market. Businesses therefore need to acquire a sensitive appreciation and understanding of the community's beliefs, attitudes and values if they hope to understand the market.

2.5 CLASSIFICATION OF SERVICES

The broad definitions of services provided in section 2.3.1.1 make it clear that the concept of services is composed of many different elements. Clemes, Mollenkopf and Burns (2000:575-576) and Baron and Harris (1995) explain that managers need to determine which services they are dealing with if they want to develop an effective service strategy. A service classification can be of immense use to managers as they go about developing a service strategy scheme that will be

appropriate to their businesses. While various classification schemes are available for services, not all services fit exactly into the various schemes on offer. For this reason, managers must identify a service classification scheme that will best suit their needs. Two widely used classification schemes are presented below. The first scheme classifies services into three groups, while the second scheme classifies services in terms of three processes.

2.5.1 SERVICE CLASSIFICATION SCHEME ACCORDING TO GROUPS

According to this service classification scheme, which is described by Berkowitz *et al.* (1992:638-640), services can be classified into a following three groups:

- **Services can be people- or equipment-based**

  Equipment-based services refer to operations such as airlines that are managed by skilled personnel or automated vending machines. People-based services range from the services provided by unskilled labour such as security guards to those provided by professionals such as management consultants.

- **Services can rendered either for profit or for non-profit**

  Non-profit services refer to the kind of services that are offered by charities and other non-profit organisations such as Greenpeace. Profit-based services include services provided by businesses that depend on being able to make a profit. These would businesses such as hairdressers.

- **Services can be sponsored by government**

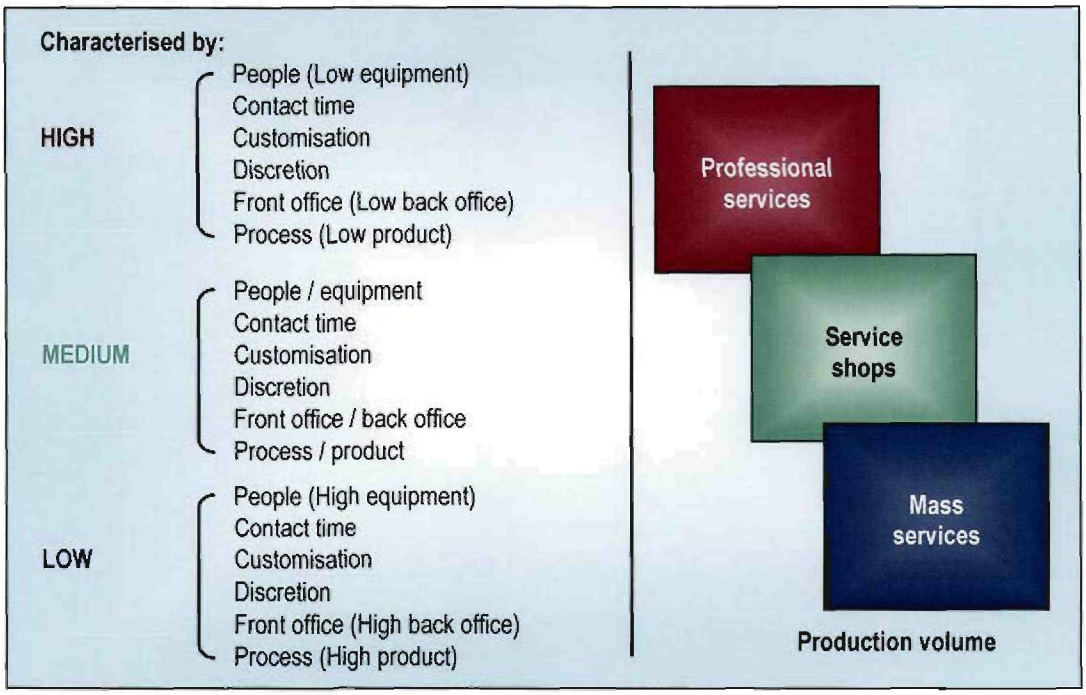
  Many governmental organisations such as local municipalities provide services to the community.

2.5.2 SERVICE CLASSIFICATION SCHEME ACCORDING TO PROCESSES

Olorunnino and Hsu (2006:108), Clemes *et al.* (2000:575-576) and Glynn and Barnes (1995:429) point out that services can also be classified according to three main types of service processes, namely, professional services, service shops, and mass services (figure 2.6). Each service process type is characterised in

terms of six dimensions, namely (1) people versus equipment; (2) level of customisation; (3) extent of employee/customer contact; (4) level of employee discretion; (5) value added in back office versus front office, and (6) product versus process focus.

FIGURE 2.6: CLASSIFICATION OF SERVICES ACCORDING TO PROCESSES



Source: Silvestro, Fitzgerald, Johnston and Voss (1992:73).

- **Professional services**

  The services that are offered to customers refer to those activities which are highly customised and process-oriented and which take place in the framework of extended contact periods with customers. These services are characterised by the huge amount of time that is expended on satisfying customer needs. Businesses that operate according to this paradigm include consultants and travel agents (Clemes *et al.*, 2000:575-576).

- **Service shops**

  This level of service can be situated between the two other types of process mentioned above. A customer who experiences this level of service will be offered moderate degrees of customisation together with a mixture of people and equipment, and value should be added by the front and back offices during

the entire process. Examples of this type include retail banks, rental services, and hotels (Clemes *et al.*, 2000:575-576 and Glynn & Barnes, 1995:429).

- **Mass services**

Olorunnino and Hsu (2006:108) and Glynn and Barnes (1995:429) state that mass services refer to customer transactions that take place in the context of a limited period of contact time and little customisation. The entire offering given to customers in the majority of businesses of this kind has the value offered in the back office. Examples include telecommunications companies, bus services, fast food outlets, airlines, and airport authorities.

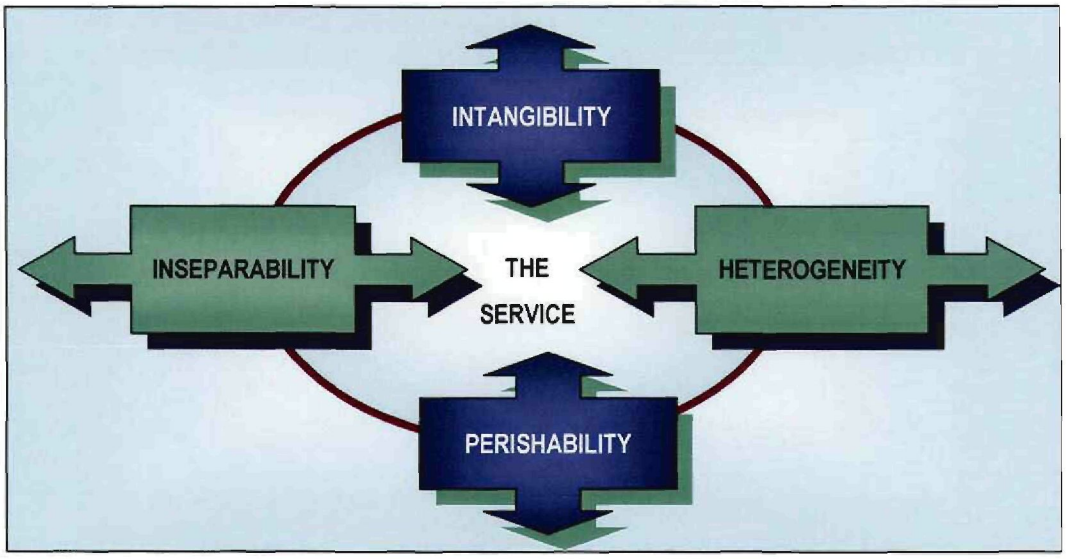
Figure 2.6 suggests that as the number of customers processed (production volume) increases, certain trends are likely to occur. Clemes *et al.* (2000:575) explain these trends include those where the:

- Focus moves from an orientation towards people to an orientation towards equipment;
- Length of contact time moves from high to low;
- Degree of customisation moves from high to low;
- Level of employee discretion moves from high to low;
- Value-added moves from the front office to the back office;
- Focus moves from a process orientation to a product orientation.

2.6 CHARACTERISTICS OF SERVICES

Although services can be classified according to the various classification schemes as described in section 2.5, services are rendered unique by their characteristics. Both goods and services vary according to their characteristics. Figure 2.7 illustrates the four different characteristics of services, namely, intangibility, heterogeneity, inseparability and perishability. Figure 2.7 below provides an overview of the characteristics of services that will be examined in detail in the discussion that follows.

FIGURE 2.7: THE FOUR CHARACTERISTICS OF SERVICES



Source: Payne (1993:7).

2.6.1 INTANGIBILITY

Among the various definitions of intangibility that are found in the literature, are the following:

- Monash University Business and Economics (2006) describe intangibility as "the notion that a service has no physical substance".

- Intangibility of services is defined by Jobber (2004:793) as that characteristic of services that cannot be seen, tasted, touched, or smelled before they are bought by the consumer.

- Olsen, Teare and Gummesson (1996:166) state that services are largely intangible because they cannot be smelled, tasted or touched. The intangibility of services means that quality standards can rarely be set – as is the case with physical products.

- Drummond and Ensor (2005:9) explain the intangibility of a service by noting the following; "...Service is not a physical object which can be examined, rather it must be experienced. Therefore, evaluating quality and suitability prior to purchase can be difficult."

The elements outlined above contribute to the following definition of, intangibility: *Intangibility is that identifiable characteristic of a service which cannot be seen, tasted or touched at the point of consumption, but which has to be experienced directly. The intangibility of services makes it difficult for customers to evaluate the level of quality before they have reached the stage and actually consuming the service concerned.*

The elements in the definitions of intangibility provided above make it clear that a customer cannot perceive a service before it is delivered. This means that customers are often in a position of not knowing what exactly it is that is a business is offering (Dean & Lang, 2008:48).

The intangibility of services makes it difficult for customers to understand whether or not they are receiving value for their money or for businesses to demonstrate the value of their services (Martin, 1999:324). As Drummond and Ensor (2005:9) and Berkowitz *et al.* (1992:635) explain, the most important part of the marketing of services is that marketers should be able to make their services tangible or should somehow at least strive to demonstrate the benefits that will accrue from the use of their services. As has already been pointed out, a service has to be experienced because it is not a physical object that can be touched or examined. This means that it is difficult or even impossible for a customer to evaluate the quality and suitability of services before they have already purchased them and experienced them.

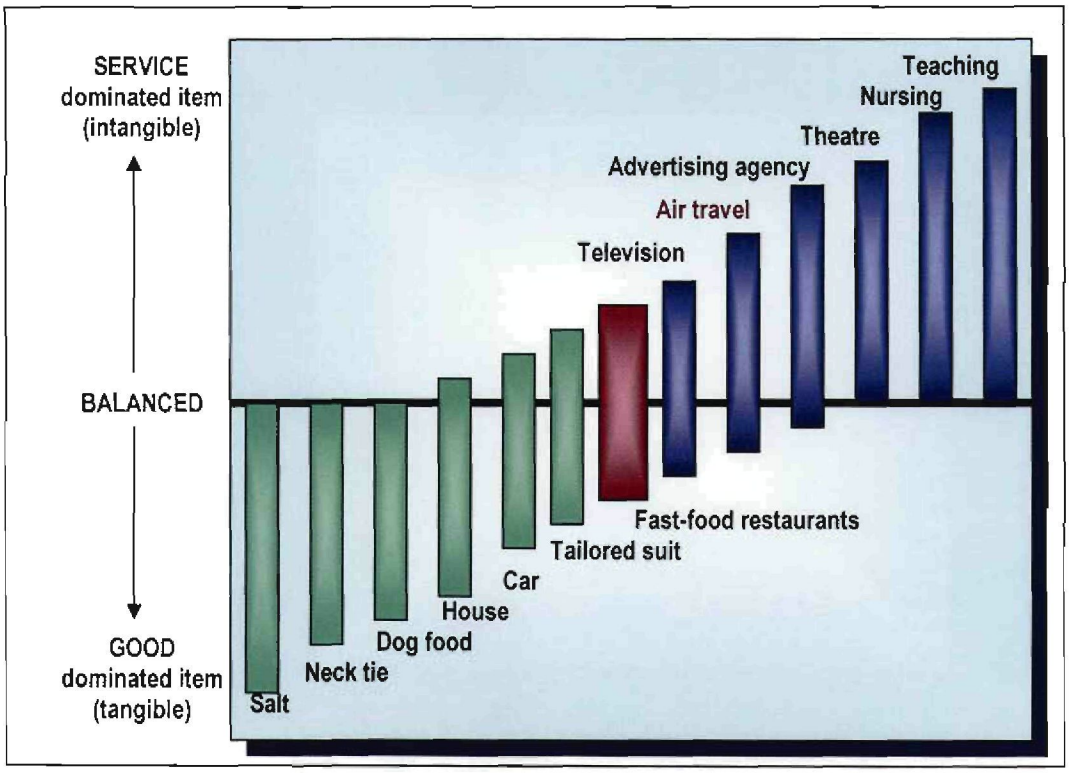
Drummond and Ensor (2005:109) state that customers can overcome the problem and obstacles of intangibility by basing their decisions on the recommendations of others or on the extent to which they desire the elements included in the service offering that add value to the experience.

2.6.1.1 The product/service continuum

Since so many products are being offered in the modern marketplace, the demarcation between goods and services is becoming increasingly blurred because so many physical products include some level of service together with the goods. This creates *the service continuum* that is illustrated in figure 2.8. Glynn and Barnes (1995:43) explain that the product/service continuum shows how various products can be plotted in terms of their tangibility (a goods-dominated

item) and intangibility (a service-dominated item). Salt, for example, represents a product which is completely tangible, while teaching is completely intangible service. Fast-food represents a product that is equally balanced in terms of tangibility and intangibility because the physical product that is bought (such as a branded burger) is carefully balanced against the standardised levels of service provided by the seller (which include elements such as friendly service, a pleasant ambience and the convenience of a drive-through connection facility).

FIGURE 2.8: THE PRODUCT/SERVICE CONTINUUM



Source: Berkowitz *et al.* (1992:638) and Shostack (1977:77).

2.6.2 INSEPARABILITY

The following definitions explains the concept of inseparability:

- Drummond and Ensor (2005:10) and Jobber (2004:795) describe inseparability as services that are simultaneously produced and consumed.

- Payne (1993:7) adds the element of customer participation by noting that the inseparability of services occurs because such services are typically produced and consumed at the same time. This of course requires the presence and participation of the customer in the process.

- Monash University Business and Economics (2006) describe inseparability as "the notion that a service cannot be separated from the service provider".

If these elements are taken into account, inseparability can be described in the following way: *Inseparability is that element which makes a service impossible to detach from the service provider because the services are produced and consumed at the same time and because the consumer participated directly in the production process.*

Kassim and Souiden (2007:219), Mudie and Cottam (1993:9-10) and Nicoulaud (1988:60) elucidate the following distinction between physical goods and services. Physical goods go through a process of production and storage before they can be sold and consumed while services are sold before they are produced and consumed simultaneously with their production. Services often cannot be separated from the service provider. The proper selection and training of customer staff are essential to ensure that the required standard of service quality will be delivered and that repeat purchases are therefore likely to occur. Drummond and Ensor (2005:10), Martin (1999:325) and Berkowitz *et al.* (1992:635) add that because of the fact that services are produced and consumed simultaneously, customers may not be able to evaluate their service purchases until after they have received and paid for the service. Since services are produced in the presence of customers, the precise interaction and the nature of the relationship between supplier and customer is of the greatest importance. Customers may even find it difficult to separate a service from the deliverer or from the setting or location in which the service is provided. This, of course, makes the environment within which the product is produced a vital consideration in determining probable customer reaction to the service offering.

Inseparability therefore is that characteristic of services which reflects how all parties involved in the service provision experience the process. These parties include the provider and well as the customers who receive the service (Hoffman, Czinkota, Dickson, Dunne, Griffin, Hutt, Krishnan, Lusch, Ronkainen, Rosenbloom, Sheth, Shimp, Siguaw, Simpson, Speh & Urbany, 2005:318).

2.6.3 HETEROGENEITY

Heterogeneity can be defined as follows:

- According to Monash University Business and Economics (2006), heterogeneity is one of the four distinguishable characteristics of a service. This means that a service may vary in standard or quality from one service provider to the next and from one occasion to the next. Heterogeneity is also referred to as variability.

- Doyle (2005:286) defines heterogeneity as the "characteristic of services that makes it is impossible to standardise services since there are multiple variances in the type and the delivery of services".

- Olsen *et al.* (1996:166) describe services, especially those with a high labour content, as *heterogeneous*. This means that their performance can vary from producer to producer, from customer to customer and from day to day. It is therefore difficult for any business to ensure uniformity of quality.

- "Heterogeneity can be defined as that distinguishing characteristic of services that reflects the differences in consistency from one service transaction to the next" (Hoffman *et al.*, 2005:320).

By extracting elements from the various definitions assembled above, it is possible to offer the following definition of heterogeneity. *Heterogeneity is that element which causes services to vary in consistency – from the person who provides the service, to the place in which the service is provided, and time at which the service is offered.*

Mudie and Cottam (1993:10) suggest that because of the inseparability of services (the fact that the production and consumption of services occur at the same time), variability in levels of service are inevitable. This is caused by the fact that different people produce services at different times, in different conditions, and under different circumstances. Noticeable variations in the quality of services can be caused by inadequate training, failures in communication and lack of essential support and backup. Berkowitz *et al.* (1992:635) and Nicoulaud (1988:62) explain that high levels of variability mean that customers have to cope with high levels of uncertainty and risk when they purchase particular services. Because the service that is offered depends on the nature, condition, moods and attitudes of the people (the employees) who provide the service, it is inevitable that the quality of most services will be inconsistent and will vary from day to day because of each

employee's distinctive capabilities and ability to perform the tasks required by the business.

This variability or inconsistency can be attributed, according to Martin (1999:324) and Glynn and Barnes (1995:44), to the fact that different service providers supply services on different occasions, and because, firstly, the people who provide the service are not always exactly in the same frame of mind or condition, and, secondly, because the interactions between employees and providers vary from one customer to another. This means that service providers have to control the level of the variation in the service they provide as consistently as possible and must manage customer expectations.

Swartz, Bowen and Brown (1998:10) state that service experience differs from one service provider to another or even within the same group of service providers over time – a fact that is directly verifiable from the experience of different consumers. This kind of heterogeneity may in fact constitute a desirable element of a service business because it may be the means by which a business customises its service to satisfy each customer's unique needs. Heterogeneity can also be caused by "due noise" – the large or small errors in procedure and method that result in inconsistencies and unpredictable performance.

2.6.4 PERISHABILITY

The following definitions of perishability were obtained from the literature:

- Perishability, according to Drummond and Ensor (2005:10), is described by the fact that services cannot be stored. This means that the rate at which services are supplied needs to be carefully matched to the demand for such services.

- Jobber (2004:796) points out that services are perishable because the consumption of a service cannot be "stored" for later consumption.

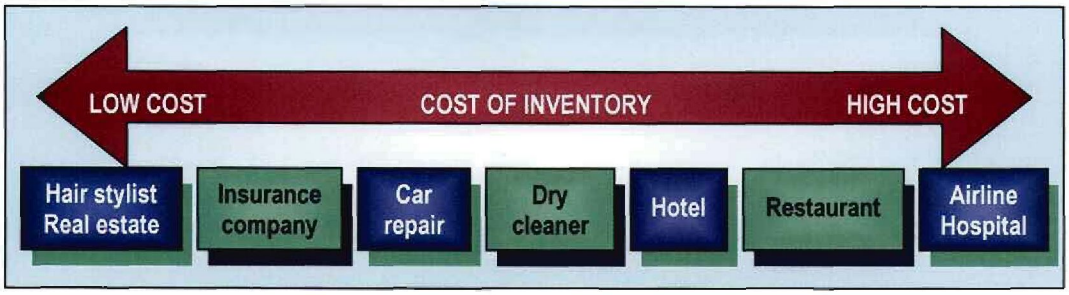
- Monash University Business and Economics (2006) define perishability as "the notion that a service cannot be made in advance and stored".

By taking the above elements into account, the following definition of perishability can be offered: *Perishability means that services cannot be stored for later use by*

consumers, nor can they be made or performed in advance. Perishability implies that a service must be consumed by a consumer at the very time at which it is produced.

Berkowitz *et al.* (1992:636-637) add that although services are perishable and cannot be stored for later consumption, certain services are associated with a physical product which implies that certain carrying costs are involved. These "carrying costs" refer to the cost of compensating the customer who used the service as well as any equipment that was needed for the production of the service. Figure 2.9 illustrates a sliding scale of inventory carrying costs. Airlines and hospitals are located on the high-cost side while real estate agents and hair stylists are represented on the low-cost end. The inventory carrying costs of airlines is high because of the expensive equipment that is involved in their operational procedures and the salaries that have to be paid to the staff. On the other end of the spectrum, real estate agents and hair stylists often work on commission and the equipment they need to conduct their business is often inexpensive or incidental to what they already possess.

FIGURE 2.9: INVENTORY CARRYING COSTS IN SERVICES



Source: Berkowitz *et al.* (1992:637).

The section that described the development of services marketing (section 2.2.1) established that the characteristics of services and goods differ and that this influences the way in which they need to be marketed. Table 2.1 elucidates these differences.

TABLE 2.1 DIFFERENCES BETWEEN GOODS AND SERVICES

Physical goods	Services
Tangible	Intangible
Homogenous	Heterogeneous
Production and distribution are separated from consumption	Production, distribution and consumption are part of a simultaneous process
An object	An activity or process
The core value is produced in a factory	The core value is produced in buyer-seller interactions
Customers do not (normally) participate in the production process	Customers participate in production
Physical goods can be kept in stock	Services cannot be kept in stock
Transfer of ownership is involved	No transfer of ownership is involved

Source: Grönroos (2004:47).

Table 2.1 provides a summary of the in which goods and services differ. While services are intangible, inseparable, heterogeneous and perishable, physical goods can be touched and seen. Physical goods can be produced in a different location from where the customer will ultimately come into contact with them. They can also be mass produced and stored for later use.

Once one has acquired a proper understanding of what services and services marketing are, how they can be classified and what the distinguishable characteristics of services are, it becomes possible to determine the best ways for services to be marketed.

2.7 IMPLICATIONS FOR SERVICE MARKETERS

It was noted in section 2.5 (the classification of services) that various marketing problems arise in connection with each of these classification schemes because of the distinctive characteristics of the services involved (section 2.6). The various marketing problems that arise out of the services classification scheme are explained by Clemes *et al.* (2000:585) and Silvestro *et al.* (1992:72). They include the following:

- **Professional services**

  The main problems experienced by those who offer professional services occur because the intangibility and heterogeneity of professional services result in a variety of problems. Such problems occur in connection with the advertising and communication of their services, the calculation of accurate costs and the setting of prices.

- **Service shops**

  Since customers are actually involved in the production process of services in service shops, the difficulties experienced by service shops may be even greater. Such difficulties arise out of the fact that the involvement of customers may cause customers to demand higher levels of customisation than the service shops concerned are either able or willing to provide.

- **Mass services**

  Mass services experience fewer of the marketing problems that arise from the intangibility and heterogeneity characteristics of services than the businesses mentioned in the previous two classification categories. One marketing problem that mass services do experience, however, relates to the degree of control over customers that they experience. This could be caused by the fact that customers are not directly involved in the production of the service concerned. Because the services offered to customers are also more standardised in such businesses, customers might feel that they have no influence over service standards and might therefore deduce that they have less control over what is offered to them.

Although the marketing problems of only one classification scheme have been discussed here, there are also a variety of marketing implications that are experienced by those who operate businesses listed under the other classification schemes. As businesses become more aware of the uniqueness of the services they offer and as they begin to take the idiosyncrasies, marketing characteristics and services marketing mix offered by their business into consideration, it will become easier for them to provide quality as part of the service encounter.

2.8 THE SERVICE ENCOUNTER

The service encounter is defined by Boshoff (2007:41) as the period of interaction between a customer and a service provider.

Laing, Lewis, Foxall and Hogg (2002:479 & 481) assert that the service encounter has become the main focus in marketing, and especially in the marketing of services. They define it as the point at which customers evaluate the service offering of businesses as well as the place in which the service supplier is given an opportunity to manage to manage customer perceptions of the service that is being delivered.

It therefore becomes essential for businesses to take an active interest, not only in the customers themselves, but also in the quality of the interaction between their customers and the businesses' employees during the actual time when the service is being delivered. By doing this conscientiously, a business can create additional value for itself and become more aware of its habitual modus operandi (Gummesson, 1993:78).

It is also vitally important for the managers of a business to determine exactly who should be involved in the service encounter and to have a clear idea are of precisely how the entire service encounter should be organised.

2.8.1 SERVICE TRIANGLE

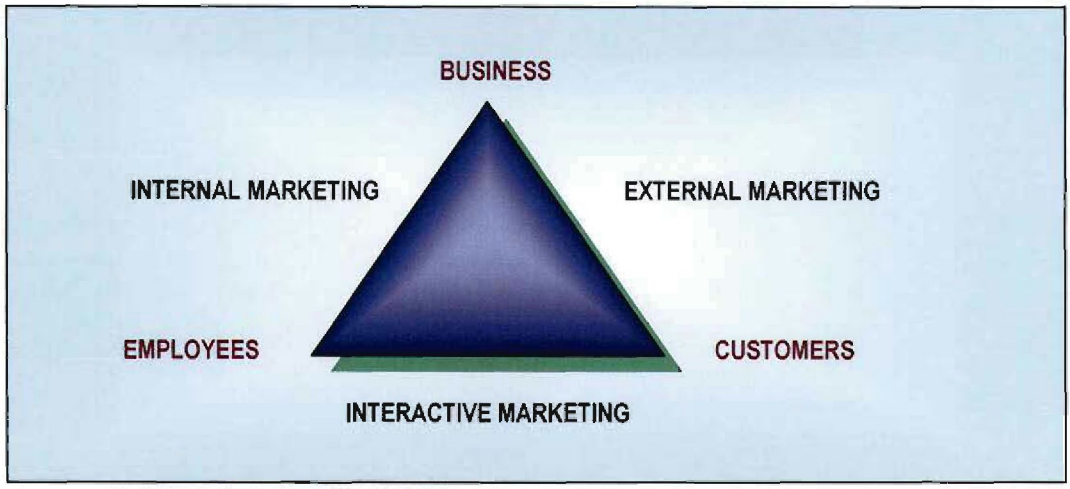
The service triangle refers to all those elements that are required to provide customers with service (Zeithaml *et al.*, 2006:356).

Zeithaml *et al.* (2006:355-356) point out that the services marketing triangle (see figure 2.10) emphasises the importance of the ability of people in the business (the employees) to build customer relationships that are a required as part of the business plan of the operation. The services marketing triangle reveals the three elements which are inextricably interlinked and how each is needed to develop, promote, and deliver services. These key elements are the business, the customers and the providers. "Providers" refer to a business's employees, subcontractors or outsourced entities who deliver goods or services. Three kinds of marketing must be carried out between the stakeholders involved in the three

points of this triangle in order for a service to succeed. The three points refer to external marketing, interactive marketing, and internal marketing.

The external marketing efforts of a business refer to the ways in which the business communicates with its customers. At the bottom of the triangle is the element of interactive marketing. This refers to the way in which the employees of the business interact with customers, and it is obviously important that employees have the ability to provide customers with a kind of quality service that the business sells. The left side of the triangle refers to the role of internal marketing. Management provides employees with the tools, skills, methods and attitudes they need to deliver the envisaged service to customers. These tools include recruiting, training, motivating, rewarding, and providing equipment and technology. The activities represented by all three sides of the triangle are essential, and each side of the triangle should be accorded equal importance because one side of the triangle is not more important than another. What is promised through external marketing, for example, should be precisely what is delivered, and internal marketing should be aligned with what is expected of service providers (Zeithaml *et al.*, 2006:356).

FIGURE 2.10: SERVICES MARKETING TRIANGLE



Source: Zeithaml *et al.* (2006:356).

2.8.2 ORGANISING FOR SERVICES - SERVICE DESIGN

Service design means all the component activities that together constitute a particular service. These include the service system as well as the service delivery process to the customer. If a service has not been designed with the customer in

mind, implementation problems will occur (Shostack, 1987). It is the responsibility of a business to make certain that the service design includes an appropriate standard of service quality.

2.8.3 SERVICE QUALITY

Bitner, Booms and Stanfield Tetreault (1990:72) and Parasuraman, Zeithaml and Berry (1985 & 1988) define *service quality* as the assessment of a service business that arises from a comparison between the performance of a business and its customers' expectations of how that business should perform.

As Hoffman *et al.* (2005:324-325) explain, service quality can be described as that attitude which is formed by a long-term, comprehensive evaluation of performance while providing ways for businesses to achieve a competitive advantage. The entire service experience depends on how involved the customer is in the production process. This means that the traditional quality control measures that are part of traditional manufacturing processes (which depend on eliminating defects and problems before the customer purchases the physical product) do not apply. Service quality, therefore, cannot be achieved or completed before the final product has reached the customer. This means that while manufacturers of physical product or goods aim for *zero defects*, the main goal of a service business is to aim for *zero defections* – which necessitate attending to and eliminating problems as they occur in real time.

Quality in services has become a very complex issue and it involves all the functional areas of a business. One of the measures that has been developed as a result of concerns with quality in marketing is the SERVQUAL scale which is used to measure how customers perceive the quality of service purveyed by service providers (Ladhari, 2008:65 and Easingwood & Arnott, 1991:20). But, as Jain and Gupta (2004:25) point out, the most serious problem connected with the measurement of service quality is that quality is not easily identifiable and measurable because of the particular characteristics of services. The SERVQUAL scale was developed to overcome these problems and to provide a credible instrument for measuring service quality. One of the difficulties associated with this scale is, however, that an enormous amount of data has to be collected before *adequate measurement can take place.*

Olsen *et al.* (1996:166) add that while service quality refers to the overall evaluation that customers make of the service encounter, it is necessary for each individual customer to be satisfied by the service encounter.

Olorunnino and Hsu (2006:109), Hutt and Speh (2004:334) and Nickels and Wood (1997:323) provide some insights into how customers evaluate service quality. Table 2.2 shows that customers focus on five dimensions in evaluating service quality. These five dimensions are reliability, responsiveness, assurance, empathy and tangibles. It has been found that customers regard experience reliability (the ability of a business to deliver on promises) as the most important of these five dimensions. The quality of service ultimately depends on the performance and attitudes of the employees who engage in face-to-face contact with the business's customers. Customers are always on the lookout for employees who will be responsive and who will be able to adapt the service offering to meet their particular needs. Employees may be able to compensate for temporary quality problems by promptly acknowledging and by quickly responding to the problem. Actions of this kind may even strengthen the relationship that the business already has with its customer. (Service quality will be discussed in more detail in section 3.5.3.)

TABLE 2.2 THE DIMENSIONS OF SERVICE QUALITY

Dimension	Description	Example
Reliability	Delivering on promises	Flights leave on time
Responsiveness	Being willing to help	Prompt reply to customers' requests
Assurance	Inspiring trust and confidence	Professional and knowledgeable staff
Empathy	Treating customers as individuals	An ability to adapt to the special needs of customers (such as the provision of assistance to disabled passengers on a flight)
Tangibles	Representing the service physically	Distinctive materials such as brochures, documents and flight tickets

Source: Hutt and Speh (2004:335).

2.8.4 DECISION-MAKING AREAS

According to Gilmore and Carson (1996:41), managers often find it more difficult to manage services than to manage products because many of the characteristics of services make them more difficult to assess and control. Since services need to be performed rather than produced, it becomes difficult to provide the same level of quality at each point of interaction with a customer, and it is correspondingly more difficult to make appropriate decisions because each interaction is different. Since each customer also expects a different level of service or requires different information, each employee has to be able to adapt to the degree of customisation required by a specific encounter and the level of judgement that needs to be exercised in each new situation. In addition to this, the demands and needs of customers may change as new services are introduced into the market, and new standards may have to be devised to cope with the requirements generated by such innovations. What does, however, remain constant is that the quality of decision-making has to improve if a business wishes to retain its competitive advantages.

Gilmore and Carson (1996:450) explain that the main areas of decision-making within the services marketing area are those activities that affect the development of new services, the pricing of services, methods of communicating information about services to customers, decisions about customer-staff interactions, and the collection of whatever information may be relevant to both the customer and the market. All these activities represent areas in which decision-making and the provision of service quality are of paramount importance, and each of them will have to be carefully considered as services assume an ever more important role in the society of the future.

2.9 A VIEW OF THE FUTURE OF SERVICES

By recognising how radically services marketing has changed since the 1960s and the primacy accorded by modern businesses to the provision of services in the contemporary marketplace, the extent to which services marketing has created a completely new business paradigm and environment can begin to be appreciated. The "goods versus services" debate of the 1970s and early 1980s was instrumental in making business people aware of the importance of services and the extent to which services were neglected during the early stages of marketing.

But the course of that debate served to obfuscate the necessary synergy between manufacturing and service businesses. There is still some way to go before academics and practitioners develop a clearer understanding of what needs to be achieved and how far both kinds of business need to interact before they can maximise their mutual benefits (Lovelock & Gummesson, 2004:37).

Grove, Fisk and John (2003:114-115) are of the opinion that services should play an even larger role in the realisation of profitability, customer satisfaction and loyalty – as well as in improvements in the process of interactions between customers and employees and the way in which customers experience the services provided by businesses. They also feel that a greater emphasis should be placed on the importance of services in businesses that traditionally concentrate on the production of physical products. And, finally, the authors believe that a greater emphasis should be placed on the international marketing of services.

2.10 SERVICES MARKETING IMPLICATIONS FOR THE AIRLINE INDUSTRY

The services marketing elements that had been discussed in this chapter have certain implications for the airline industry. The implications of the marketing mix of services, classification of services, characteristics of services and the service encounter itself with regard to the airline industry will be discussed in that follows below.

2.10.1 MARKETING MIX IMPLICATIONS

The following section describes the marketing mix implications for the airline industry.

- **Product**

  The product/service continuum presented by Clemes *et al.* (2000:575) – see figure 2.8 – shows that airlines are a service-dominated industry that is only partly dependent on the availability of goods. This means that although certain physical elements of the product (such as the ticket, in-flight food and the aeroplane itself) always need to be available, the main reason for the existence of an airline is to provide the *service* of transportation.

Driver (2001:127) suggests that the "product" involved is more than just a seat on an aeroplane. The product concept in the airline industry needs be extended to include other vital aspects of any passenger airline business such as safety, comfort, and convenience (in terms of the frequency and availability of flights).

- **Price**

Driver (2001:128-130) notes that the pricing structure of airlines is extremely complex and that it is not well understood by customers. The pricing structure per ticket is influenced, for example, by variables such as distance travelled and number of seats which are filled on a particular flight. Although the number of seats available are known long before the departure of the flight, blocks of seats may be sold for resale to businesses who operate in conjunction with the airline industry such as travel agents, or even other airlines. But once a ticket has been purchased by an individual customer, it is non-refundable and cannot be re-sold. But the existence of the Internet has now made it possible for customers to determine the prices of different flights on various airlines before they decide which ticket to purchase. Airlines also typically overbook to allow for customers that do not arrive – even though such overbooking creates the risk of having to move customers to another flight which might cost more than what the customer originally paid (and, of course, the difference will have to be borne by the airline itself).

The prices of tickets are also influenced by peak-times. These peaks can occur on a daily, weekly or seasonal basis. The fares charged are adjusted to these peak and off-peak periods. The price that customers are prepared to pay for flights also depends on the preferences that customers have for a particular airline, the availability of capacity for the desired flight, and the availability of a particular route (Driver, 2001:130).

- **Promotion**

Driver (2001:128) explains that customers rely on their own past experience to assess many aspects of the product offering of the airline industry. It is for this reason that the promotional efforts of airlines provide customers with an "image" of what they may expect. Marketing communications (promotion)

should typically extend beyond advertisements and other media. The manner in which airline staff communicate information in particular situations that are outside the control of the airline, such as delays in flights, will influence the customers' experience of the flight.

- **Place**

Rix (2004:277) notes that many airlines provide their customers with Internet facilities for services such as the purchasing of tickets on-line, schedules about forthcoming flights, and the provision of links to other services such as accommodation and car hire. Because of the convenience of the Internet, location (place) has lost much of its traditional significance. But this is only true for information provision and ticket purchases and not for the actual delivery and experience of the service. Potential customers are still able to purchase tickets and obtain information about flights from traditional travel agents. In order to experience the service itself, customers must still travel to the airport and board the aircraft.

- **Participants**

Zeithaml *et al.* (2006:26) and Clemes *et al.* (2000:575) note that the participants in the marketing mix include not only the customers, but also airline staff such as pilots and flight attendants. It is the airline staff that is directly involved in the production and delivery of the service.

- **Physical evidence**

Zeithaml *et al.* (2006:26) explain that physical evidence in the airline industry is represented by all the tangible elements the airline gives to its customers. These include elements such as the ticket, leg room, meals and drinks.

- **Processes**

Zeithaml *et al.* (2006:27) describe that the process involved in the airline industry as the flow of activities which deliver the service. These include procedures such as the check-in, the times when meals are served, and the disembarking procedures.

- **Political power**

Kotler (1986:120) point out how important it is for airlines to gain the support of industry officials, legislators, and the government of the country in which they operate. The domestic airlines that operate within South Africa will thus have to form sound relationships with organisations such as the Airports Company of South Africa (ACSA) and the Civil Aviation Authority (South Africa, 2006).

- **Public opinion**

Section 2.4.9 described how businesses can make use of sponsorships and how they can, through cooperation with the media, positively influence their potential market. South African Airways (2006), for example, sponsored the Altech South African Grand Prix at Kyalami and the Women's World Cup of Golf in George in 2005. Kulula.com (2006) sponsors the Cow Parade South Africa – which is an art exhibition that raises funds on behalf of children with cancer.

2.10.2 IMPLICATIONS OF THE CHARACTERISTICS OF SERVICES

The characteristics of services that were described in section 2.6 can have a decisive implications for the airline industry. Each of these service characteristics and their implications are described below:

- **Intangibility**

Drummond and Ensor (2005:110) and Santos (2002:294) state that although certain tangible elements of the flight, such as the ticket and the food on the aeroplane, may be present, the main service of the airline is to provide customers with what is really an intangible service, namely, transportation.

- **Inseparability**

Grönroos (2004:48) and Drummond and Ensor (2005:110) explain that the customer is an integral part of the transportation experience and is inseparable from the production of the service. Customers are unable to judge the quality of the flight until the aeroplane has landed at its destination and they have

disembarked. By that time, customers would already have paid for a flight about which they would have had no prior knowledge about the levels of service that they could reasonably expect on the flight itself.

- **Heterogeneity**

Drummond and Ensor (2005:110) point out that airline employees undergo training to minimise the variability of service levels in order to overcome the characteristic of heterogeneity that is inherent service provision.

- **Perishability**

Driver (2001:130) and Nickels and Wood (1997:317) note that it is the very perishability of the services offered by airlines that cause them to experience fluctuations in demand at certain peak times. Airlines all have fixed capacities, and only a certain number of seats are available to be filled and paid for in each aeroplane, even during times of low demand. This implies that every airline need to have a clear demand management strategy in place.

2.10.3 THE SERVICE ENCOUNTER IMPLICATIONS

According to the service triangle of Zeithaml *et al.* (2006:356) – described in section 2.8.1 – all three elements need to be co-ordinated. The external marketing communication messages that customers get must coincide with the actual levels of services that customers receive. The management of the airlines must ensure that all employees are aware of their required levels of service and must train their employees to the necessary level to deliver those service levels.

It was Hutt and Speh (2004:335) who describe how, customers focus on five different dimensions when they evaluate service quality (table 2.2). Airline customers evaluate service quality in terms of how *reliable* an airline is in delivering on promises such as expected times of departure. They also measure service quality in terms of how *responsive* airline personnel are to customer requests or queries. Customers need *assurance* that airline personnel are sufficiently well trained and knowledgeable to respond to their queries. They also expect airline employees to be able to demonstrate sufficient *empathy* and to meet the special needs of, for example, disabled customers. They also expect airline

staff to have the ability to treat customers as individuals. In addition to this, they measure service quality in terms of the tangibles (such as tickets, documents and information pamphlets) that airlines provide for their customers.

2.11 CONCLUSION

This chapter provided a background to how services marketing developed. It discussed the three phases in the development of services marketing, as well as how the idiosyncratic characteristics of services that make them unique in the way in which they need to be marketed. The examination and identification of the characteristics of services led to an extension of the marketing mix to include various service elements. The nature of the service encounter was discussed as well as the importance of service quality in business. A brief reflection on the future of services was also provided.

Although this chapter identified services and specifically dealt with the characteristics of services and its various issues, it became apparent that airlines do not provide pure services, but that what they do provide should rather be classified as mass services. For this reason, the next chapter will explore how businesses need to integrate the service element with the physical product and how they need to provide customer service that will maximise customer satisfaction.

Chapter 3
CUSTOMER SERVICE AND CUSTOMER SATISFACTION

3.1 INTRODUCTION

Chapter 2 concentrated on the marketing of services. This chapter identifies the elements of customer service and how they affect customer satisfaction. The aims of the chapter are to:

- Explain how customer service forms part of services marketing;
- Discuss the six markets model;
- Describe customers in terms of the definition of a customer, the customer life-cycle, customer needs and expectations, customer value and customer focus;
- Explain customer service in terms of its definition, the importance of customer service and a description of service quality as an integral part of customer service;
- Discuss the Gaps Model of service quality;
- Describe customer satisfaction in terms of its definition and the influence that it has on service quality;
- Discuss various models of customer satisfaction, and
- Explain how customer service and customer satisfaction influence the airline industry.

3.2 FROM SERVICES MARKETING TO CUSTOMER SERVICE

Zeithaml *et al.* (2006:5) confirm that customer services form a critical part of services in general. Chapter 2 pointed out how services marketing places the emphasis on the marketing of services. Customer service, by contrast, refers to those services that businesses provide in order to support the sale of their basic physical product. The service continuum (discussed in section 2.6.1.1) emphasises that very few services can be regarded as pure services. This, in effect, means that many physical products have a certain level of services that are

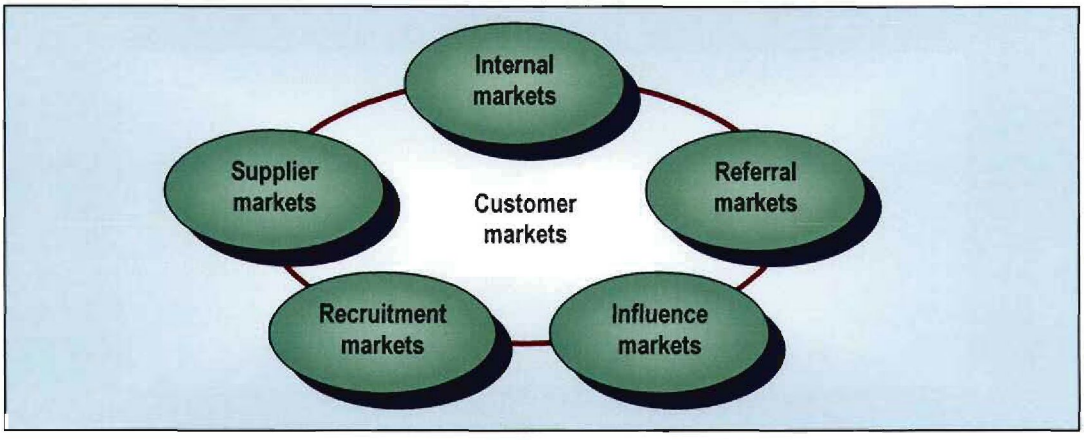
associated with them. Customer service is used by businesses as an additional element in their marketing strategy in order to market their physical products.

3.3 SIX MARKETS MODEL

Before the concept of customer service and customer satisfaction can be described in more detail, it is important to understand the markets within which businesses function. Anderson, Lindgren and Wiliö (1999:57) suggest that if businesses understand the markets within which they operate, they will be in a good position to develop long-term beneficial relationships within each of these markets. It is through the co-ordination of these markets that customer value and satisfaction can be increased.

The concept that a business might function within various markets was initially suggested by Christopher, Payne and Ballantyne (1991:23-30). Their six markets model is illustrated in figure 3.1. The model suggests that there are six markets within which each business functions, and they refer to these markets as internal, referral, influence, recruitment, supplier and customer markets. As the figure below shows, the customer market is the centre and focal point of the model. This model with all its elements will be discussed in detail in order to provide a background to the customer market because it is the customer market which influences customer service and customer satisfaction. Donaldson and O'Toole (2002:25) suggest that each of the six markets should be identified, analysed and planned before a marketing strategy or relationship with customers can be developed.

FIGURE 3.1: THE SIX-MARKETS MODEL: A BROADER VIEW OF MARKETING



Source: Glynn and Barnes (1995:327) and Christopher *et al.* (1991:23).

Glynn and Barnes (1995:329) are of the opinion that each of the six markets do not require the same amount of attention and resources. They feel that it is up to each business to make decisions about the level of attention that they feel is appropriate for each particular market. This can be done by:

- identifying the key participants in each market;
- determining the level of expectation and requirements of the key participants;
- reviewing the current and proposed level of effort and resources that the business applies and intends to apply to each market, and
- formulating a marketing strategy that will be accompanied (where appropriate) with a marketing plan for each market.

3.3.1 CUSTOMER MARKETS

Doyle (2005:99) defines the customer market as the market which is characterised by individuals or groups of people who purchase goods or services for consumption.

In this study, the customer market refers to *individual passengers who fly with a domestic airline.*

The customer market described by Donaldson and O'Toole (2002:25) and Glynn and Barnes (1995:327) is important because customers must remain the prime focus for marketing activity and the market that they constitute represents the core of the six market model. These authors are of the opinion that the focus of marketing should be directed towards the formation of relationships with customers and less on traditional transaction marketing. The development of customer retention through the building of relationships with customers is a central theme in the management of customer markets.

While McDonald *et al.* (2001:54) concur with the conclusion of earlier researchers with regard to fact that the customer is the primary focus of marketing, they add the additional emphasis that businesses need to work harder at marketing for their existing customers. McDonald *et al.* (2001:54) note that businesses that place the primary focus on their marketing strategy on new customers often experience the "leaking bucket" effect. The "leaking bucket" effect means that many existing customers will defect to competitors if a business directs too little of its marketing

activity at its existing customers and if the customer service they offer their customers is below the standard of that offered by their competitors. Many businesses assume that customers will remain loyal to their business in the long-term when such customers are actually dissatisfied but remain "loyal" because of indifference and inertia. Many businesses in fact fail to understand how important it is to maintain and nurture their relationships with their existing customers.

3.3.2 REFERRAL MARKETS

Baker (2003:15) defines referral markets as those markets that include parties such as customer advocates, intermediaries and business advisors.

Although Payne (1993:34) is of the opinion that the best marketing for a business is that which is carried out by the business's own customers, there are also other sources of referral. Christopher, Payne and Ballantyne (2002:87), McDonald *et al.* (2001:57) and Glynn and Barnes (1995:328) have divided referral markets into two main categories. The first category comprises the existing customers of a business, while the second category refers to intermediaries or non-customer referral sources. If a business hopes that their existing customers will act as referrals, it is essential for that business to offer existing customers quality service and customer satisfaction. A business therefore needs to identify the current and potential importance of its referral sources. If a business hopes that the participants in this market will act as referrals, it is important for it to develop a relationship with its participants. The development of such relationships takes time.

The Cranfield School of Management (2000:105) are of the opinion that most referrals come from satisfied customers. It is for this reason that businesses need to give priority to customer service and customer satisfaction because these factors can make an enormous impact on the level of a business's profits.

3.3.3 SUPPLIER MARKETS

The participants comprising the supplier market include business partners, suppliers, consultants and contractors (Baker, 2003:15).

McDonald *et al.* (2001:57-58) note that the practice in the past was that businesses would try to obtain the best possible prices from suppliers. But this expectation is now changed as both businesses and suppliers have come to appreciate the importance of building relationships. It is by means of nurturing such long-term relationships that suppliers are unable to offer competencies that are usually knowledge-based rather than product-based. When a business is committed to a supplier on the basis of a mutually profitable relationship, it will find itself in a position to offer benefits such as:

- enhanced product and service quality and a focus on continuous improvement;
- a greater likelihood of supplier-driven product and process innovation;
- lower total costs because of supply chain integration, and
- higher levels of responsiveness.

Donaldson and O'Toole (2002:26) note that supplier markets are also important because suppliers play a vital role in the creation of a value system for business in general. The quality of the inputs provided by the supplier therefore exerts an influence on the quality of the service that the business can offer to its customer.

3.3.4 RECRUITMENT MARKETS

Recruitment markets include employment agencies, graduates, and the pool of potential employees (Baker, 2003:15).

Glynn and Barnes (1995:328) state that the scarcest resource for a business is skilled personnel. McDonald *et al.* (2001:58) add that businesses should recognise the importance of high-quality recruits. Because a high-quality recruit is someone one who shares the values of a business, businesses need to market themselves as potential employers to the recruitment market if they hope to obtain recruits of the best quality. Quality staff are especially important in businesses that provide services to their customers. The recruitment process itself offes businesses opportunities for conveying a positive image to potential new recruits.

3.3.5 INFLUENCE MARKETS

According to Baker (2003:15), the participants in the influence market include venture capitalists, regulators, lobbyists and litigators.

Glynn and Barnes (1995:328) state that influence markets vary according to the industry sector. Governmental and regulatory departments are important to businesses that are concerned with infrastructure such as communications or utilities. Other influence markets include financial analysts, stockbrokers, shareholders, business journalists, and consumer groups. Although dealing with the influence market is usually one of the tasks of the public relations officer, it remains an important marketing activity. McDonald *et al.* (2001:58-59) add that influence markets may make a positive or negative impact on a business. It is the responsibility of the managers of a business to identify the influence markets that will affect their business and to develop an appropriate marketing plan for them.

Peck, Payne, Christopher and Clark (1999:9) note that although forming relationships with influence markets may not directly add value to the product or service, they can determine whether or not a product can reach the market and whether or not customers will buy the product.

3.3.6 INTERNAL MARKETS

Internal markets can be defined as those individuals working within the business. This would include managers, supervisors, front office staff and back office staff (Anderson *et al.*, 1999:59).

Baker (2003:15) and Glynn and Barnes (1995:328-329) explain that marketing has traditionally focused on external markets. But modern businesses have realised the importance of internal marketing – marketing that places the focus on employees.

McDonald *et al.* (2001:54-55) are of the opinion that the human resources department of a business plays an important role in developing relationships with employees. Two elements are important when dealing with internal markets. The first element that needs to be recognised is that each employee in a business is an internal customer as well as an internal supplier. This implies that each employee has to be the recipient of certain services. The second element refers to the necessity for all staff to work together to achieve the goals of the business. Internal marketing therefore functions to develop awareness among the employees of both internal and external customers and to remove functional barriers that diminish the effectiveness of a business. Donaldson and O'Toole

(2002:25) note that internal marketing and the relationships that a business has with its own employees exert a decisive role in the development of employee satisfaction, and that this satisfaction will then function to augment external customer satisfaction.

3.4 CUSTOMERS

The six markets model discussed in section 3.3 described how the customer market should be the focus of a business. This centrality of the customer market can be further reinforced by a proper understanding and application of the marketing concept. Perreault and McCarthy (1996:36) explain that the basis of the marketing concept is that businesses should focus all their efforts on satisfying customer needs. The marketing concept comprises three basic ideas, namely, the total business effort, profit and customer satisfaction. Kotler, as quoted by Van der Walt, Strydom, Marx and Jooste (1997:20), added a fourth component – social responsibility. Social responsibility would include, for example, the influence of environmental changes on customer needs (the marketing concept itself will be discussed in more detail in Chapter 4). One can therefore use the six markets model and the marketing concept to reinforce the idea that customers should always be the central focus of business activity.

Zikmund and d'Amico (2001:95) argue that customers are vital to profitability, well being and survival of every business. If a business hopes to remain profitable in the long term, it must satisfy the needs of its customers. The following section will therefore be devoted to a description of a customer and will discuss other elements that pertain to customers, customer service and customer satisfaction.

3.4.1 DESCRIPTION OF A CUSTOMER

The term "customer" can be defined in various ways, as is evident from the contributions below,

- According to Blythe (2008:446) a customer is "someone who makes the decision to buy a product".

- Doyle (2005:110) provides a more marketing-focused definition by defining a customer as the actual or intended purchaser of a product or service.

- Zikmund and d'Amico (2001:95) and Gabbott and Hogg (1998:9) furthermore describe a customer as a person who buys the goods and services of a business.

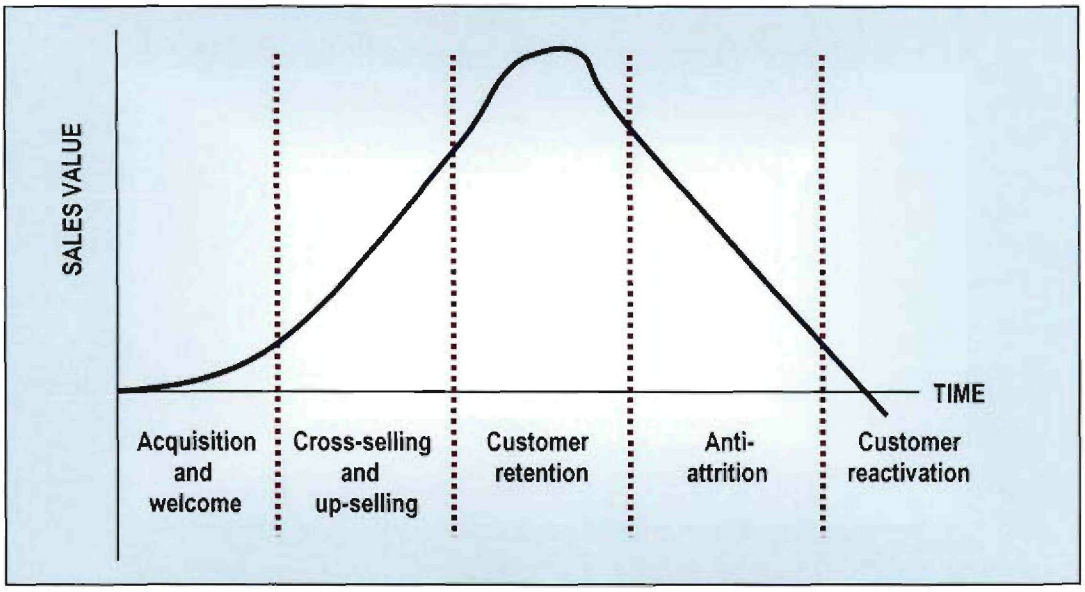
- Nickels and Wood (1997:7) define a customer as an individual or business that buys or exchanges something of value for a marketer's products.

By using the elements above, one may offer the following definition: *A customer is a person or business that buys goods and services from a business. In this study, the term "customers" refers to the passengers who fly on the various domestic airlines that operate in South Africa.*

3.4.2 CUSTOMER LIFE-CYCLE

Abram and Hawkes (2003:73) state that managers use the customer life-cycle to determine the status that customers have in the context of their business, and what their contribution to sales is at each stage in the purchasing lifetime. The five stages in the customer life-cycle are set out in figure 3.2.

FIGURE 3.2: THE CUSTOMER LIFE-CYCLE



Source: Abram and Hawkes (2003:73).

3.4.2.1 The five stages of customer life-cycle

The five stages of the customer life-cycle, as conceptualized by Abram and Hawkes (2003:73-74), include acquisition, cross-selling, retention, anti-attrition and reactivation.

A) Phase 1: Acquisition

Evans, O'Malley and Patterson (2004:264) argue that "acquisition" is actually *a pre-relationship phase.* During this stage, businesses are looking for potential customers, and customers are on the lookout for businesses that can satisfy their specific needs.

Abram and Hawkes (2003:73-74) assert that during the first phase, the acquisition phase, customers are "acquired" by the business. While this process comes at a cost to the business, the expectation is expected that the volume of sales will grow as each new customer becomes more familiar with the business, its product and the services that it offers. Stone, Woodcock and Machtynger (2000:6 & 114) warn that the acquisition of the *wrong* customers and their retention as customers can affect a business adversely because it may cause a business to spend money on acquiring customers who have no desire to form a relationship with the business. While this first phase provides businesses with opportunities to gather information about customers, it may also provide customers with some initial benefits. Businesses collect information about customers because such information puts them in a position to determine whether or not it will be worth their while to build up relationships with particular customers.

Payne (2006:140) adds that the importance of customer acquisition depends on the stage of the life-cycle in which a business finds itself. While customer acquisition is vital to the survival of a newly formed business, a well-established business might find it more profitable to concentrate its resources on customer retention.

B) Phase 2: Cross-selling and up-selling

"Cross-selling" refers to a method by means of which the profitability of a customer can be increased in the long-term. This method involves the selling of a variety of different products to a customer who originally only bought one product (Nickels & Wood, 1997:599).

Stone *et al.* (2000:114) explain that "up-selling" refers to selling products and services of a higher value to a customer after the customer has demonstrated a positive reaction to the original product that he or she bought.

Abram and Hawkes (2003:73-74) point out that the second phase aims to cross-sell other products within the business's portfolio or to up-sell by encouraging a greater frequency and volume of sales of products with a higher value. As customers become more familiar with the business's product and service offering, the business will be able to maximise the return on their investment in the initial acquisition. It is in the nature of commerce that many customers will either decrease their volume of purchases or will defect to competitors who, in their opinion, offer better products or services. Peelen (2005:244) adds that cross-selling is vital for establishing the continuity and development of relationships with customers on a sound, long-term basis.

C) Phase 3: Retention

Abram and Hawkes (2003:73-74) point out that it is during the retention phase that a business aims to retain customers for as long as possible. This may involve adding value to the customer relationship by the offering of additional services such as, for example, offering purchase volumes or discounts. Peelen (2005:239) points out how important it is for a business to be aware of customers who are dissatisfied and who are thus likely to defect. It should be the aim of businesses to retain profitable customers for as long as possible. Stone *et al.* (2000:115) suggest that businesses who want to retain customers should make a point of offering additional services or incentives such as loyalty rewards.

D) Phase 4: Anti-attrition

Abram and Hawkes (2003:73-74) and Stone *et al.* (2000:223) state that this is the stage in the customer life-cycle during which the customer is lost. This happens because customers either defect to competitors or stop buying the product offering as a result of their changing needs. But many customers are also lost because of deficiencies in customer service and a lack of customer satisfaction.

E) Phase 5: Reactivation

During this reactivation phase of the customer life-cycle, a business tries to regain the customer. Because customers who were lost during the anti-attrition phase could conceivably become buyers again, some businesses attempt to reactivate the interest and goodwill of the customer so that he or she will continue to purchase their product or service offerings (Abram & Hawkes, 2003:73-74).

3.4.3 CUSTOMER NEEDS AND EXPECTATIONS

Throughout the customer life-cycle, customers have certain needs and expectations that need to be met before a customer will move onto the next phase. Olsen *et al.* (1996:167-168) define "customer expectations" as the way in which customers predict the value of a product offering and extent to which it will perform well and therefore be of value to them in the future.

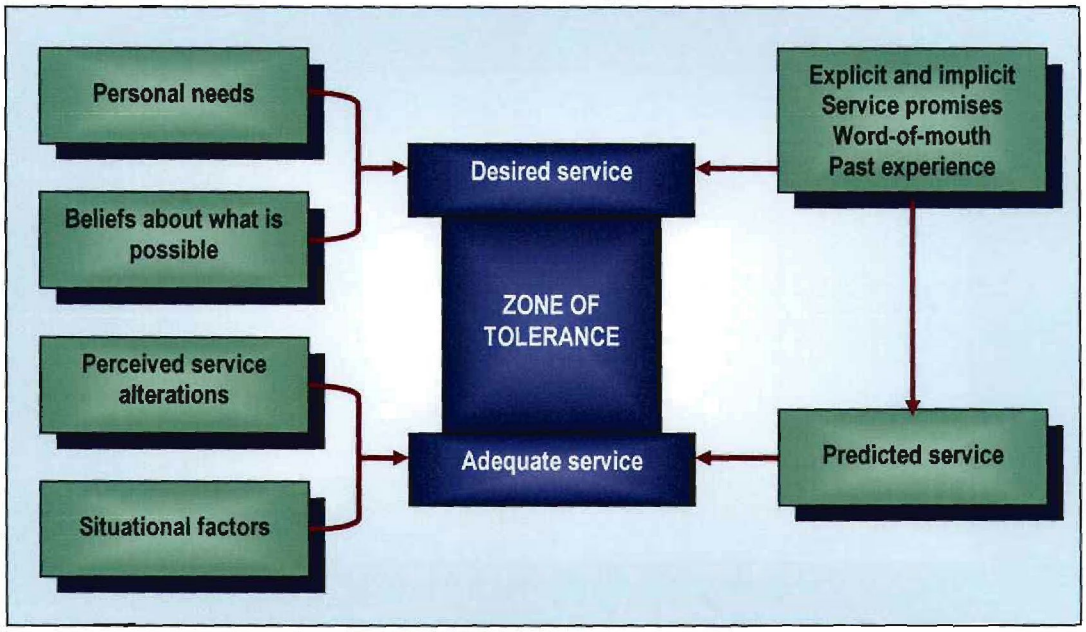
Lovelock and Wirtz (2004:37) observe that customers buy goods and services in order to fulfil specific needs which they have. Because such needs are actually embedded in the habitual mindset and lifestyle of customers, they have a strong motivation to fulfil these needs. Customers will therefore attempt to buy the product offering that will best fulfil their needs and solve whatever problem it was that motivated them to seek the product or service in the first instance. One may observe that most customers will attempt to compare the product offerings of various businesses in order to determine which product offering will best suit and satisfy their needs. As the value of what they hope to purchase increases, most customers will spend a correspondingly greater amount of time, money and effort in comparing what product offerings actually offer against what they expect to

receive (their expectations) before they make their purchase. Bejou and Palmer (1998:12) note that customer expectations tend to be lower when their relationship with a business has not had time to develop.

3.4.3.1 The components of customer expectations

Lovelock and Wirtz (2004:38-39) note that the formation of expectations on the part of customers is influenced by whatever previous experiences they might have had with a particular business or industry in the past. While these expectations are comprised of various elements, they include preconceptions about the desirability, adequacy and predictability of a service and a zone of tolerance that falls between desired and adequate levels of service. Figure 3.3 illustrates the context in which customer expectations function. Each component of customer expectations will be discussed in more detail later in this text.

FIGURE 3.3: FACTORS INFLUENCING CUSTOMER EXPECTATIONS OF SERVICE



Source: Lovelock and Wirtz (2004:40).

A) Desired and adequate service levels

Desired service levels are the levels of service that customers hope to receive from a supplier (Gabbott & Hogg, 1998:52).

Grönroos (2004:106) adds that the *adequate service* level is what customers believe to be appropriate for a particular service.

Lovelock and Wirtz (2004:39) suggest that the *desired service level* represents a combination of the elements that customers believe should be delivered if their needs are to be met. Realistic customers understand that it is in the nature of things that a business will not always be able to deliver a particular desired level of service. In such cases, most customers will still be satisfied with an *adequate* service level – but will not accept any lower level of service. Certain factors influence the level of customer expectation. These factors include both situational factors, which affects service performance, and anticipated levels of service. What defines levels of desirability and adequacy on the part of customers may be derived from explicit and implicit promises made by the business in the past, word-of-mouth recommendations, and from the past experiences that customers might have had with similar kinds of businesses.

B) Predicted service level

The *predicted service* level, according to Lovelock and Wirtz (2004:40), is the level of service that customers anticipate receiving.

Lovelock and Wirtz (2004:40) and Olsen *et al.* (1996:167-168) are all of the opinion that predicted service levels will affect how customers define adequacy of service. If customers predict or expect good service levels, the adequate level of service they expect will be higher than would have been the case if they had predicted poor service levels. The predicted service levels depend on the context in which the service is taking place, and the fulfilment of predicted service will have a directly positive effect on the level of customer satisfaction.

C) Zone of tolerance

Grönroos (2004:106) defines the zone of tolerance as a level on which customers are prepared to accept certain differences in the quality of what they regard as acceptable. Because customers are prepared to tolerate whatever falls within their zone of tolerance, they will be willing to tolerate certain

deviations in the quality of the service they receive – and yet still find that level of service acceptable.

Lovelock and Wirtz (2004:40) and Olsen *et al.* (1996:168-169) note that because of the heterogeneity of services (described in section 2.6.3), it is difficult to provide exactly the same level of service during each individual interaction with a customer. The extent to which a customer is willing to accept variations will create his or her own particular *zone of tolerance* (referred to in figure 3.3). But if the service levels offered to the customer fall outside the lower level of adequate service, customer dissatisfaction will ensue. But if the level of service exceeds the level of service that the customer expects, a customer's satisfaction will increase. The zone of tolerance can also be regarded as the range of service quality within which a customer will not pay any explicit attention to the level of service provided. But if the service level falls outside a confined zone of tolerance, customers will react either positively or negatively. Gabbott and Hogg (1998:52) add that a zone of tolerance may actually increase or decrease in size for individual customers, and that any such shift in the boundaries of the zone will depend on factors such as the visibility and effectiveness of competition, price, or the perceived importance of specific service attributes.

3.4.4 CUSTOMER VALUE

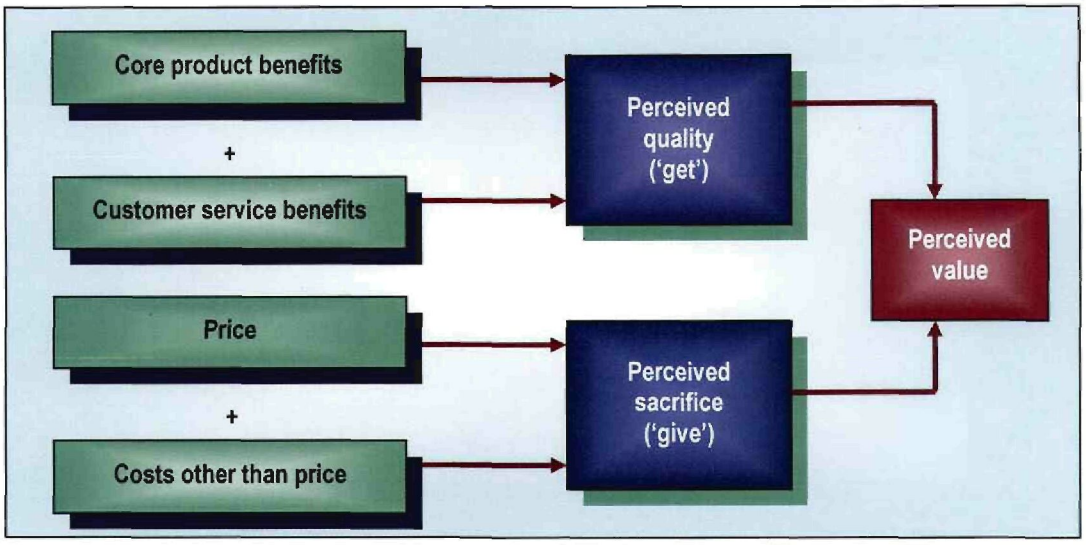
Value can be viewed from two different viewpoints: from the point of view of the customer, and from the point of view of the business.

The customers' viewpoint on value refers to the ratio that results from comparing possible benefits to the sacrifice that it will be necessary for a customer to make to obtain those benefits (Lamb, Hair & McDaniel, 2005:9).

McDonald *et al.* (2001:173) are of the opinion that customers compare the product offerings of businesses. The majority of markets give customers opportunities to choose between a number of product offerings from various suppliers. Since long-term value is created by forming good relationships with customers over a period of time, businesses will be able to determine what the expectations of their customers are (and will thus be able to retain their customers) if they invest time, money and effort in the formation of relationships with their customers. Customers

realise that they have been given value when they are offered benefits (service level and product benefits) with the product offering that exceed the costs (the price of the product and other costs) of owning that product. The various components of customer value are presented in figure 3.4.

FIGURE 3.4: THE COMPONENTS OF CUSTOMER VALUE



Source: McDonald *et al.* (2001:173).

Hutt and Speh (2004:280) define value (from the customers' viewpoint) as the quality that customers expect from the service offering at the price customers which they are expected to pay. Value includes two components, namely, quality and price. Quality, in this instance, refers to the customer service component. Employees can add value to a product offering by meeting or exceeding the customers' expectations.

Value from businesses' point of view, as defined by Peppers and Rogers (2004:115-116) and Abrams and Hawkes (2003:99), may be defined as a financial asset that is orientated towards the future. Quality, in terms of this definition, can only be determined from a customer's behaviour in the future. Three different types of value can be identified, namely, historic, current, and potential value. *Historic value* refers to what a customer is worth to the business on the basis of whatever profit, or contribution to profit, has already been realised from a customer's purchases to date. *Current value* refers to what the lifetime value of a customer will be to the business if that customer continues to purchase and interact with the business in accordance with their patterns of behaviour that have already been established in the past. *Potential value* refers to what customers

might be worth to a business if their behaviour could be modified to replicate the purchasing and interactional patterns of more profitable customers.

3.4.5 CUSTOMER FOCUS AND ORIENTATION

Hoffman *et al.* (2005:7) and Arnould, Price and Zinkhan (2004:172) suggest that *customer focus* is important to any business. Customer focus refers to the particular ways and means that the business might utilise in an effort to deliver more value to its customers. If a business can obtain more specific information about what a customer needs, it will be in a position to devise or modify products and services that will satisfy those needs. Bradley (2003:23) warns that if a business ignores other participants in the market (as discussed in the six markets model in section 3.3) and focuses solely on certain customers, its customer focus will become unbalanced. An unbalanced customer focus of this kind will cause businesses to concentrate on short product life-cycles. This can result in specialised products being produced on a small scale that may be responsive to customers' desires rather than to their real needs.

Mullins *et al.* (2005:5), however, maintain that it is customer focus that enables businesses to identify the changes that are occurring in the market place, together with whatever changes may be taking place in the needs and expectations of their customers. By identifying these changes and by developing products that will satisfy needs, businesses will put themselves in a position to be able to adopt a more integrated approach to their overall operations.

3.5 CUSTOMER SERVICE

It has already been discussed in previous sections that a business needs to understand customer expectations by being customer orientated and by providing customers with value. Customer services thus play an important role in the creation and delivery of value.

3.5.1 DEFINITION OF CUSTOMER SERVICE

Customer service has been defined in various ways by different authors. The following are the broader definitions of customer service.

- Christopher *et al.* (2002:151) offer a definition of the most basic level of customer service by defining customer service as the continuous process of managing the point of contact between the customer and the business so as to ensure continued customer satisfaction.

- Zikmund and d'Amico (2001:331) place more emphasis on the enhancement of customer satisfaction by means of customer service. They therefore define customer service as those activities that a business designs and undertakes to increase the value of its product offering by reinforcing customer satisfaction.

- Monash University Business and Economics (2006) defines customer service as a business philosophy that results in a variety of activities that ensure that customers will receive goods that satisfy their needs and services delivered in the most effective and efficient possible manner.

- College of Business (2005) emphasise points of contact by describing customer service as a series of activities performed by the business before, during, and after a purchase to enhance the level of customer satisfaction.

- Payne (1993:175) also emphasises points of contact by defining customer service as the activities of the business that maximise the convenience of time and place for their customers. These activities will occur both before and after transactions and will exert a beneficial effect on the exchange process between the business and its customers.

- Peck *et al.* (1999:410) define customer service as all the encounters between a customer and a business that provide customers with value.

If the most valuable elements from the definitions above are selected, customer service could be defined in the following way: *Customer service comprises the intangible activities offered by a business to enhance value for the customer. Customer service is a product of all the impacts made by all the points of contact between a business and its customers (before, during, and after a purchase) that contribute to the augmentation of customer satisfaction.*

3.5.2 IMPORTANCE OF CUSTOMER SERVICE

Cranfield School of Management (2000:212) and Payne (1993:174) observe that customer service forms an important element of the marketing mix. The reasons provided for the importance of customer service include the following:

- **More markets are becoming "commodity markets"**

  Since more businesses are offering customers the same basic product offering, customers perceive few differences between what they offer. A business can only therefore create a competitive advantage by providing customers with value. Customer service is an important part of the value component.

- **Customers have changing expectations**

  As customers are exposed to new product offerings from both the business and from its competitors, they tend to become more discerning and therefore more demanding. It is as a result of this increase in customer discernment that customers are coming to have higher expectations and more exacting service requirements.

- **Customer service and customer retention has an impact on the profitability of the business**

  Businesses that are able to meet customer needs and expectations through the application of their customer service strategy put themselves in a strong position to form relationships with their customers. It is those businesses that cultivate relationships with their customers that are able to retain them as customers for longer periods of time. Businesses that are able to retain customers for longer periods of time create opportunities to up-sell and cross-sell their product offerings (described in section 3.4.2), and this results in higher volumes of sales and greater levels of profitability (Cranfield School of Management, 2002:212 and Payne, 1993:174).

Jobber (2004:656) states that it is imperative for businesses that want to succeed to adopt high standards of customer service. If the business sets high standards

of customer service for itself, it can obtain a competitive advantage over its rivals because customers frequently use the criterion of customer service to make choices between rival businesses. Businesses therefore need to find ways of improving their product availability, increasing their fund of information about customers, and being more flexible in their modus operandi so that they will be able to fulfil the needs of their customers more effectively. Many businesses have turned to the Internet as a means for improving customer service levels. They do this by creating websites on which customers can place orders or purchase products, as well as lodge complaints and indicate dissatisfaction with some aspect of the product or service. Christopher *et al.* (2002:151) maintain that businesses need to be flexible enough to adapt their service standards to meet customer needs because customers and their needs vary considerably. It should be noted that customer service should not be the exclusive responsibility of only one department because it is only the business as a whole that is able to improve customer service levels by being faithful to the standards set by the overall business plan and the mission statement of the business. If all the departments of a business are able to work together to provide a high standard of service, such a business will be able to respond quickly to whatever changes become apparent in the needs and expectations of customers.

3.5.3 SERVICE QUALITY

Hutt and Speh (2004:334) point out that quality is ultimately defined by the customer. Customers who are offered a level of service that satisfies their needs will automatically define such services as being of a high quality. Kassim and Souiden (2007:219) and Christopher *et al.* (2002:153-153) opine that quality is concerned with matching the business product that is offered to the customer and the customers' requirements and expectations.

3.5.3.1 Definition of service quality

The following definitions of quality and service quality can be observed:

- Shen, Tan and Xie (2000:91-92) define quality as the ability to satisfy or even exceed a customer's needs and expectations.

- Parasuraman *et al.* (1985:42) define service quality as the way in which a customer evaluates the overall service levels offered by comparing the actual service that he or she receives with the levels of service that is expected.

- Jain and Gupta (2004:26) describe service quality as the way in which customers judge service levels and the attitude that they take up towards such levels of service. They therefore explain service quality as the customers' evaluation of the outcomes (i.e. what the customer actually receives) and the process of the service act (i.e. the manner in which the service is delivered).

- Gabbott and Hogg (1998:155) define service quality as the customer's overall impression of the relative inferiority or superiority of the business and services provided.

If one selects the most useful elements from these definitions of service quality, it would be possible to define service quality in the following way: *Service quality refers to the way in which customers evaluate the service levels provided by the business by comparing the service level that they actually receive with the service level that they expected to receive.*

3.5.3.2 A model of service quality: The Gaps Model

Gilmore and Carson (1996:40) note that the literature about service quality focuses strongly on the performance and measurement of service quality. The literature accepts that customers compare the service they receive with the service that they expected to receive (perception).

Doyle (2005:150) states that it is important to undertake a gap analysis. A gap analysis represents the process of identifying the gaps that exist in the market, as well as whatever means and measures can be used to fill such gaps. Gaps such as these usually originate in customer needs and expectations that have been unfulfilled.

Nickels and Wood (1997:323) define service gaps as the discrepancies between the performance of the business that supplies the service and what the customers actually expected the service would be.

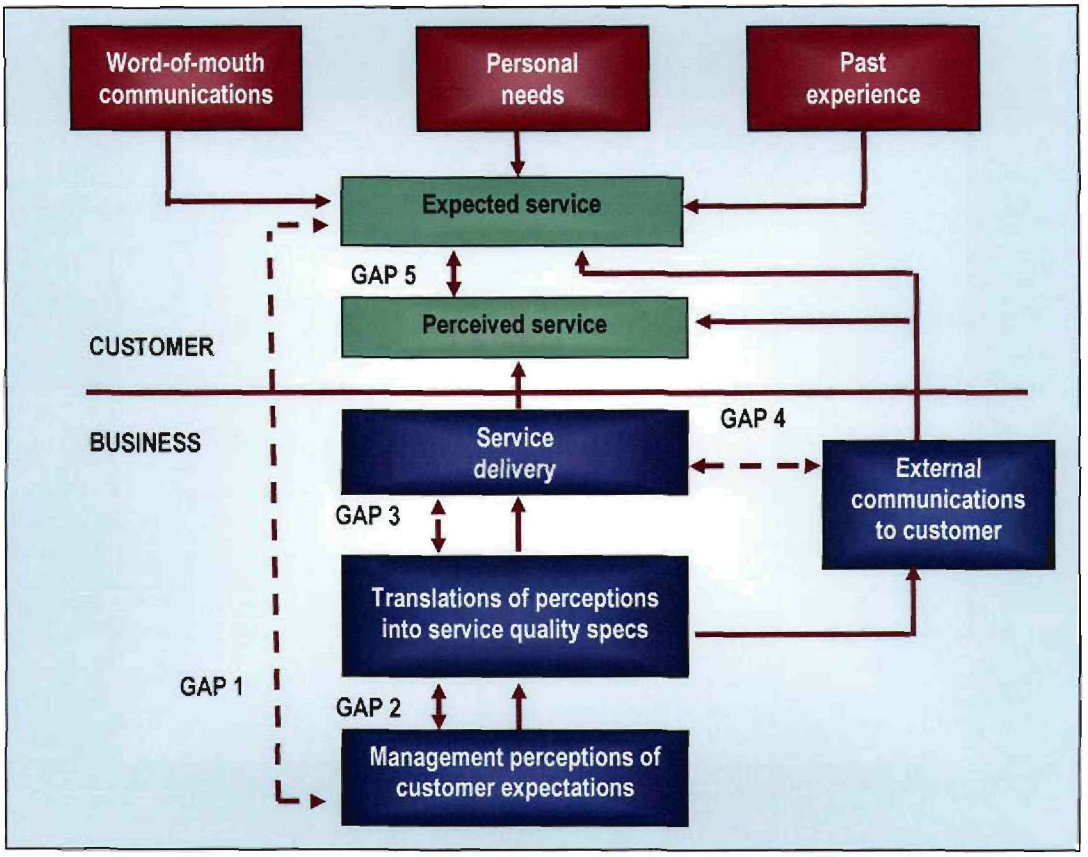
Olorunnino and Hsu (2006:111) and Boone and Kurtz (2005:173) state that customer satisfaction can be determined by means of service quality. Service quality in this instance is measured by taking cognisance of the gaps that occur between the expectations of customers and the perceptions of customers about what it is that they have actually received. If a business is to prevent these gaps from expanding and becoming more difficult to bridge, it has to take steps to develop a clear appreciation of what it is that customers want or expect.

Parasuraman *et al.* (1985) developed the widely accepted Gaps Model (see figure 3.5) which indicates the manner in which the customers' perceptions of quality are influenced by whatever gaps occur on the side of the business. These gaps include the management perception gap, the quality specification gap, the service delivery gap, the market communication gap, and the service quality gap. Seth, Deshmukh and Vrat (2004:935) explain that the Gaps Model is an analytical tool that can help management to identify the gaps from the customers' point of view – the gaps between the variables that affect the overall quality of the service.

According to Mudie and Cottam (1993:80-81), the key features of the Gaps Model developed by Parasuraman *et al.* (1985) include:

- the identification of key attributes of service quality from the point of view of management and the customer;
- highlighting the gaps between customers and service providers with particular reference to perceptions and expectations, and
- understanding the implications for service management of closing whatever gaps had been identified.

FIGURE 3.5: SERVICE QUALITY MODEL (GAPS MODEL)



Source: Mudie and Cottam (1993:80).

Grönroos (2004:100-102) and Gabbott and Hogg (1998:106-108) describe the elements in figure 3.5. The Gaps Model provides a rational explanation of how service quality emerges in the business. The top section of the model represents the elements that relate to the customer, while the lower half of the model represents the elements that relate to the business. The past experience of customers with the business concerned or with other businesses, their personal needs, and word-of-mouth recommendations all work together to produce the element of *expected service*. The expected service element is also influenced by the market communication activities of the business. *Perceived service* refers to the manner in which the customer has experienced a service that was offered, and it is the product of a series of internal decisions and activities. *Management perceptions of customer expectations* direct the decisions that management will make about the *service quality specifications* that the business will follow when *service delivery* (the actual execution of the service process) takes place. The *marketing communications* presented by the business will influence the customers' perception of the service and of the service that they expected. The model depicts the steps that must be considered when dealing with service quality. The business

that understands and utilises the implications of these steps will be able to detect problems and deficiencies in quality.

Five "service quality gaps" that depict discrepancies between the elements of quality can be identified. These gaps are a result of inconsistencies in the provision of the quality of service that is offered. The ultimate gap (namely, the gap between expected and perceived service – gap 5), occurs as a result of the other four gaps. Each of the five gaps are discussed below.

A) Gap 1: The management perception gap

Seth *et al.* (2004:916) define gap 1 as the difference between customers' expectations and management imagines customer expectations to be. The management perception gap is caused by the failure of management to understand and appreciate what customers really need and expect.

Hoffman *et al.* (2005:336) and Mudie and Cottam (1993:81) suggest that the management perception gap is the overall gap between the perceptions that management have of customer expectations, and the service that customers expect. This gap occurs when the management of a business does not understand what the customer expects at the level of service.

Grönroos (2004:102) and Quester *et al.* (2004:534) explain that this gap is caused by:

- inaccurate information obtained by a business from their market research;
- the inaccurate or faulty interpretation of information about customer expectations;
- an accumulation of inaccurate information from front-line staff to managers;
- an incorrect organisational structure that hinders the flow of information;
- the fact that the sales representatives are not prepared to listen attentively to their customers, and
- the failure or unwillingness of management to ask customers direct questions about their (the customers') expectations.

Grönroos (2004:102) suggests various ways of diminishing these gaps. Most gaps are caused by a lack of accurate knowledge about what customers actually expect. This can be prevented if management institutes measures to augment what they already know about customer expectations. Improved research is thus an invaluable aid for diminishing the gap. Even if research is improved, the communication levels between front-line staff and managers need to be opened and improved. The organisational structure of the business could be adapted to increase the flow of communication between levels.

Hoffman *et al.* (2005:337), Mullins *et al.* (2005:426) and Nickels and Wood (1997:323) are of the opinion that this gap can only be closed if managers make a concerted effort to obtain more accurate information about what their customers expect. Once such information has been processed and analysed, the decisions to which it gives rise can be implemented so that the standard of service being delivered to customers will improve. Such information can be obtained by means of customer surveys and by a careful evaluation of previous complaints received from customers. This information can then be used to determine exactly what it is that the customer deems important.

B) Gap 2: The quality specification gap

Seth *et al.* (2004:916) define the quality specification gap as the difference between managements' perceptions of customer expectations and the standards of service quality that are caused by the inadequacy of existing service standards.

Hoffman *et al.* (2005:336) state that the quality specification gap is also referred to as the "standards gap", and that it represents the difference between management's perceptions of customer expectations and the standards that have already been set for service delivery.

Quester *et al.* (2004:534) describe that gap 2 is the result of the difficulties that management experience when they try to translate their perceptions of customer expectations into actual product and service specifications. Such a gap may occur in situations where management believes that customers' expectations are unreasonable or because management has made a decision to sacrifice standards of quality to meet short-term financial commitments.

Additional reasons for the existence of the quality specification gap are provided by Grönroos (2004:102-103) and by Mudie and Cottam (1993:81). These reasons include:

- mistakes in planning or inadequate and ineffectual procedures;
- poor management planning;
- the inability to set clear goals for an organisation;
- insufficient support from top management for the processes required for implementing service quality;
- half-hearted commitment to service quality on the part of management;
- a lack of resources, and
- excessive demand.

Grönroos (2004:102-103) suggests that the size of the gap will determine the elements that will be needed to reduce the gap. Management first need to identify whatever problems may relate to planning. Business management must then gather accurate information about customer expectations so that they can make accurate decisions during the planning phase. It is important for management to consult with the employees who actually deliver the service if they wish to make accurate and realistic decisions. Management need to ensure that the specifications they set are not so rigid as to impede or prevent flexibility on the part of the staff whose responsibility is to fulfil individual customer needs. Hoffman *et al.* (2005:337) know that, in some cases, this gap arises because management simply do not believe that they either can or should be responsible for meeting customer requirements.

C) Gap 3: The service delivery gap

Seth *et al.* (2004:916) define the service delivery gap as the difference between the actual service delivered and the specifications set for that service.

Hoffman *et al.* (2005:336) describe this gap as the difference between the quality of the service delivery and the standards set for the delivery of the service concerned. The reasons for the existence of the service delivery gap are discussed by Grönroos (2004:103-105) and they include:

- the setting of specifications that out too rigid;
- employees that do not agree with the set specifications;
- the setting of specifications that are at variance with the ideals, aims and practices of the existing corporate culture;
- the inadequate or poor management of service operations;
- the insufficiency or lack of internal marketing, and
- technology and systems that do not perform according to their specifications.

Hoffman *et al.* (2005:337-338) furthermore explain that the existence of a delivery gap depends on both the unwillingness and inability of employees to provide the service according to the specifications set out by the business. Certain employees may not be able to perform the service to specification because they have not been trained – or have been had been inadequately trained – to do so. The service delivery gap may also widen because of the inadequacy of support in the form of limited technological and other resources. Failure to support employees usually leads to wasted effort, low employee productivity, and the creation of dissatisfied customers.

Grönroos (2004:103-105) suggests the following ways to diminish this gap. Management and customer service staff should work together to set standards of service. Internal marketing should be improved in order to enhance the communication levels between management and employees. Employee training programmes should be improved so that employees can acquire a better understanding of the actual services that a business is capable of offering its customers. Since employees are in a better position to identify customer expectations, they should be encouraged to communicate such expectations to management. The business must ensure that the technology systems that are used are capable of supporting employees in the provision of quality service.

D) Gap 4: The market communication gap

Nickels and Wood (1997:323) define the market communication gap as the discrepancy between the actual service (offered) and the expectations that customers have of the service on the basis of information that they have received from the marketing division of the business.

Mudie and Cottam (1993:81) explain that the way in which a business advertises itself and the other ways in which a business markets itself will have an influence on customer expectations. Employees must be able to deliver on the promises made in the marketing communication of the business. The marketing communication should state what the customer will receive and should not make promises that cannot be kept.

Grönroos (2004:105) explains that this gap occurs when:

- market communications are not integrated with service operations;
- the co-ordination between traditional external marketing and business operations are insufficient or based on faulty premises;
- a business fails to deliver on promises made in marketing communication campaigns, and
- the fact that services cannot be delivered because they have been exaggerated or misrepresented in marketing communications.

Grönroos (2004:105) suggests that the way to reduce this gap is by ensuring that the external marketing communication programme has been carefully and realistically coordinated with the service and delivery strategy. Promises made in advertisements always need to be realistic. Quester *et al.* (2004:534-535) affirm that businesses should never promise service levels that they cannot deliver.

E) Gap 5: The perceived service quality gap

Seth *et al.* (2004:917) define this gap as the difference between customer expectations and perceived services.

Mullins *et al.* (2005:426) and Mudie and Cottam (1993:81) suggest that the perceived service quality gap is caused by a failure to close the other four gaps. It arises because customers compare the expected level of service with the perceived service delivery.

Grönroos (2004:105-106) states that this gap is caused by:

- poor levels of quality;

- bad word-of-mouth;
- a negative impact on the corporate or local image, and
- lost business.

Hoffman *et al.* (2005:336) add that if a business wishes to provide quality service, it should close the other four gaps or at least make them as small as possible. The other four gaps need to be closed before the perceived service quality gap can be closed. This gap is therefore a function of the other four gaps. As each of the other gaps increase or decrease, the perceived service quality gap will react in correspondingly similar ways. Boshoff (2007:41) explains that the customers have expectations about the product or service, and if customers do not receive what they *expect* to receive, they will very quickly become dissatisfied with the service offering.

3.5.3.3 Measurement of service quality

Gabbott and Hogg (1998:107-108) suggest that in order to measure the size of quality gaps, businesses first need to establish the extent and nature of customer expectations and understand how these expectations can be used to assess customer perceptions. Since certain customers will have lower expectations than others, businesses can use a standardised service level to determine whether customers are satisfied or dissatisfied with the standard that has been set.

One problem inherent in using customer expectations to benchmark standards is that customer expectations are dynamic by nature. If customers have become accustomed to poor levels of service in the past, they will probably have low expectations of service levels in the future, and this will make it easier for the service business to satisfy these lower expectations.

Szwarc (2005:31) explains that the SERVQUAL (service quality – see section 2.8.3) research methodology was designed to identify and measure the gaps in the Gaps Model. This research instrument consists of 22 service attributes which identify and differentiate five service dimensions, namely, reliability, responsiveness, assurance, empathy and tangibles (set out in table 2.2). Customers are asked to evaluate each service attribute on a seven-point Likert scale. If a customer's perception of the service received is higher than what the customer had expected, this results in the perception of a high quality of service.

3.5.3.4 Causes of service quality problems

Although the Gaps Model identifies specific causes of service quality problems within each gap, Mudie and Cottam (1993:81-83) provide a summary of the more general reasons for poor service quality. These are discussed below:

- **Inseparability of production and consumption and labour intensity**

  Rix (2004:270) explains that the nature of services, especially the inseparability of services (discussed in section 2.6.2), exerts a major influence on service quality problems. The service element of the product offering is delivered in the presence of the customer by customer service staff. Because any action that is dependent on individual human beings will vary from one person to another, it becomes inevitable that customer service staff will be unable to perform exactly the same service in the same manner at each point of service interaction. These unavoidable variations in service that occur at each interaction influence a customer's overall perception of the service quality that is delivered by the business.

- **Inadequate services to internal customers**

  Mudie and Cottam (1993:82) emphasise that the customer service staff need support from other divisions within the business if they are to provide quality services. The three main areas that exert the most important influence on customer service staff are operations, marketing and human resources. The operations department needs to ensure that all the equipment (such as tools, materials and various forms of technology) that is required for the successful delivery of quality service is available to staff. The marketing department can contribute to the development and delivery of good quality services by ensuring that all the relevant staff are well informed about the products and services that the business sells to customers. The staff need, for example, to be aware of any "specials" that are being offered at any particular time. Internal marketing is also an important contributor to the delivery of service quality. The human resources department needs to ensure that the right people with the right qualifications are appointed for the jobs that they need to accomplish. Customer service staff need to be trained in the specific skills that staff need

for dealing with customers. Continuous skills training is also an invaluable component in the delivery of quality services.

- **Communication gaps**

The fourth gap in the Gaps Model represents the problems that beset services marketing because of marketing communication problems. Grönroos (2004:105) and Mudie and Cottam (1993:82) explain that this particular form of communication represents a direct link between the business and its customers. In many instances, however, deficiencies in marketing communication can create problems during the delivery of service. These marketing communication problems can take a number of forms which include:

- a failure to deliver on promises that have been made;
- a failure to keep customers properly informed;
- a failure to communicate in a manner that customers can understand, and
- a failure to listen attentively to the needs that customers express.

- **Viewing customers as numbers rather than individuals**

Many businesses offer standardised services to customers and fail to appreciate that each customer is an individual with individual needs (Mudie & Cottam, 1993:82). But Peelen (2005:145) notes that if a business is able to offer standardised services to customers, such a business will be able to make gains in terms of efficiency and customer expectations. Many customers, for example, welcome the kind of standardised services that certain businesses (such as some well-known food franchises) offer because they know that they will always receive almost exactly the same product, wherever they might be in the world. But there are other businesses in which it is important for the service to be customised to suit the exact needs of a customer if the business wishes to be successful. It is vital therefore for businesses to communicate with their customers so that they will be in a position to identify exactly what it is that their customers want from the business.

- **Short-term view of the business**

The final general reason that Mudie and Cottam (1993:83) propose for poor service quality concern the fact that employees often required to meet certain targets set by the business. These targets are often short-term and new targets are often set annually or even monthly. These situations often compel a business to engage in various forms of cost reduction and modes of increased productivity so that their newly set profit targets can be realised. Although this practice might make financial sense in the short-term, it can be detrimental to the establishment and maintenance of quality service in the longer term. In such situations, employers will often focus on one sale in order to meet their target for the month, but, in so doing, will neglect to form a kind of relationships with customers which will be more beneficial and profitable for the business in the longer term.

3.6 CUSTOMER SATISFACTION

Anderson, Fornell and Rust (1997:130-131) are of the opinion that improvements in service quality lead to higher levels of customer satisfaction. The following section defines the term *customer satisfaction*, describes the interaction between service quality and customer satisfaction, and describes a model for customer satisfaction.

3.6.1 DEFINITION OF CUSTOMER SATISFACTION

The following definitions of customer satisfaction can be observed from literature:

- McDougall and Levesque (2000:393) provide a basic definition by stating that customer satisfaction can be viewed as the customer's overall evaluation of the service provider.

- Hoffman *et al.* (2005:329) define customer satisfaction as a specific measure of whether the customer's perception of the service has met or exceeded expectations.

- Lamb *et al.* (2005:10) and Perreault and McCarthy (2003:5) define customer satisfaction as the extent to which a business is able to meet a customer's needs and expectations.

- Blackwell, Miniard and Engel (2006:742) define customer satisfaction as a positive post-purchase assessment of whether the product offering met or exceeded the customer's expectations.

- Customer satisfaction, according to Lin (2003:203), can be defined as the consequence of a cognitive and affective evaluation in which customers compare a standard with a way which they have perceived the actual performance of the service provider.

From the elements in the definitions above, it is possible to provide the following definition of customer satisfaction: *Customer satisfaction is a transaction-specific cognitive and affective evaluation measure in which the customer's judgment (perception) of the way in which the service levels offered by the business either met or exceeded the customer's expectations.*

3.6.2 CUSTOMER SATISFACTION AND SERVICE QUALITY

Lovelock and Wirtz (2004:44) and Olsen *et al.* (1996:166) explain that the terms *quality* and *satisfaction* are often used interchangeably in services in which quality is considered to be the customer's overall perception of the service, while customer satisfaction is concerned with specific transactions. Service quality is, however, one of the components of customer satisfaction. This implies that customers have certain expectations with regard to service standards, that they will compare the level of service provided to their expectations, and that they will then make a decision about the quality of the service on the basis of this comparison.

3.6.3 CUSTOMER SATISFACTION MODELS

Hoffman *et al.* (2005:330-331) and Hom (2000:100) are of the opinion that businesses need to analyse what the concept of customer satisfaction implies so that they will be in a position to determine how to satisfy the needs of their customers. Before an understanding of customer satisfaction can be realised, the

various models of customer satisfaction that exist in the literature need to be understood. Such an understanding will facilitate research and ensure that the ensuing analysis of customer satisfaction will be more focused and accurate. Customer satisfaction can be created by exceeding customer expectations. This kind of customer satisfaction confers various benefits on a business. It will, for example, confer on it a competitive advantage over its rivals; it will encourage more frequent purchases from customers, and will ensure a greater degree of customer retention in the long run. It is for all these reasons that it is of vital importance to determine exactly how customer satisfaction can be created.

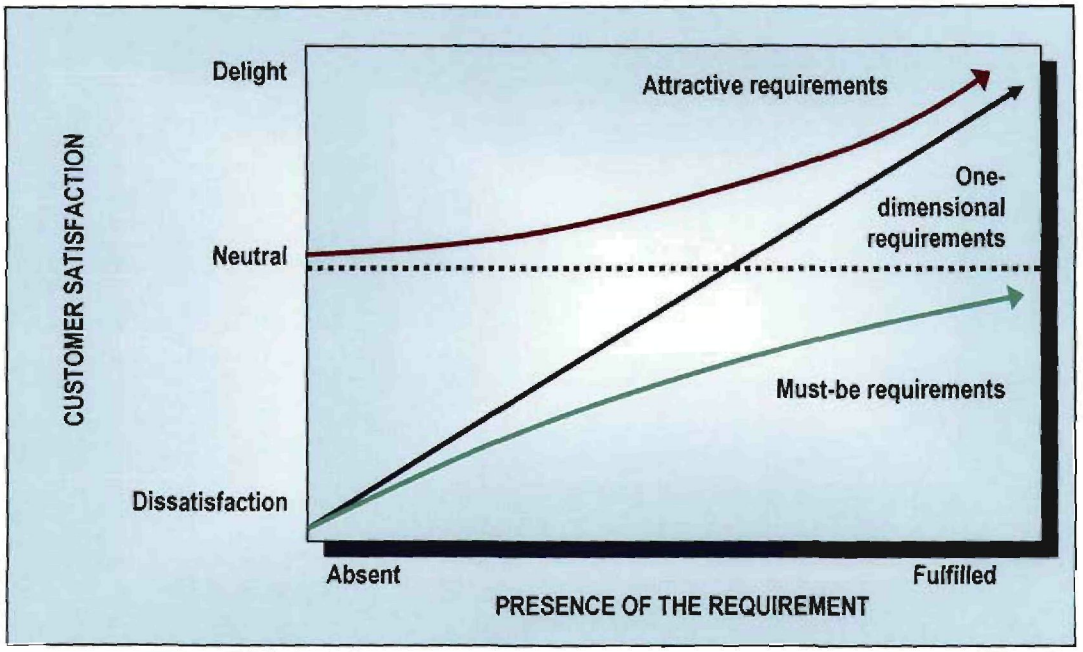
Hom (2000:100-106) explains how the various customer satisfaction models that exist contribute to an understanding of how customer satisfaction fits in with marketing research as well as an understanding of the elements that influence customer satisfaction. Customer satisfaction models include, among others, the traditional macro-model of customer satisfaction, the model of two levels of satisfaction and perceived service quality, and the perceived performance model. In this study, only three models, namely, Kano's model of customer satisfaction, the Disconfirmation paradigm, and the American customer satisfaction index, all which reveal those elements that influence customer satisfaction, will be discussed.

3.6.3.1 Kano's model of customer satisfaction

Shahin (2004:733) describes how Dr Noriaki Kano developed the Kano model in 1984. The model was designed to classify the attributes of a product or service on the basis of the extent to which the product offering had been able to satisfy customer needs.

As Jobber (2004:15) explains, Kano's model of customer satisfaction identifies the three requirements that are the cause of customer dissatisfaction, satisfaction and delight. These three requirements (as illustrated in figure 3.6) include "Must-be requirements", "One-dimensional requirements" and "Attractive requirements".

FIGURE 3.6: CREATING CUSTOMER SATISFACTION



Source: Jobber (2004:15).

- **Must-be requirements**

  Matzler, Hinterhuber, Bailom and Sauerwein (1996:6-7) explain that these are the elements that customers expect to be present during the service interaction. The absence of these elements will invariably cause customer dissatisfaction. But when these elements are present, customers will tend to adopt an attitude of neutrality in which they are neither satisfied nor dissatisfied. These elements are of vital importance for a business that is determined to gain a competitive advantage because, if these elements are not present, customers will immediately turn to competitors that do offer all the elements of these services.

- **One-dimensional requirements**

  These characteristics can transform the level of customer satisfaction from neutral and lift it into the range of positive satisfaction. Customer satisfaction is directly proportional to the level of fulfilment experienced by the customer. The more services that are provided, the higher will be the level of satisfaction, and vice versa. Customers clearly regard these requirements are indispensable in a normal commercial environment (Shen *et al.*, 2000:92).

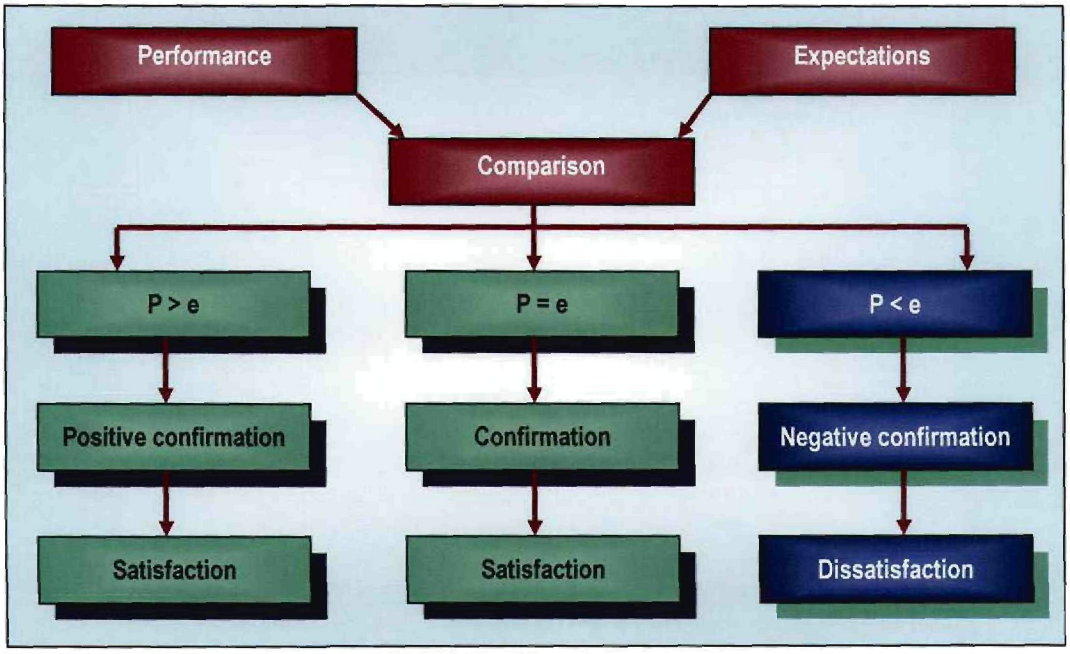
- **Attractive requirements**

  Shahin (2004:733) explains that attractive requirements are also known as "delighters" because they delight the customer by offering unexpected elements. While the absence of such elements will not cause dissatisfaction, the presence of attractive requirements increases levels of satisfaction and delight.

3.6.3.2 Disconfirmation paradigm

Lin (2003:203) suggests that the disconfirmation paradigm is the most widely accepted customer satisfaction model. The disconfirmation paradigm builds on Kano's model of customer satisfaction by including the concept of *perceived performance*. Lamb, Hair, McDaniel, Boshoff and Terblanche (2004:5) state that the disconfirmation paradigm explains the phenomenon of customer satisfaction. Figure 3.7 illustrates how the meeting or exceeding of customer expectations leads to customer satisfaction. On the other hand, when the service does not meet the customer's expectations, dissatisfaction ensues. It is important for businesses to measure levels of customer satisfaction so that they will be in a position to determine whether or not customers are satisfied because many customers cannot or will not express their feelings and opinions.

FIGURE 3.7: THE DISCONFIRMATION PARADIGM



Source: Lamb *et al.* (2004:5).

Lovelock and Wirtz (2004:44) and Gabbott and Hogg (1998:106) furthermore explain that customers keep certain service standards in mind (their expectations – illustrated as "e" in figure 3.7) when they purchase a product offering, and they expect these standards to be met before they will buy the product. If the service performance (which is illustrated as "P" in figure 3.7) exceeds expectations, a positive confirmation will occur and result in customer satisfaction. If the performance equals the expectations, confirmation occurs and will also lead to customer satisfaction. If the performance does not meet customer expectations, a negative confirmation will occur and this will result in dissatisfaction with the service that is provided. Schiffman and Kanuk (2007:547) add that customers judge their experience (what they actually received) against what they expected during the post-purchase assessment. This confirms that customer satisfaction and customer expectations are closely related.

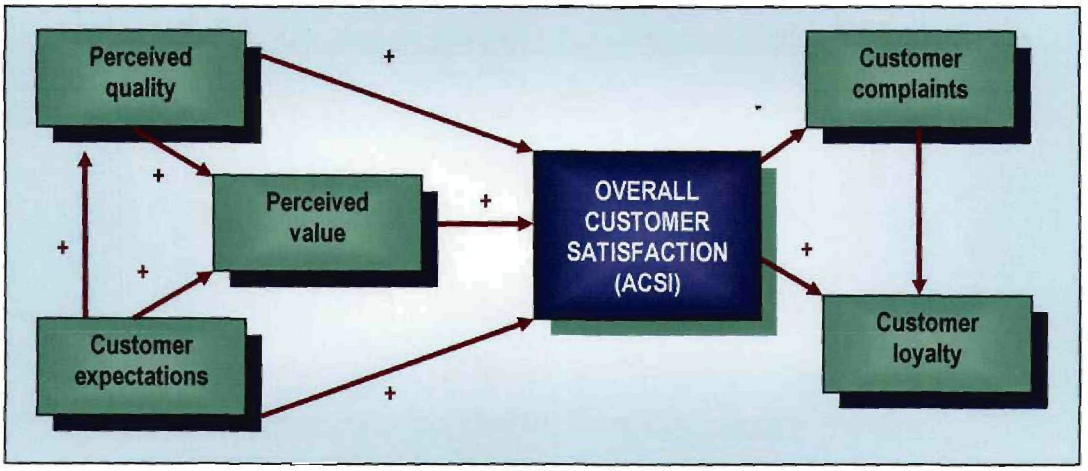
3.6.3.3 The American Customer Satisfaction Index

Anderson and Sullivan (1993:127) suggest that while there is a general consensus about how disconfirmation is an important antecedent to customer satisfaction, research cannot directly demonstrate the extent to which expectations affect satisfaction. Other elements, such as perceived quality, exert a stronger impact on customer satisfaction, and, for this reason, customer satisfaction models that include perceived quality are seen as being of greater value. This insight led to the development of the American Customer Satisfaction Index (ACSI).

According to the ACSI (2006) and Szwarc (2005:24), the American Customer Satisfaction Index is one of the most widely used models of customer satisfaction. It builds on the disconfirmation paradigm by including quality and value as indicators for satisfaction. The model was developed in 1994 by the Stephen M. Ross Business School at the University of Michigan in partnership with the American Society for Quality (ASQ) and the international consulting firm, CFI Group. This model is used by businesses as a tool for creating shareholder value through investments in quality and customer satisfaction. The model clearly illustrates the links between customer expectations, perceived quality and perceived value to customer satisfaction. This survey is carried out on a quarterly basis and requires that customers rate the products, services and websites that customers have used during the past month (Blackwell *et al.*, 2006:211)

Fornell, Johnson, Anderson, Cha and Everitt Bryant (1996:8-9) provide a thorough explanation of the ACSI model that is depicted in figure 3.8. The level of overall customer satisfaction (ACSI), as illustrated in figure 3.8, has three antecedents that include perceived quality, perceived value, and customer expectations.

FIGURE 3.8: THE AMERICAN CUSTOMER SATISFACTION INDEX (ACSI) MODEL



Source: Fornell *et al.* (1996:8).

- **Perceived quality**

  Perceived quality refers to the customers' evaluation of the service experience. This is expected to have a directly positive effect on overall customer satisfaction. This perceived quality depends on two main components of the service experience. The first component refers to the way in which a business is able to adapt its service to meet the individual needs of customers. The second component refers to the degree to which the business offers reliable services that are free from deficiencies.

- **Perceived value**

  Fornell *et al.* (1996:8-9) state that perceived value refers to the customers' perceived level of quality relative to price. Perceived value influences customer satisfaction directly and is affected by the perceived quality and customer expectations. Perceived value should be positive if it is to have a positive impact on customer satisfaction.

- **Customer expectations**

  Customer expectations are based on the customers' previous experiences with the business as well as the business's ability to deliver quality in the future. These expectations can be as a result of the external marketing communications. Customer expectations have a direct positive association with the customer's evaluation of the business's performance, such as customer satisfaction. Expectations play an important role in the creation and maintenance of relationships with customers because the customers' expected service level is critical to overall customer satisfaction. Customer expectations should be positively related to perceived quality and perceived value for satisfaction to occur (Fornell *et al.*, 1996:9).

The overall level of customer satisfaction can result in either customer complaints or customer loyalty. As the ACSI (2006) explains:

- **Customer complaints**

  Customer complaints refer to customers who complain about or report a problem with regard to the product offering. When customers are not satisfied because of their perceived value, quality or expectations have not been met, they will begin to complain. Satisfaction, therefore, exists in an inverse relationship to customer complaints.

- **Customer loyalty**

  Customers who are satisfied with the overall service performance of the business will be more likely to purchase the same product or service again. Although customer satisfaction has a positive effect on loyalty, the magnitude of this loyalty will vary between businesses and industries.

3.7 CUSTOMER SERVICE, CUSTOMER SATISFACTION AND THE AIRLINE INDUSTRY

Airlines need to be able to satisfy their customer through the delivery of quality service. Airlines can determine the levels of customer needs and expectations by

using the six market model, the customer life-cycle, the Gaps Model and how the concept of how customer satisfaction operates within the airline industry.

3.7.1 THE SIX MARKETS MODEL AND THE AIRLINE INDUSTRY

Although the customer market is the focus of the six markets model, each market in the six market model will have an influence on the airline industry.

- **Customer market**

  As was mentioned in section 3.3.1, the customer market in this study refers to those individual customers who fly with a domestic airline in South Africa. Donaldson and O'Toole (2002:25) and Glynn and Barnes (1995:327) explain that if airlines appreciate the importance of their customers to their business, they will be better equipped to form relationships with customers and will thus be able to determine what their needs and expectations are. This will place airlines in a strong position to meet customer needs and offer customers better service and satisfaction. McDonald *et al.* (2001:54) suggest that if customers experience poor customer service, they will defect to competing airlines if such airlines are available and if they are able to provide better levels of service.

- **Referral market**

  In the airline industry, *the referral market* consists of individuals who will spontaneously recommend a specific airline to other people and groups such as colleagues, family members and travel agents. Current customers are also part of the referral market because, if they have received good service, they will be willing to recommend the airline to others. For they want their customers to act as referrals, airlines need to form positive relationships with their customers, provide quality service and satisfy the expectations of their customers (Christopher *et al.*, 2002:87).

- **Supplier market**

  McDonald *et al.* (2001:57-58) suggest that formation of a strong relationships with suppliers is of fundamental importance to the airline industry. Airlines need to work together with suppliers in order to deliver quality products and

services and by focusing on whatever improvements can be made while simultaneously lowering costs for all concerned. If suppliers do not deliver on their promises, the affected airline will not be able to deliver on the promises that it is made to its customers.

- **Recruitment market**

Glynn and Barnes (1995:328) argue that it is necessary to employ skilled personnel if airlines are to be successful. It is through the recruitment market that properly qualified and trained pilots, flight attendants and other employees can be identified and recruited. Quality personnel are vital to businesses that compete in terms of service.

- **Influence market**

Peck *et al.* (1999:9) suggest that forming of relationships with influence markets is necessary. If an airline does not form a beneficial relationship with the influence market, that market will be able to influence customers not to fly with the airline concerned. Glynn and Barnes (1995:328) state that shareholders, journalists, and consumer groups all exert various kinds of influence within the airline industry.

- **Internal market**

In order to satisfy customer needs and meet their expectations, airlines should meet the needs of employees. It is by means of internal marketing that airlines can ensure that their customer service strategy will be implemented throughout the entire scope of the airline's operations, and that each employee will understand his or her role in the provision of quality service (Donaldson & O'Toole, 2002:25).

3.7.2 THE CUSTOMER LIFE-CYCLE AND THE AIRLINE INDUSTRY

The concept of the customer life-cycle (described in section 3.4.2) can be used to understand how customer expectations change during a relationship.

- **Acquisition and welcome**

Abram and Hawkes (2003:73-74) explain that acquisition and welcome influence the volume of airline tickets that are purchased. During the initial phase of customer acquisition, it is important for airlines to make customers aware of the services that they offer. Stone *et al.* (2000:114) suggest that it is during this phase that airlines should aim to gather as much information as possible about their customers. Airlines can make use of information such as how frequently customers fly with a specific airline or the destinations to which customers usually fly. By gathering information about details such as the frequency of travel, airlines will be able to determine whether or not it is worthwhile for them to foster a relationship with particular customers.

- **Cross-selling and up-selling**

Nickels and Wood (1997:599) explain that once a customer has experienced the services that are offered, the airline should encourage such customers to fly more frequently with their airline. An airline should also try to convince customers to upgrade to Business Class if they habitually fly Economy Class. It is by means of such modes of up-selling that a customer can become more valuable to the airline concerned.

- **Retention**

The retention phase that was described by Lovelock and Wirtz (2004:38), points out that if the customer is satisfied with an earlier experience of flying with the airline, such a customer will tend to choose that airline again. During this phase, the airline will need to adapt the levels of service that it offers to its customers by promotional mechanisms such as, for example, providing them with frequent flier miles. Since customers are influenced by their previous experiences, such experiences will influence the level of services that they expect to encounter. If airlines wish to retain customers, they will need to adapt their levels of service to meet their customer expectations. Customers who have had previous experiences with an airline will have certain definite expectations during future flights. Such customers will only remain loyal to the airline if their expectations are consistently met.

- **Anti-attrition**

  Stone *et al.* (2000:223) suggest that this is the phase during which a customer can be lost. A customer might defect to other airlines because of changing needs. Such a changing need might, for example, include the necessity to fly to another destination to which the airline does not serve. Customers also defect to competitors when an airline does not meet their needs and expectations.

- **Reactivation**

  Abram and Hawkes (2003:73-74) add that if customers defect because of poor service, the airline could attract such customers again by improving their service levels and making sure that they do in fact fulfil the needs and expectations of such customers.

3.7.3 SERVICE QUALITY AND CUSTOMER SATISFACTION IN THE AIRLINE INDUSTRY

The level of services offered by the airline will influence the customers' perception of quality. Gilbert and Wong (2003:519) state that understanding customer expectations is critical to the delivery of service quality. Rhoades, Waguespack and Treudt (1998:306) explain that a general perception among customers is that airlines are more interested in cost-cutting than they are in improving service quality. The Gaps Model of service quality (discussed in section 3.5.3.2), which is described by Grönroos (2004:102-105), presents airlines with a method of determining where their service quality might fail to provide their customers with their desired levels of service.

- **Gap 1: The management perception gap**

  Hoffman *et al.* (2005:336) explain that when management do not understand their customers' needs, they cause this particular gap. The management of an airline might assume, for example, that customers require refreshments on board even though the customers themselves might not feel that this is a necessary requirement on a short-haul flight. During the acquisition stage of the customer life-cycle, management could obtain accurate information from

customers about their needs, complaints and expectations, which they could then analyse to their advantage.

- **Gap 2: The quality specification gap**

Grönroos (2004:102-103) is of the opinion that this gap will arise if management cannot satisfy the expectations and needs of their customers. Customers might, for example, expect in-flight entertainment such as films or music when the only when the only in-flight entertainment available is in the form of on-board magazines. Management needs to train flight attendants and other airline staff to make a list of the particular requests and needs that customers make and communicate them to management. If it does this, management will have yet another tool for determining ways of improving service standards.

- **Gap 3: The service delivery gap**

Hoffman *et al.* (2005:337-338) go on to explain that the existence of a delivery gap depends on both the willingness and the ability of airline employees to provide the service according to set specifications. This particular gap will widen if the technology for ticket processing and other infrastructural resources are inadequate. Improving employee training programmes will give employees a better idea of what services a business is able to offer a customer and which it is not.

- **Gap 4: The market communication gap**

Mudie and Cottam (1993:81) suggest that advertising and other forms of marketing communication of an airline will influence customer expectations. The promises made in marketing communications (such as the services that are offered in-flight or the price of flights) should be delivered upon. It is therefore important for airlines to make realistic promises in its advertisements.

- **Gap 5: The perceived service quality gap**

Mullins *et al.* (2005:426) explain that the perceived service quality gap arises when the other four gaps have not been closed. Quester *et al.* (2004:534) add

that customers have certain expectations about particular flights, and if they do not receive what they expect to receive, they will become dissatisfied with the service offering.

Lovelock and Wirtz (2004:44) and Gabbott and Hogg (1998:106) maintain that in order to satisfy customers, it is important first to determine what their expectations are. These expectations might be as basic as wanting the flight to arrive on time, or they could include expectations of a properly cleaned aeroplane or the availability of in-flight refreshments and entertainment. Airlines will need to know what customer needs and expectations are in order to exceed those expectations and so provide quality customer service and customer satisfaction.

3.8 CONCLUSION

This chapter provided a review of how customer expectations are formed and how these expectations influence the customers' perception of quality and satisfaction. The six markets model provided a background to those areas that all businesses need to consider. Since the customer market forms the basis of the six markets model, customers are a vital component in the functioning of a business. A discussion of the customer life-cycle, customer needs and expectations, customer value and customer focus provided a background of the importance of customer service and satisfaction. The Gaps Model was discussed as a prelude to a consideration of the concept of customer service quality. It was also demonstrated how the Gaps Model can be used to analyse areas, behaviour and performance that are the cause of poor service quality. Customer satisfaction was discussed by identifying three main models for customer satisfaction and by determining which elements need to be present if customer satisfaction is to be realised.

The following chapter identifies how customer service and customer satisfaction can be utilised to form long-term relationships with customers and the function they serve in the cause of customer retention

Chapter 4

CUSTOMER RELATIONSHIP MANAGEMENT

4.1 INTRODUCTION

This chapter discusses the role and importance of customer relationship management in terms of relationship building. The aims of the chapter are to:

- Explain the link between customer service, customer satisfaction and customer relationship management;
- Discuss the evolution and importance of customer relationship management;
- Describe customer relationship management in terms of its definition, types and programmes, benefits and barriers;
- Describe the customer relationship life-cycle;
- Discuss the elements needed for successful customer relationship management implementation;
- Describe the role of technology and customer relationship managers in customer relationship management, and
- Explain the role of customer relationship management in the airline industry.

4.2 THE LINK BETWEEN CUSTOMER SERVICE, CUSTOMER SATISFACTION AND CUSTOMER RELATIONSHIP MANAGEMENT

The previous chapter described the link between customer service and customer satisfaction. Although customer service and customer satisfaction influence one another, both of these elements also influence customer relationship management (CRM). As Sheth and Uslay (2007:302), Hoffman *et al.* (2005:331) and Temporal and Trott (2001:20) have emphasised, customer relationship management and customer service are closely related because it is the aim of CRM to build up long-term relationships with customers by offering them a range of valuable and desirable experiences. While customer service is an important part of relationship building for every business, it is especially important in service businesses. It is the very process of providing customers with good customer service that gives businesses the opportunities they need to understand exactly what it is that

customers want as they continue to refine their ability to initiate and nurture long-term relationships with their customers. When businesses fail to take advantage of these opportunities, it is greatly to their detriment. If a business neglects to take advantage of the opportunities offered by nurturing customer relationships, such a business is bound to suffer the losses that result in the long term from damaged relationships and the behaviour of dissatisfied customers. Every time a business fails to offer quality service, the relationship between that business and its customers suffers some degree of damage. It is for this reason that CRM is of vital importance for the viability of a business.

Customer relationship management affects customer satisfaction in three main areas. Mithas, Krishnan and Fornell (2005:202-203) describe these areas in the following way:

- **Customer relationship management has an indirect effect on perceived quality**

  Customer relationship management uses a range of methods to gather data about customers and their purchasing behaviour, and to convert this data into information that provides insight into what it is that individual customers want and need. It is only once a business has obtained a clear understanding of what it is that its customers actually want, that it is able to customise its product offering in such a way that its product will satisfy the needs of its customers. It is customised offerings that increase the perceived quality and value of products and services from the point of view of the customer. Since perceived service quality is a determinant of customer satisfaction (as was described in section 3.5.3), it follows that CRM exerts an indirect effect on customer satisfaction through the contribution that it is able to make to the perceived quality of the product.

- **Customer relationship management contributes to the accuracy and effectiveness of customer management**

  When a business is effective in implementing CRM, it will be able to improve customer satisfaction in a number of ways that will include accurate order processing, efficient responses to customer requests and the accurate management of customer accounts. McClay and Whelan (2004) note that

CRM provides businesses with the tools that it needs to identify what it was that customers required from their past transactions, and this will make it easier to anticipate what customers will want from future transactions. Customer relationship management therefore makes a vital contribution to the efficiency of the sales force, which contributes to improvements in customer service and the degree of satisfaction that customers experience.

- **Customer relationship management contributes to the management of the customer life-cycle**

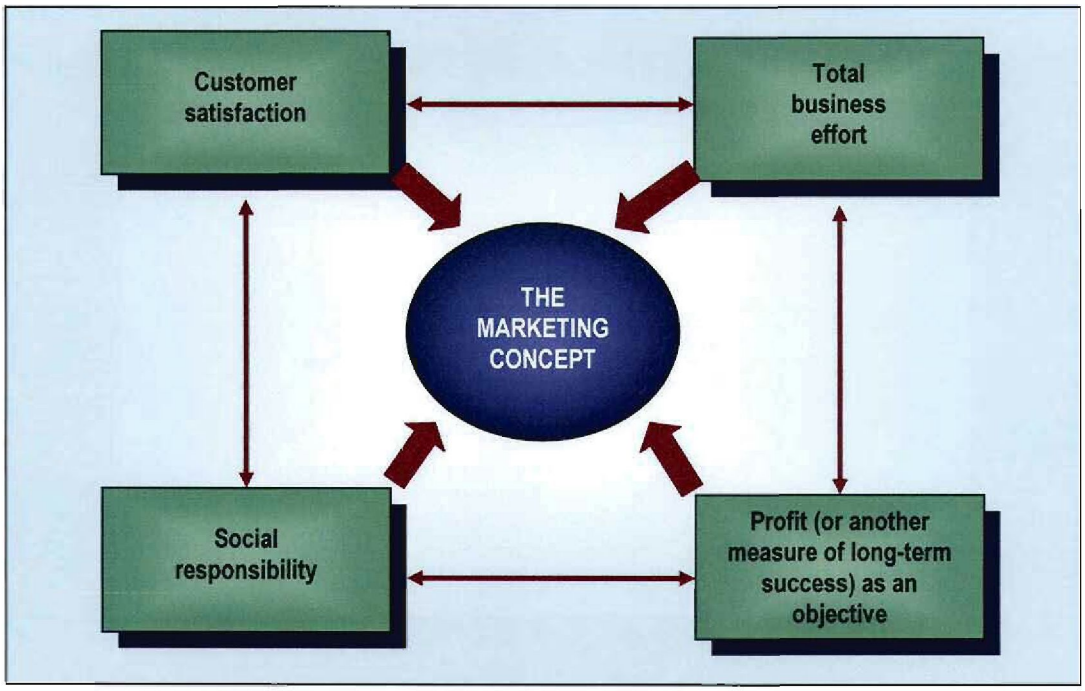
  Customer relationship management contributes to the well being of a business by helping a business to manage the customer life-cycle (as described in section 3.4.2). As customers move through the life-cycle, their needs, values and priorities change, and it is CRM that enables businesses to determine these variations in the needs of customers and the consequent adaptations that need to be made to the product offering in each phase. Before a business can obtain a clear idea of how customer needs change, it first needs to establish sound relationships with its customers and to provide them with satisfaction during each phase of the customer life-cycle. Customer satisfaction is a vital component in the marketing concept (Mithas *et al.*, 2005:202-203).

It is necessary to include adequate provision for customer satisfaction and CRM in a business's marketing concept. Perreault and McCarthy (1996:40) note that businesses that have adopted the idea of the marketing concept will be alert to new ways of building long-term relationships with individual customers. (The management of the customer relationship is the main reason why efficient businesses devote a great deal of time, energy and resources to the practice of CRM.) Kotler (2003:39) notes that current thinking about marketing has undergone a paradigm shift from trying to maximise the business profit in each transaction to maximising the profit obtained from each relationship through relationship building .

Sheth and Uslay (2007:306) and Perreault and McCarthy (1996:36) provide a description of the main elements of the marketing concept as it prevailed in the early 1950s (see figure 4.1). The authors formulate the most basic notion of the marketing concept in business as an activity that "aims all its efforts at satisfying its

customers – at a profit". According to this definition, the marketing concept is composed of three basic elements, namely, total business effort, profit and customer satisfaction. In an effort to compensate for the deficiencies of this three-item marketing concept (which ignored the influence of environmental changes on customer needs), Kotler, as quoted by Van der Walt *et al.* (1997:20), added a fourth component in 1972, namely, social responsibility. It is important to note that each of these elements of the marketing concept exerts an influence on each of the other three elements. It is for this reason that the marketing concept should be treated and regarded as a unified concept .

FIGURE 4.1: THE MARKETING CONCEPT



Source: Adapted from Van der Walt *et al.* (1997:22-24) and Perreault and McCarthy (1996:37).

A summary of each of the elements of the marketing concept follows:

- **Total business effort**

  Van der Walt *et al.* (1997:22) explain that a business needs to be managed as an integrated whole. This means that each of the departments of a business need to work together with all the other departments for the overall objectives of a business to be realised. This can only happen if all the elements of the marketing mix (that were described in section 2.4) complement and reinforce

one another so that they work in harmony to meet customer needs and instil customer satisfaction. Curry and Curry (2000:74-75) make the point that since every single employee in a business is a *de facto* participant in CRM, he or she influences the customer relationship either positively or negatively. Every employee thus contributes to the extent of the profitability of a business by exerting an influence on customer behaviour and satisfaction.

- **Profit**

Perreault and McCarthy (1996:36) explain that the main aim of a commercial business is to achieve an optimal profit. The business can only optimalise its profits by offering customers a product that satisfies their needs. Businesses generally attempt to maintain or increase their levels of profit over the long term because a business that takes a short-term view of the profit structure endangers its own survival. Businesses that operate on a non-profit basis focus on the reduction of their costs rather than on ways and means of increasing their profit. Figure 4.1 illustrates this kind of modus operandi by indicating alternative measures for long-term success (such as cost reductions) as possible methods of that can be utilised in the marketing concept of non-profit businesses.

- **Customer satisfaction**

Woodall (2007:1285), Van der Walt *et al.* (1997:21) and Perreault and McCarthy (1996:36) assert that an emphasis on all the marketing activities that are designed to satisfy customers needs should be part of the marketing concept of a business. Businesses can only satisfy the realistic needs of customers with whatever resources they have at their disposal. But whenever a business fails to fulfil the needs of its customers, it creates an opportunity for its competitors to lure its customers away, and this makes a negative impact on the profitability of the business.

- **Social responsibility**

The basis of social responsibility is predicated on the premise that all businesses should contribute to the welfare of the society and the environment in which they operate. This means in effect that businesses should abstain

from business practices that are in any way damaging to the interests of the society in which they operate. The most obvious manifestation of social responsibility is that businesses should be meticulous in their adherence to the laws, rules and regulations by means of which business practice is governed in their country of origin. Some businesses give expression to their commitment to social responsibility by spending considerable amounts of money on appropriate community projects. The benefits that accrue from social responsibility projects should benefit not only groups external to the business such as customers and the general public; they should promote the interests and well-being of the business's own employees (Van der Walt *et al.,* 1997:20-25).

4.3 THE EVOLUTION OF CUSTOMER RELATIONSHIP MANAGEMENT

Maklan, Knox and Ryals (2007:221), Payne and Frow (2006:137-138), Bligh and Turk (2004:7-8) and Parvatiyar and Sheth (2001:5-8) point out that the term CRM evolved in the early 1990s as a marketing term for describing those business practices and technologies that are used to improve customer-related business practices. Customer relationship management arose out of the need of businesses to keep up with the changing needs, demands and expectations of customers, markets, and competitors. The exponential growth in the use of personal computers and the Internet between the early 1990s and the present has resulted in corresponding increases in the expectations of customers. This has happened because the Internet is currently able to make vast amounts of information, that were previously inaccessible, available to prospective customers who make a practice of comparing products and services before they commit themselves to buying. During this same period, businesses were able to utilise the changes and improvements in technology to substitute cost-effective automation for many of the tasks that previously had to be performed manually by human operatives. This recent availability of automation and a vast range of software has enabled businesses to manage their customer-related processes and data efficiently and swiftly as they interact directly with their customers. The growth of the service sector has increased the need for direct interaction between the business and the customers whom its serves. The concept of Total Quality Management (TQM) has exerted an influence on the development of CRM because it is the purpose of TQM to improve quality while simultaneously reducing costs. This has, in turn, increased the need for better relationships between

customers and suppliers. Payne (2006:11) is of the opinion that CRM evolved because of trends that have developed in the marketing place. These trends include the following:

- Businesses have shifted their focus from traditional transaction marketing (that concentrates on the one-off sale) to a focus on building relationships.
- Businesses have realised that their customers are assets to their business.
- A strategic shift has occurred in organisational structures away from functions towards processes.
- Effective businesses have come to recognise the benefits involved in using information proactively rather than merely reactively.
- Businesses have become far more dependent on utilising technology in the management and maximisation of the value of the information that they collect.
- Businesses have accepted the need for a trade-off between delivering and extracting customer value.
- There has been an appreciable increase in the development of one-to-one marketing approaches.

Customer relationship management has undergone various changes since it first evolved since the 1990s. Kumar and Reinartz (2006:20-22) describe these changes in the following way:

- **First generation (the functional CRM approach)**

  The first generation of CRM developed as two independent elements, namely, sales force automation and customer service and support. Sales force automation addressed pre-sale activities such as generating leads in the compilation of sales quotes. Customer service and support addressed after-sale elements such as contact and call centres, and help desks. These two elements remained essentially disconnected from one another, and were poorly integrated at the best of times. Although it was part of the function of sales force automation to promise after-sale service, there was little interaction between these two elements. This discontinuity suggested the need for an integrated system that could be used by all departments.

- **Second generation (the customer-facing CRM approach)**

  Customer relationship management evolved into an element that needed to address the business needs of the customer facing staff. The aim of CRM in this phase was to incorporate all interactions with customers from pre-sale to after-sale. Although many businesses were implementing CRM during the 1990s because of the benefits that customer integration might confer on business, the hoped-for results remained elusive and disappointing during that decade. During the late 1990s and early 2000s a number of significant problems relating to CRM and in implementation in business settings began to occur. But during those early days, the promise of CRM technology in practice failed to the deliver the benefits that were expected of it. Although the existence of the Internet heightened expectations of what CRM might be able to deliver, and although certain benefits were indeed forthcoming, the expectations entertained were to a large measure disappointed because the difficulties and obstacles presented by CRM technology. The practitioners of the time were hindered because CRM was both difficult to implement and to measure. For these reasons, it was felt that it was up to both businesses to develop and implement a more strategic and holistic understanding of what the CRM implementation process required (Kumar & Reinartz, 2006:21).

- **Third generation (the strategic CRM approach)**

  What businesses managed to learn from the mistakes that were made during the second generation of CRM development, enabled them to close the gap between the actual and perceived benefits by the end of 2002. What enabled certain businesses to create more successful CRM practices was the realisation that they needed to integrate not only pre-sale and post-sale elements – but also the concerns and benefits that would accrue to their partners and suppliers. The most successful practitioners of CRM were those that were able to devise a strategic approach that did not place an unrealistic reliance on technological solutions (Kumar & Reinartz, 2006:22).

4.4 THE IMPORTANCE OF CUSTOMER RELATIONSHIP MANAGEMENT

Maklan *et al.* (2007:223), Fitzgibbon and White (2005:216), Kotler (2003:35) and Temporal and Trott (2001:25) all point out that a primary aim of CRM is to

establish, nurture and manage successful relationships with customers. It is only by integrating business cultures, systems, and processes in such a way that employees are able to understand the uniqueness of individual customers and the importance of their needs that such relationships can be successfully established and maintained. Successful customer relationship management practices enable employees to obtain the customer information they need to satisfy individual requirements. The kind of information referred to here includes data about when products were purchased, the manner in which the product was purchased, and whatever reactions (whether positive or negative) customers might have had to any element in the sales process. (Such data is traditionally garnered from service complaints and requests.) If CRM is to be effective, it is necessary constantly update, collate and classify all customer-related information and to check it as far as possible for accuracy. CRM practitioners who wish to obtain accurate and relevant information from customers, need to install and utilise the necessary hardware, software and whatever administrative and technical procedures are required for the efficient operation of such programs. The correct kind of computerised technology can deliver early warnings about changes in customer trends, purchases and behaviour. A business that is in possession of this kind of information will satisfy customer needs through the employment of cross-selling and up-selling techniques.

Jobber (2004:796-797) notes that CRM enables businesses to focus on satisfying and extending the involvement of existing customers rather than they devote too much time to attracting new customers. Customer relationship management helps businesses to retain existing customers and to improve the quality of their relationships with such customers because it is more cost-effective for businesses to retain existing customers than to acquire new ones. This ideal is particularly important in the service industry because service industries involve direct contact between the service provider (the business) and its customers. The quality of the relationship between a business and its customers exercises a decisive influence on the length of the business-customer relationship. Although not all businesses have the potential for establishing long-term relationships with their customers, Jobber (2004:797) suggests that three main conditions need to be in place before the business can expect to develop long-term relationships with its customers. These three conditions are as follows:

- An ongoing desire for the service concerned must exist among the business's customers.
- Customers must be able to exercise control over their choices about which businesses they will engage to provide the service they require.
- Customers should have a variety of choices among businesses when they are in the process of selecting a service provider that will suit their needs.

Customer relationship management recognises that in order to establish long-term relationships with customers, a business needs to ensure that all pre-sale and post-sale activities are integrated and infused throughout the entire business. An overall CRM plan of this kind will include provisions for the consolidation and integration of all customer contact points and customer-related events (Österle *et al.*, 2001:107-108).

The integration of all customer contact points into one rational process will enable a business to provide their customers with quality service and thus to develop long-term relationships. Glynn and Barnes (1995:92-93) offer the following reasons as to why it is important to keep existing customers and to improve the quality of long-term customer relationships:

- Businesses will experience higher marketing costs in the generation of interest among new customers than if they devote their energy and resources to improving relationships with existing customers.
- Long-term relationships with customers entail opportunities for regular exchanges with existing customers at a lower marketing cost per customer.
- Businesses should regard customer transactions over the long term as a means for generating profits. This is in direct contrast to the kind of business that places a high value on once-off transactions. Long-term relationships with customers generate opportunities for the cross-selling of related products and up-selling.
- Customers who are already familiar with the product offering and have formed a sound relationship with a business, can assist in the creation and development of new products and forms of service.
- Once high-quality relationships have been developed with customers, customers will tend to be more tolerant of once-off incidences of poor service.

The business concerned should take steps to ensure the kind of poor service will not be repeated in any future transaction.

4.5 CUSTOMER RELATIONSHIP MANAGEMENT DEFINED

The existing literature about CRM makes it clear that a wide variety of definitions exist of CRM. One single accepted definition could not be obtained. McKenzie (2000:41-42) attributes the fact that there is no single definition of customer relationship management to which all practitioners and academics will subscribe to the rapidity with which CRM is evolving and to the constantly changing nature of CRM. This lack of agreement on the definition of CRM creates a theoretical problem for marketing managers and researchers as well practical problems for practitioners who are attempting to implement CRM within other areas of business that are involved in the maintenance of relationships with customers. The more extensive definitions of CRM include various descriptions of how CRM is a business and technology discipline that enables businesses to give satisfaction to customers and how the successful implementation of CRM is dependent on basing CRM on a comprehensive customer-centric business strategy.

What follows below are extracts from the various definitions of CRM that exists in the literature.

- The emphasis in customer relationship management should be on establishing the correct attitudes towards customers among employees rather than on creating a theoretical CRM system that will describe all the elements. In the opinion of Ivens and Shaw (2002:98), the most important element in CRM is the extent to which a particular business has dedicated itself to maximising the customer experience and how it is on the needs and satisfaction of its customers.

- Gummesson (2002:297) defines CRM as a business strategy that dictates the attitudes of employees towards customers and that is supported by appropriate processes and systems. The goal of CRM in this definition is to give priority to the maintenance of long-term relationships by understanding individual customer needs and preferences and, in so doing, to add value to a business and offer benefits to its customers.

- Christopher *et al.* (2002:16) define CRM as a strategic approach that improves shareholder value by developing sound relationships with existing customers. An approach of this kind integrates technology and marketing strategies in order to initiate and maintain long-term customer relationships. There is also an emphasis in the definition of Christopher *et al.* (2002:16) on the overall integration of technology, personnel, operations and marketing into one master strategy.

- Bligh and Turk (2004:6) provide a more comprehensive definition of CRM. These authors are of the opinion that the most helpful definition of CRM is one that makes use of a three-tiered approach by integrating the operational philosophy with the processes and the technologies that are utilised by the business. The three "tiers" on which this definition depends includes the following elements:

  (1) The absolute necessity for a philosophy of business to be customer-oriented. This is achieved by attracting customers by means of customising service to satisfy the unique needs of each individual customer.
  (2) The necessity for integrating business processes such as sales, services and marketing.
  (3) The use of appropriate software and technology to capture customer information. The business concerned should make use of technology to automate and integrate the separate events that constitute sales, service and marketing into one comprehensible whole.

- Galbreath and Rogers (1999:162) define CRM in the following way. "[CRM is comprised of] the activities a business performs to identify, qualify, acquire, develop and retain increasingly loyal and profitable customers by delivering the right product or service, to the right customer, through the right channel, at the right time and the right cost. Customer relationship management integrates sales, marketing, service, enterprise resource planning and supply-chain management functions through business process automation, technology solutions, and information resources to maximise each customer contact. Customer relationship management facilitates relationships among enterprises, their customers, business partners, suppliers, and employees."

The definitions set out above show that the literature is insistent on the significance of at least two main elements when it comes to defining CRM. These two main elements are technology and business strategy. Although certain definitions include both elements, most of the definitions tend to accord priority to either one or the other element. By according an equal emphasis to both elements, this study offers the following definition of CRM: *CRM is a comprehensive strategic business approach by means of which businesses are unable to identify, attract, and retain customers and form beneficial relationships with such customers that will add value to a business while simultaneously integrating business processes such as marketing, sales and customer service into one strategic plan by maximising the use of appropriate technology, the resources of the Internet, as well as whatever software will best enable a business to gather significant information about customers and their specific needs.*

4.6 TYPES AND PROGRAMMES OF CUSTOMER RELATIONSHIP MANAGEMENT

Customer relationship management can be classified into three main types, namely operational CRM, analytical CRM and collaborative CRM. Each of these types emphasises the importance of forming relationships with customers. Payne (2006:23) notes that the business requires viable CRM programmes to identify valuable customers and to retain not only their loyalty and commitment, but also the satisfaction that they feel with regard to the business product. Each of these CRM types and programmes will be discussed and described below.

4.6.1 TYPES OF CUSTOMER RELATIONSHIP MANAGEMENT

The three types of CRM that can be distinguished are operational CRM, analytical CRM and collaborative CRM.

4.6.1.1 Operational CRM

Payne (2006:23) explains that operational CRM deals with the automation of the business processes that involve customer at points of contact between a business and its customers.

Tanner, Ahearne, Leigh, Mason and Moncrief (2005:169-170) assert that it is the function of operational CRM to integrate all the events and processes that

contribute towards customer access, customer interaction and sales. The purpose of the specific technology that is used in operational CRM is to automate all these business processes. The business processes involved all emphasise the function and value of efficient marketing, sales personnel and services. Marketing automation will include, in particular, all arrangements for the management of campaigns and specific promotions. Sales force automation, for example, concentrates on lead management, opportunity management, customer contact management and sales forecasting. Service automation includes areas such as management of inbound customer calls through the call centre, the routing of service calls and the management of customer complaints. The more complex the interaction between customers and the business becomes, the more critical operational CRM becomes.

The main aim of operational CRM is, in the opinion of Crosby and Johnson (2001:10-11), to improve the overall in specific quality of customer interactions. Operational CRM focuses on devising and implementing a system that will have the capacity to ensure that sales, support and marketing databases are combined in a way that will improve the collection and analysis of customer information. CRM, in their opinion, enables businesses to obtain information about customer interactions, customer information and the purchase histories of customers in such a manner that it will assist the business concerned to deal with customer requests and deliver on the needs of customers for optimal and faultless service. The main benefit of operational CRM is that it has the capacity to offer increased efficiency in marketing, sales and customer service.

4.6.1.2 Analytical CRM

Analytical CRM, according to Payne (2006:23), "involves the capture, storage, organisation, analysis, interpretation, and use of data created from the operational side of the business". If analytical CRM is to be effective, it is important for operational CRM and analytical CRM to be integrated with one another.

Analytical CRM analyses customer data so that it can be used as a basis for strategic decision-making and to enhance the value of customers to a business. Analytical CRM enables businesses to obtain accurate and reliable information about customer behaviour. The information obtained in this way is then integrated with operational CRM. The quality of the information obtained by analytical CRM

depends on the quality of the customer data that is collected (Tanner *et al.*, 2005:174-175). Crosby and Johnson (2001:11) point out the importance of customer data warehouses that store the information that is gathered from customers. This information is obtained from various sources such as from the business, the customer, credit bureaux and from business market research databases. The data collected for use in analytical CRM is data about customer behaviour, profitability, satisfaction, retention, loyalty and referrals.

4.6.1.3 Collaborative CRM

Collaborative CRM is concerned with to the interactions that take place between customers, businesses and employees (Payne, 2006:23).

Crosby and Johnson (2001:11) note that CRM relies on various interactions that take place between parties and stakeholders. Advances in technology allow these interactions to occur by means of electronic communication methods such as e-mail newsletters and websites that are dedicated to the reception and rectification of complaints and dissatisfaction. The challenge of collaborative CRM is to ensure that the communication that is involved in these processes will reach customers at the right time and in that they will contain whatever information is relevant and pertinent to the customer's needs. While collaborative CRM offers all the benefits inherent in one-to-one marketing, it also challenges a business to find out exactly what information it is that customers require and to respond to customer queries, complaints and comments as quickly and accurately as possible.

4.6.2 CUSTOMER RELATIONSHIP MANAGEMENT PROGRAMMES

Brown (2000:11) explains that customer relationship management allows a business to identify different types of customers. It is vital for businesses to be able to do this because each customer is in a different phase of the customer life-cycle and thus requires the kind of service that is appropriate to that particular phase. It is a function of customer relationship management to determine the service requirements of each individual customer and so enable a business to choose the marketing programme that would be best suited to the customers' needs at that particular time in the customer life-cycle. There are four separate CRM programmes that have been devised to enable a business to cater for the specific needs of its customers as they pass through different phases of the

customer life-cycle. These four programmes include strategies: (1) for winning back a customer who has defected, (2) for identifying new prospects for the business, (3) for creating and strengthening the loyalty that customers feel towards a business, and (4) for cross-selling or up-selling to current customers.

4.6.2.1 Winning back customers or saving customers defection

Brown (2000:11) explains that methods for winning back a customer who has defected or saving one who is on the point of defection form part of customer relations strategy programmes. Such techniques enable a business to convince a customer to remain with the business or to encourage those who have defected to return to the business. CRM programmes are time-sensitive in that it is imperative for a business to try to win back a customer as soon as possible after the customer has defected. The second element that a CRM programme offers the business is selectivity. Businesses need to be able to identify those customers that they *want* to win back or save. Because some of the customers who have defected will have poor credit ratings or because their history shows that they habitually purchase only low volumes of the product and maybe even because they are frequent defectors, it would certainly not be worth the while of a business to try to win them back. Businesses need also to be able to identify customers who are decreasing the frequency of their contacts and purchases with the business. Such customers may be on the point of defection, and if a business can identify such customers in good time, it could take steps to determine why they are decreasing their interactions with the business. If the business knows the reasons why certain customers are decreasing their usage, they will be in a position to examine their product offering and to adapt them, if need be, to meet the expectations of those customer needs. Tanner *et al.* (2005:176) notes that the kind of predictive modelling that is a part of CRM programmes enables businesses to identify those customers who are at risk of defecting in the near future. This kind of predictive modelling forms part of the practice of analytical CRM that was discussed above in section 4.6.1.2.

4.6.2.2 Prospecting

"Prospecting" refers to the process of acquiring potential customers (Doyle, 2005:268). Tanner *et al.* (2005:176) explain that analytical CRM (see section 4.6.1.2) assists businesses to look for new business prospects. Analytical

customer relationship management puts businesses in a position to acquire potential customers and to determine which products will best suit potential target markets.

Brown (2000:12) describes three important elements that are involved in prospecting. These are segmentation, selectivity and sources. Businesses need to *segment* potential customers into target markets because this process enables a business to determine which products will best suit a particular segment. It is by means of segmentation that businesses are able to adapt their marketing programmes to meet the specific needs of customers in each segment and to offer products that the needs of a particular target group. *Selectivity* is also important because it is up to a business to identify the right kind of customers with which to form long-term relationships. While segmentation enables businesses to group customers with similar needs together into separate segments, selectivity allows a business to determine which customers have the potential and resources to form a long-term relationship with the business – and which do not. When CRM is effective, customers are willing to form relationships with the business. The part of the CRM programme that is concerned with the selection and segmentation of customers makes use of various sources, databases and resources such as market research or credit bureaus in order to realise its aims. A business needs to gather as much information as it can from various sources in order to ensure that the right customers will be targeted and selected for the CRM programme.

4.6.2.3 Loyalty

Murphy (2001:3-4) explains that *loyalty* refers to the business trying to prevent customers from leaving and defecting and notes that it is difficult to measure loyalty accurately. Businesses use value-based segmentation, affinity programmes and other methods to create and maintain loyalty. Value-based segmentation gives the business a method of determining how much it is willing to invest in a certain customer in return for loyalty. Affinity programmes (or loyalty schemes) are those measures that are used by businesses to meet needs of customers and thus increase their loyalty to a business. Examples of affinity programmes used by businesses include frequent flier miles schemes or hotel points. Other elements that businesses use to create loyalty include customised billing, special help lines and the extension of credit to select customers. These last-mentioned elements are determined on the basis of a customer's

creditworthiness and have no direct connection with satisfying a customer's needs with regard to the business's product. As the relationship between a business and its customers become stronger over the years, such a business can maintain the same level of loyalty in a valued customer at a lower cost. A business can also use whatever customer information it has accumulated over time to predict what a customer's future behaviour is likely to be. (*Customer loyalty* is discussed in more detail in section 5.6.)

4.6.2.4 Cross-selling / Up-selling

Brown (2000:14) notes that CRM programmes are necessary to increase the amount of money that customers are willing to invest in a business in exchange for products and services. It is by means of cross-selling and up-selling that a business attempts to identify which other products (such as complementary products and enhanced products) a customer would be most likely to need in the future. Such CRM programmes are important because customers who already have a relationship with a business will be far more open to suggestions from the business about the possibility of increasing their satisfaction. Once customers accept cross-selling or up-selling, they become more profitable to a business.

4.7 BENEFITS OF CUSTOMER RELATIONSHIP MANAGEMENT

The following section describes how CRM benefits both a business and its customers.

4.7.1 BENEFITS OF CUSTOMER RELATIONSHIP MANAGEMENT TO THE BUSINESS

Various authors note that CRM has the potential to confer numerous benefits on the business that practise it. Some of the most important of these benefits are discussed below.

- **Increased revenues and profits**

  The net effect of CRM is to increase revenues and profits. Although the initial investment in CRM programmes could be costly, the business will increase its revenues over the long-term as the result of such an investment. Customer

relationship management encourages customers who have not been profitable to a business to move up into more profitable segments by means of cross-selling and up-selling. By gathering information on customers, a business can accurately determine which customers are more valuable or have the potential to be more valuable – and to encourage the business to strengthen its relationship with such customers. CRM forestalls businesses from spending too much on customers who bring little profit to the business, and spending too little on customers who generate large amounts of profit by buying the business's products and services (Gummesson, 2002:310; Temporal & Trott, 2001:10; Curry & Curry, 2000:76-79).

- **Reduced marketing costs**

McDonald (2002:477) and Brown (2000:8) explain that the methods and techniques of CRM enable a business to obtain accurate information about their customers and their needs, and thus to focus its marketing efforts on those customers who are more likely to be responsive to such overtures. When a business focuses only on those customers who are likely to respond, its total annual expenditure on marketing and advertising will decrease. The cost of retaining current customers is lower than the costs that are involved in generating new customers.

- **More effective marketing and decision-making**

Jobber (2004:797-798) explains that a business that has a clear understanding of its customers' needs puts itself in a position to target its actual and potential markets accurately. Because it has an intimate knowledge of what its customers want, it can direct its marketing campaign to offer customers precisely the kind of information they need in order for them to realise how the business's products will meet their personal needs.

- **Increased customer satisfaction**

McDonald (2002:477) and Temporal and Trott (2001:39) observed that when CRM is implemented throughout the whole business, its employees acquire the habit of thinking in terms of "the customer always comes first", and this puts them in a position be satisfy individual customer needs. Customer relationship

management empowers employees to target specific customers, to focus on the needs of those customers and hence to improve the kind of service such customers need.

- **Employee satisfaction and retention**

Jobber (2004:798) notes that employees who are dealing with satisfied customers are far more likely to feel satisfied with their work performance and conditions, and that satisfied employees are less likely to look for employment in another business. It also strengthens the relationship building process when employees remain with the same business for a long time. This happens because customers can always deal with the same employee who, because of long experience, is familiar with the customers' history. It is irksome for long-standing customers to have to explain their problems and needs to a new employee every time they visit a business.

- **Increased customer retention**

Once a business as an existing relationship with its customers, it is in a position to determine which of the needs (including service needs) of customers have to be met. When a business meets these needs, the rate of customer retention remains high (Gummesson, 2002:310).

- **Business becomes customer-oriented**

A business that invests in its customers over the long term becomes imbued with the values of customer-oriented culture, and this sends a positive message to shareholders and other stakeholders (Anton, 1996:2).

- **Competitive advantage**

Once a long-term relationship has been established with a customer, the probability that that customer will defect to another business becomes much lower. Businesses was well-established customer relations are able to compete with their competitors on the basis of service rather than price because customers are willing to pay a higher price for quality service and for maintaining the value that they accord to their existing relationship with a

business. The intangible benefits that flow from long-term relationships cannot easily be replicated by rivals and competitors in the short term (Jobber, 2004:797-798).

- **Faster product development and marketing**

Chalmeta (2006:1016-1017) and Roh, Ahn and Han (2005:641) explain that once relationships with customers have been established on a sound basis, such customers can be relied upon to work with a business to develop and assess product adaptations and the development of new products.

- **Prospecting**

Chalmeta (2006:1016-1017) and Roh *et al.* (2005:641) add that customer relationship management enables businesses to identify possible prospects whose needs are most likely to be satisfied with products that a business has already developed.

4.7.2 BENEFITS OF CUSTOMER RELATIONSHIP MANAGEMENT TO THE CUSTOMER

Customer relationship management is not only beneficial to businesses themselves. It also offers customers many advantages. These advantages and benefits are described by Jobber (2004:798-799) and Temporal and Trott (2001:37), and they include the following:

- **Customer confidence**

Grönroos (2004:36) explains that a long-term relationship with a business enables customers to feel confident about the quality of the products they buy and the services they receive. Customer confidence is increased as customers acquire an understanding of how the business works as well as the right channels to follow when they have queries or complaints. High-involvement products carry a high risk for a customer because the wrong choice might adversely affect the customer. But customers who enjoy long-standing relationships with a business will have much more confidence when they purchase high-involvement products.

- **Social benefits**

  Once a customer-business relationship has been well-established, employees will begin to treat customers as individuals with individual needs. Customers will also become familiar with employees because of the long history of association, and many service encounters will consequently come to resemble social encounters. Because of the frequency of customer purchases from a business, the social encounters between customers and employees often mature into friendships (Grönroos, 2004:36).

- **Special treatment**

  Businesses are invariably willing to offer their long-term customers extra services and special prices, and will accord them priority over other customers who have only tenuous links with the business (Grönroos, 2004:36).

- **Higher quality services**

  Jobber (2004:798-799) and Temporal and Trott (2001:37) note that a long-term relationship between a customer and a business enables the customer's needs to become well known to the employees of the business. The business will then be able to customise the service that it offers to individuals and thus be able more accurately and precisely to meet their needs.

- **Avoidance of switching costs**

  A customer who maintains a long-term relationship with a business will avoid the costs involved in switching to competitors. While the business that currently serves a customer has gathered comprehensive information about the customers' needs and preferences, any new business to which a customer transfers will have to begin gathering information about the customer's needs. Such requirements do not come without psychological costs that the customer has to bear (Jobber, 2004:798-799).

4.8 BARRIERS TO SUCCESSFUL CUSTOMER RELATIONSHIP MANAGEMENT

Although all indications are that customer relationship management should be beneficial both to businesses and their customers, many CRM strategies are failing. The barriers that prevent the successful implementation of CRM that could cause failures in CRM programmes include the following:

- **Systems-related barriers**

  Many businesses buy "off the shelf" CRM software without any guarantee that the software they are purchasing is actually compatible with their current business system. When the software of this kind is not suited to the CRM needs of a business, it will fail to perform its proper function in the context of the business and whatever information it can offer will probably be inaccurate and inadequate. The wrong kind of software can be damaging and time-wasting – and ultimately detrimental to the profitability of a business (Fitzgibbon & White, 2005:216-217 and Grönroos, 2004:383).

- **Strategy-related barriers**

  Hoffman *et al.* (2005:333) and Grönroos (2004:383) note that although the business might in fact purchase the correct CRM software, the system as a whole might fail to produce good results because those concerned are unable to implement the strategic elements of CRM throughout the entire business or in the marketing department. CRM software that has not been customised for the individual needs of a business and the unique conditions in which it operates, will not be able to cope with a business's needs. CRM is often used merely as a direct mail medium rather than for relationship building.

- **Management barriers**

  Grönroos (2004:383) and Royffe (2002:463-464) note that in those cases where the management of a business fails to recognise the need for or the benefits of CRM, it will neglect to give priority to the satisfaction of customer needs. In businesses of this kind, the basic strategies of CRM will be bound to fail because the success of CRM depends upon recognition of the importance of promoting a culture of customer satisfaction throughout the whole business.

- **Decision-making barriers**

  There are many employees in businesses that do not have the required decision-making abilities to solve customer problems. This often results in customer problems remaining unresolved. This, in turn, increases levels of customer dissatisfaction and contributes towards the degradation of a business's relationship with its customers (Grönroos, 2004:383).

- **Company barriers**

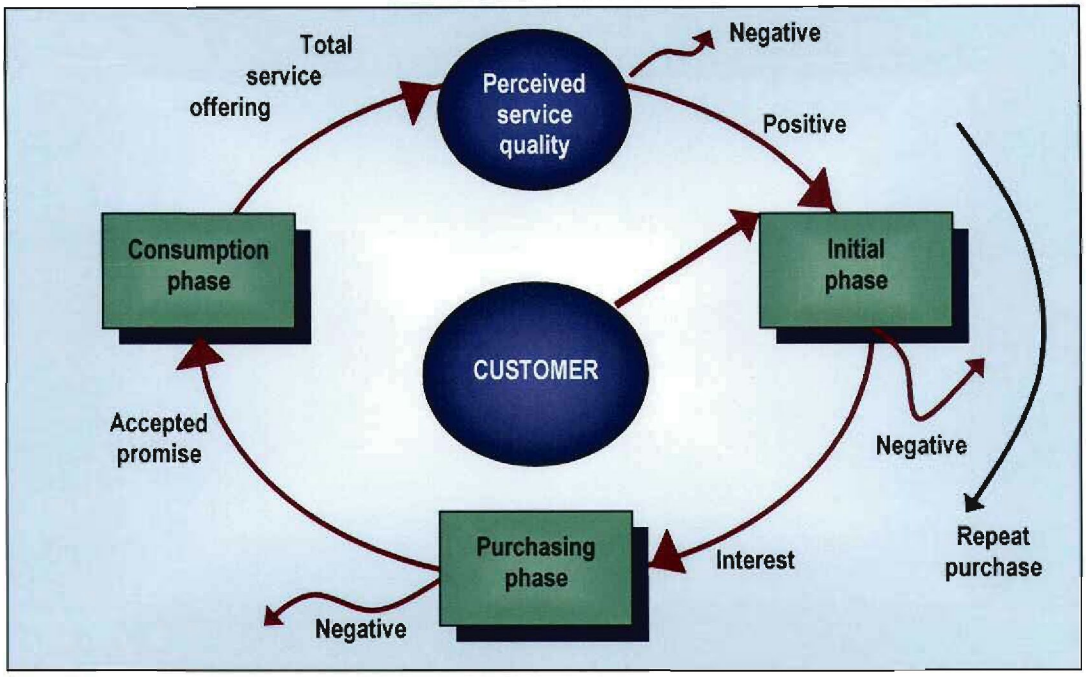
  Grönroos (2004:383) and Temporal and Trott (2001:26-27) note that because the advantages of CRM to a business do not become immediately apparent, inexperienced users are sometimes quick to jump to judgment and denigrate the whole concept of CRM. Customer relationship management emphasises the necessity for building up *long-term* relationships with customers. Although the establishment of sound customer relationships takes time, businesses will ultimately reap the benefits of implementing CRM once such relationships have been formed (as discussed in section 4.7.1).

4.9 THE CUSTOMER RELATIONSHIP AS A LIFE-CYCLE

Payne (2006:194) and Grönroos (2004:236-238) explain that it is helpful to regard the progress of customer relationships as occurring within the context of a customer relationship life-cycle. During each phase in this life-cycle, customers will require different levels of service because their needs will vary with the conditions in which they find themselves.

The customer life-cycle (illustrated in figure 4.2) consists of three basic phases, namely the initial phase, the purchasing phase and the consumption phase. The amount of effort that a business puts into marketing, needs to be adapted at each stage to meet the changing needs of customers as the relationship between customer and business grows. This process of adaptation is depicted in table 4.1.

FIGURE 4.2: THE CUSTOMER RELATIONSHIP LIFE-CYCLE



Source: Grönroos (2004:237).

TABLE 4.1 MARKETING OBJECTIVES IN THE CUSTOMER RELATIONSHIP LIFE-CYCLE

Phase	Marketing objectives	Type of marketing
1. Initial	To create interest	Traditional external
2. Purchasing	To turn general interest into sales (through the fulfilment of promises made)	Traditional external marketing and sales that are supported by interactive marketing efforts
3. Consumption / usage	To create re-sales and enduring customer relationships	Interactive marketing efforts

Source: Grönroos (2004:238).

The three phases of the customer relationship life-cycle, which are described by Grönroos (2004:236-237), are discussed further.

- **The initial phase**

  During this first phase, the customer is unaware of the business or any of its product offerings. But when customers become aware that a particular business is able to satisfy their needs and they begin to show an interest in the product offering, they move into the second phase of the relationship life-cycle. The marketing objective during phase one is therefore to create an interest in the product offering of the business where no such interest previously existed.

Businesses create interest in their products by making use of traditional marketing media and various more recent advertising media such as the Internet (Stone *et al.*, 2000:4).

- **The purchasing phase**

Grönroos (2004:236-238) states that when a potential customer becomes aware of a business and its product offering, he or she begins to evaluate the service and its product offering in terms of whatever expectations they might entertain. When customers reached the stage of feeling that a product offering is likely to satisfy their expectations, they will take the steps of purchasing the product offering. It is during this phase that the traditional marketing media need to be supported by interactive marketing methods so that interest will be more likely to translate into sales.

- **The consumption (or usage) phase**

Once the customer has purchased the product or service, the customer then moves into the phase where he or she consumes or uses the physical goods or services that have been purchased. This is called the usage phase, and it is a vital phase in the development of business-customer relationships. It is during this usage phase that customers continue to assess a business's ability to provide quality service, solve problems and handle queries. Customers who attain a certain level of satisfaction at this stage about their perceptions of quality and who believe that value has been added, will be encouraged to continue with the relationship they have initiated with the business. This normally results in an increase in purchasing behaviour on the part of the customer. Interactive marketing media such as websites are useful for establishing enduring relationships with customers (Peelen, 2005:36-37).

If, during any of these phases, a customer develops negative perceptions about the quality of the service or product, the customer will leave the relationship cycle. Customers only move from one phase into the next phase of the customer relationship life-cycle while they remain convinced that the quality of service they are receiving is good. It is important therefore for a business to identify the particular stage of the life-cycle in which the customer is situated. Once it has done this, it should bring into play whatever resources may be needed to

effectively manage the continuance and the effective management of the relationship (Grönroos, 2004:237-238).

4.10 IMPLEMENTATION OF CUSTOMER RELATIONSHIP MANAGEMENT

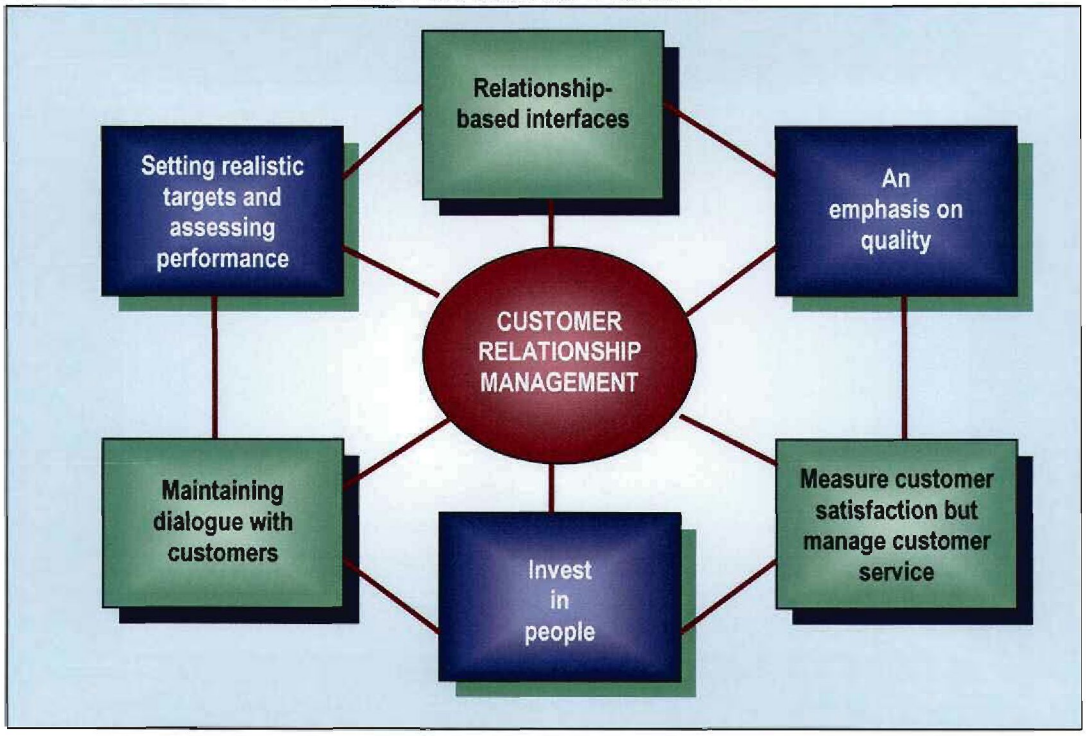
Lovelock and Wirtz (2004:376-377) note that CRM has been implemented by innumerable service businesses. Many of these businesses initially laboured under the misconception that a CRM strategy involves complex information technology systems and an infrastructure such as SAP or Oracle. Many service businesses have failed in the implementation of their CRM implementation because they placed a mistaken emphasis on these complex technological systems while neglecting and ignoring the establishment and maintenance of the actual relationships with their customers. The successful implementation of any CRM system requires the correct integration of all the processes that are involved in the establishment and maintenance of good relationships with customers. Many large businesses have multiple customers who make contact with the business concerned through a variety of contact points such as tellers, call centre staff and websites. Because of the large number of staff who deal directly with customers, it is unlikely that a customer will deal with the same employee throughout a succession of different contacts or purchasing activities. It is for this reason that uniformity is necessary in the CRM system. Once a business has ensured that all its employees are committed to the delivery of a standardised level of uniform service, a customer will be able to expect the same quality of service during each interaction and that each contact point. It is therefore part of the CRM philosophy that customer information should be made available at all times to all responsible employees.

Lovelock and Wirtz (2004:376-377) note that a CRM system that is functioning correctly will be able to provide employees with information such as account details, customer preferences, a history of past transactions and even any previous complaints that might have been made. Making all such information available will facilitate the delivery of optimal customer service. In addition to this, a well-implemented CRM system will enable a business better to understand and segment its customers according to predetermined criteria.

Before a business can successfully implement a CRM system, various elements need to be in place. Donaldson and O'Toole (2002:145) have identified six

important components in the implementation of a successful CRM system (see figure 4.3). These components are relationship-based interfaces, an emphasis on quality, the measurement of customer satisfaction, and correct management of customer service, investment in people, the maintenance of a dialogue with customers, and, finally, the setting of realistic targets and the continuous assessment of performance. Each of these components, which had been identified by Donaldson and O'Toole (2002:145-161), are discussed in the section that follows.

FIGURE 4.3: THE COMPONENTS FOR CRM IMPLEMENTATION



Source: Donaldson and O'Toole (2002:145).

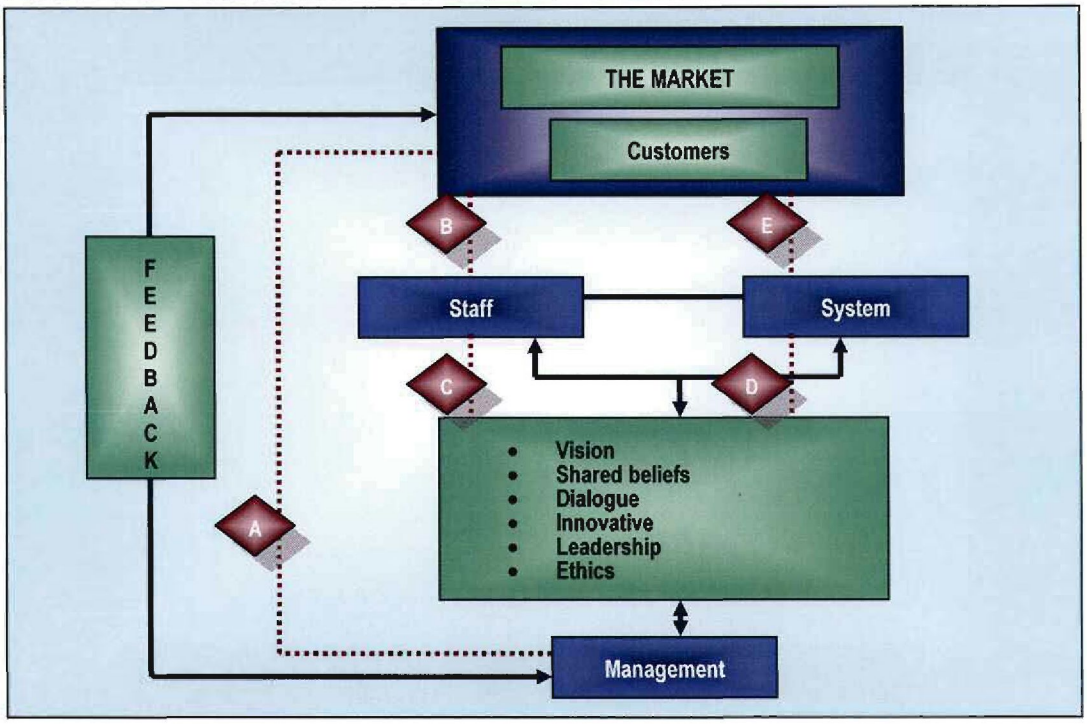
4.10.1 RELATIONSHIP-BASED INTERFACES

The first component of successful CRM implementation is concerned with the interface that the business has created in order to establish sound relationships with its customers. The point of developing a relationship-based interface of this kind is to develop loyalty among customers (Drummond & Ensor, 2005:158). Parvatiyar and Sheth (2001:10-11) and Brown (2000:15) explain that it is this component of the CRM implementation process that is responsible for identifying those customers with which a business might wish to develop a relationship. Businesses can make use of segmentation to determine the potential value of a

customer to themselves as well as the kind of customer needs that will be satisfied by the business's product offering. If the business wishes to establish quality relationships with its customers, it needs first to determine exactly which customers have the necessary resources on which to build a relationship. As businesses become more competent in the art of relationship building, they can expand their current range of customer segments to include other types of customers or even develop additional CRM programmes which can be used to provide satisfaction to more customers. Businesses tend to approach relationship-based interfaces in different ways. Some businesses have no procedures in place for selecting and segmenting customers, and they simply form relationships with whichever customers demand to be selected or with whoever presents themselves as customers. Other businesses have adopted more formalised processes such as research instruments that screen and select suitable customers. The importance of relationship building within a particular business will depend on whether CRM has been adopted as part of the overall business strategy of the business and whether or not CRM has become an inalienable part of the whole business's corporate goals, objectives, strategies and culture.

Donaldson and O'Toole (2002:147) stress the importance of how businesses need to communicate with their customers and adapt to the ever-changing nature of customer needs, perceptions and demands. But just as there is a service quality gap (see section 3.5.3.2 for a discussion of the Gaps Model), a gap exist between what businesses actually do, what they should be doing, and what customer expects a business to do with regard to relationship building. Adaptations of the Gaps Model can be a useful instrument for determining where these gaps in the relationship building interface exist. While a business might, for example, have a clear customer strategy on paper, its employees and management may be uncertain as how to implement that customer strategy. This kind of incoherence and confusion can be remedied by determining exactly where the gaps are and by determining ways of managing the gaps in service delivery and the execution of customer service. Figure 4.4 illustrates where the five gaps (namely, the management-customer interface, the staff-customer interface, the management-staff interface, the management-system interface and service-process interface) occur in the relationship-building interface.

FIGURE 4.4: CUSTOMER RELATIONSHIP MANAGEMENT SYSTEM INTERFACES



Source: Donaldson and O'Toole (2002:146).

Each of the five gaps that are described by Donaldson and O'Toole (2002:147-149) are discussed below.

4.10.1.1 Gap A: The management-customer interface

Donaldson and O'Toole (2002:147) note that the first gap that hinders relationship building refers to inadequate and unsatisfactory levels of contact between management and customers. Because managers usually encounter customers only indirectly and on an infrequent basis, they are often unaware of the needs of customers and how such needs can change. As the interactions between customers and managers become ever more intermittent, *ad hoc* and random, managers become ever more ignorant of the gaps that open up between their businesses and its customers. Management need to close these gaps by acquiring an accurate understanding of the market that they purport to serve and the trends and changes in the market in which their business operates. Those employees who are responsible for dealing directly with customers need to ensure that they are constantly providing management with feedback about customer needs and demands, and management, for its part, needs to encourage their customer-facing employees to be meticulous in this activity. It is the responsibility of management to gather customer information from a variety of database,

research and other sources so that they will have the information they need to make effective decisions (Thakur, Summey & Balasubramanian, 2006:149).

4.10.1.2 Gap B – The staff-customer interface

Peelen (2005:65-67) and Donaldson and O'Toole (2002:147) explain that the second gap in the relationship building process is caused by gaps that had developed between the customers themselves and the customer-facing staff (employees). Customers nearly always base their perceptions of service quality and satisfaction on the contacts they make with a business's employees. Customer-facing staff should be made aware that they retain the power to influence the image of the business. It is essential for all staff to be well trained, to possess good communication skills, to demonstrate helpful attitudes, and to possess a faultless knowledge of their business's products. Unfortunately, many employees have no conscious awareness of the role they play in establishing and maintaining healthy customer relationships. Employees who are aware of customer needs and expectations, and who deliver on these needs, enhance and strengthen the relationship-building process.

4.10.1.3 Gap C – The management-staff interface

Hoffman *et al.* (2005:336) and Brown (2000:17) are of the opinion that the management-staff interface is the most overlooked element in relationship building. The service quality that is offered to customers ultimately depends on the quality of staff who are employed. But even the most promising and well-qualified candidates for employment need to be properly trained before they can provide quality service. Management need to evaluate staff performance fairly and reward staff appropriately. In order to reduce the management-staff gap, it is necessary for a business to practise participative management. If relationship building is to be enhanced, it is imperative for all employees to have an adequate appreciation of the role that they are expected to play in the relationship implementation process. Staff do not only need to be trained in the methods required to deal with customers and to manage customer relationships; they also need to understand their part in the overall implementation of the CRM programme. If this gap is to be minimised, it is important for management and staff to hold a shared vision and common beliefs about the business in which they operate. Such as sharing of

goals and vision cannot be accomplished without intensive and respectful communication between management and staff.

4.10.1.4 Gap D – The management-system interface

Peelen (2005:78-83), Donaldson and O'Toole (2002:148-149) and Brown (2000:16) all note that CRM depends on effective technology and on the creation of an integrated technological system that provides infrastructural support for the processes of developing sound relationships. Gaps of this kind occur in relationship building when the technological system that has been installed is not properly suited to the needs of a business and its processes. It is important for a system to be user-friendly and to provide employees with accurate information on demand. When the systems that are installed by management to deal with business events such as orders, enquiries, and complaints, work efficiently, such efficiency will be evident to customers and will influence their favourable perceptions of the business. A rational system has also to take into account how a customer will make use of the system. Although it is expected that systems will suit the needs of management and staff, such systems must be equally suitable for use of customers. Any such system that is implemented will provide businesses with competitive advantages by making them able to sustain better relationships with their customers.

4.10.1.5 Gap E – The service-process interface

The fifth gap in the relationship-building process appears in the service-process interface. Donaldson and O'Toole (2002:149) describe how important it is for the managers in a business need to optimalise the quality of their infrastructural technological systems so that they will be in a position to provide quality service for customers. While many businesses aim to develop cost-effective systems, they neglect to identify how customers will interact with the system. By purchasing and installing user-friendly systems that enable customers to make easy use of their systems, businesses put themselves in a position to enhance their relationships with customers rather than just to provide customers with products.

4.10.2 AN EMPHASIS ON QUALITY

Drummond and Ensor (2005:157) emphasise that all businesses need to ensure that their interactions with their customers include only the best-quality service. Donaldson and O'Toole (2002:149-151) also emphasise how important it is for a business to appreciate what their customers understand to constitute quality. It used to be the case that businesses were satisfied with offering customers a unique or innovative product offering. But this approach is no longer valid because support services also play a vital role in obtaining a competitive advantage. By offering customers a level of service that satisfies their needs, the quality of the relationship can be dramatically improved. Businesses that are only concerned with basic distribution activities and other order-processing activities neglect the relationships that they might have formed with their customers -- but they do this at their peril. Businesses that are consciously customer-centric and who develop lasting relationships with their customers have understood that quality customer service is vital to their survival and profitability. Many businesses have included the idea of *total quality management* (TQM) as a way of adding value to the entire product offering (including quality service). The challenge that businesses currently face is to improve service quality without sacrificing price or product quality (Nickels & Wood: 1997:48-49). Three main factors are important for delivering quality. These are product-related factors, customer-related factors, and market-related factors. Each of these factors is discussed below.

4.10.2.1 Product-related factors

The word "quality" in a business context refers not only to quality services, but also to the quality of the product on offer. Even if a superior service is offered to customers, inferior quality in a product will forestall the development of any profitable relationship with customers. Those businesses that understand the extent to which CRM affects customer product and service needs will commit themselves not only to relationship building but also to the development of quality products to accompanying their service (Donaldson & O'Toole, 2002:151).

4.10.2.2 Customer-related factors

The second element in the understanding of the role that quality plays are comprised of customer-related factors. Rix (2004:270) explains that it is the customers themselves who need to be involved in the building of relationships and the improvement of quality. It is incumbent upon businesses to collect whatever reactions their customers are willing to impart so that they can improve both their product and service offering as any other areas that need to be addressed. Many businesses ask customers to rate their business activities in terms of service, complaints, the handling of products, and ease of contact.

4.10.2.3 Market-related factors

Donaldson and O'Toole (2002:152) note that it is only businesses who are proactive with regard to their customer relationship strategies who are likely to gain a competitive advantage in the marketplace. Market-related factors, which include competition, are the driving force in the development of customer relationship management. Any business that is proactive provides its customers with quality service, and it is the service that decreases the probability that such customers will defect to competitors.

4.10.3 MEASURE CUSTOMER SATISFACTION BUT MANAGE CUSTOMER SERVICE

The third component of CRM implementation deals with customer satisfaction and customer service. Donaldson and O'Toole (2002:153-154) note that most businesses fail to understand the role that customer perceptions about the product offering play in the development of long-term relationships. The greater the gap between customer expectations and the actual service that is provided, the greater will be the obstacles in the path of developing sound customer relationships. A business has to be certain that the service levels that they provide to customers will satisfy and meet customer expectations. Since customers will develop certain expectations from the communications they receive from a business, the business concerned needs to be sure that they can deliver on promises they communicate to potential customers. It is important for businesses to realise that different customers have different

levels of expectations. Customers who have low expectations but who receive average service will be satisfied, while customers with higher expectations who receive the same service will be dissatisfied. It is therefore important for businesses to measure levels of customer satisfaction (by utilising, for example, rating scales and a facility for receiving customer complaints and comments). But there are also other elements such as advice, support, and the quality of personal contact that could be accorded more importance in building relationships. In order to satisfy customers, it is essential for all the elements of customer service to be managed and present at each interaction. If all these service elements are present, customer satisfaction can result. Drummond and Ensor (2005:158) point out that the management of customer service and the elements of customer satisfaction can make a contribution to the development of programmes that will discourage customers from defecting to competitors and that will create sound customer relations.

4.10.4 INVESTING IN PEOPLE

The centre of a successful customer relationship management strategy is the relationship that a business nurtures with its own employees. Before a CRM strategy can be successful, all the employees within a business need to be consciously aware of the importance of the role that each of them needs to play within the overall context of CRM. And since customer service is a vital element of CRM, all the employees of a business need to be thoroughly conversant with the customer service philosophy that is part of the overall business plan. This will mean, in effect, that the ideals of CRM will permeate all aspects of a business's policies and employee behaviour. It is only by training employees in the practice and ideals of CRM that a business will be able to create an environment in which every employee will be dedicated to the service of customers and the fulfilment of their needs (Chalmeta, 2006:1020). Parvatiyar and Sheth (2001:15) are of the opinion that human resources of businesses need to be better managed and that, if this is done, relationship building will improve accordingly. Employees need, for example, to be trained in the best methods of interacting with customers and colleagues, in how to work in teams, and how to identify customer needs and expectations. It is in such a way that an environment that is conducive to relationship building can be developed and integrated throughout a business.

Employees also need to be motivated by means of incentives, rewards, recognition and compensation to give themselves to the development of greater customer commitment and relationship building.

Drummond and Ensor (2005:157) note that interactions between customers and employees occur at each point of contact with customers. It is for this reason that employees are indispensable agents for the provision of quality service, the creation of customer satisfaction, and the development of customer loyalty. The gap analysis that Donaldson and O'Toole (2002:154-155) depicted in figure 4.4 illustrates the importance of appropriate human behaviour in the conduct of successful business. Many gaps can be bridged by means of effective communication and contact among employees, managers, and customers. It is necessary for all employees within a business to share a commitment to customer satisfaction and quality service. It is internal marketing that is able to integrate awareness of the importance of satisfying customer needs with a commitment on the part of all employees to performing all those who actions that will result in customer satisfaction. Internal marketing requires that employees be properly informed, trained, and rewarded for their commitment to service quality.

4.10.5 MAINTAINING DIALOGUE WITH CUSTOMERS

Donaldson and O'Toole (2002:156-158) and Brown (2000:30) point out that if employees offer customers the information they need and if they listen attentively to what customers have to say, employees become the recipients of the information they need to implement the business's CRM strategy. It is by means of skilful person-to-person communication with customers that the effectiveness and the quality of service can be improved. Information technology also helps a business to personalise the customer interaction process. Many businesses are now moving away from the methods of mass marketing and are focusing on one-to-one marketing and new forms of promotion and customer relationship building. Effective communication and CRM so strengthens and enhances the loyalty that customers feel towards a well-run business that they are willing to impart information about their needs and expectations. Effective communication with customers is particularly important in service businesses because of the intangibility of the product

offering. It is through communication that businesses are able to determine customer needs and satisfy their needs and expectations.

Parvatiyar and Sheth (2001:14) add that communication is essential for developing long-term relationships with customers. Communication can be used to share information and create collaborative relationships between customers and a business. It is therefore important for a business that is trying to improve its customer relations to develop effective channels of communication. Since employees can only communicate with customers once they are completely conversant with their business's policy with regard to specific situations, they need to be made familiar with all aspects of their business's policy and the procedures that need to be followed. Such training is vital for employees who have to handle complaints or deal with queries about possible adaptations to a particular product or service offering.

4.10.6 SETTING REALISTIC TARGETS AND ASSESSING PERFORMANCE

Donaldson and O'Toole (2002:158-161) note that the formation of long-term relationships within a business can confer a competitive advantage on that business. A business that desires to establish such relationships needs to set realistic targets for service delivery. Before it can do that, a business must assess and measure performance so that it will be in a position to determine which areas need attention or revision. They are various methods that businesses can use to measure their relationships. These methods include the measurement of "return on relationship" (ROR) or customer loyalty. This method can, to some extent, be misleading because repeat purchases do not necessarily signify that a relationship has been formed: a customer may simply continue to purchase from the same business (and so appear to be "loyal") simply because of any lack of alternatives. It is for this reason that it is necessary to measure and monitor all the elements (customer service, customer satisfaction and customer loyalty) that are needed for building a relationship. It is only through communication with customers that their needs, preferences, and expectations can be determined. Once customer relationship management has been effectively implemented and realistic targets have been set by CRM, a business will be in a position to determine how to meet customer needs.

Another important aspect of CRM implementation, according to Parvatiyar and Sheth (2001:15), is concerned with the process of getting customers involved in the service planning process. Where a business actually involves customers in the setting of targets, for example, it can transform them into active supporters of the CRM programme. It is be important for CRM personnel to devise methods of determining which customers can be profitably involved in this process because not all customers either can or want to be involved in such a process. By personally involving suitable customers in aspects of the planning process, the measurement of performance, and the rectification of problem areas, long-lasting and profitable relationships with such customers can be established.

4.11 TECHNOLOGY AND CUSTOMER RELATIONSHIP MANAGEMENT

One of the recurrent themes in this chapter it can be noted that it is only through the integration of strategic elements with technology that an effective and successful implementation of CRM strategy can be realised. Although this chapter concentrates on the strategic and personal elements involved in CRM, the importance of technology in CRM cannot be discounted or underestimated.

Kotler (2003:35 & 43) explains that technology and database marketing perform a vital role in CRM. Before a business can make informed decisions, it needs comprehensive databases that contain information about customers, employees, products, services, suppliers and distributors. Customer relationship management requires hardware and software in order to be able to capture detailed data about customer needs, preferences and behaviour. Once this data has been translated into information, a business will be able to assess each customer by analysing past purchases, demographics, psychographics, complaints and service requirements. By making proper use of this information, a business will be able to determine in advance which products and product modifications can satisfy an individual customer. A business can also use this information to target those customers who will be most likely to purchase certain products. By understanding what the customer requires and what their expectations are, a business can improve customer satisfaction and retention by building relationships. Iyer and Bejou (2003:4) add that the Internet has become an important element in CRM

activities because the Internet makes it easier for businesses to personalise and customise its management of individual customers and customer relationships.

Chalmeta (2006:1020-1022) also emphasises the use of technology in CRM because technology is able to contribute a great deal to the development of relationships with customers. As such relationships develop, CRM needs constantly to update the information that has been collected from employees (information relating to preferences, requests, complaints and purchases) so that accurate information can be returned to employees. Other areas of business that also need to be integrated into the CRM technology system are those that relate to sales, marketing and after-sale services. A CRM system can devise a suitable solution for each individual customer using its technological applications to analyse customer and business needs. Such a system would involve the four main areas of a CRM system, namely, transactional CRM, analytical CRM, strategic CRM and e-CRM (see section 4.6.1 for a description of each of these types of CRM management). The discussion that follows will add to what was already set out in section 4.6.1 by noting how important technology is for each type of CRM:

- **Transactional (operational) CRM**

  Chalmeta (2006:1020-1022) notes that the first areas that need to be developed by a CRM system include marketing, sales and after-sales service. Marketing elements include contact management, sales management, campaigns and the monitoring of customer interactions. The elements involved in sales include a gathering of information from each individual order, while after-sales elements include the handling of customer queries and complaints.

- **Analytical CRM**

  Analytical CRM refers to the process of integrating the data obtained during transactional CRM and processing it into usable information. Management and employees will then use this information to make informed decisions about CRM. The outputs of analytical CRM include graphs and comparisons between actual and desired conditions. Output

of this kind helps staff to develop customised CRM programmes for individual customers (Peelen, 2005:14).

- **Strategic CRM**

Chalmeta (2006:1020-1022) explains that strategic CRM is the process of developing short-, medium- and long-term customer objectives and evaluating customer profitability. Peelen (2005:14) adds that one of the functions of strategic CRM is to segment customers into different groups with similar needs. It allows businesses to analyse customer values, to calculate customer income and profitability, and to forecast probable future customer behaviour.

- **E-CRM**

Chalmeta (2006:1020-1022) points out that e-CRM allows employees to access vital information about customers in real time and at any time. E-CRM pursues its objectives by making use of networking and the Internet. It is by means of e-CRM that employees and their customers have obtained access to customer, marketing, sales and after-sales information. This contributes significantly to the development of relationships because customers can solve their problems by relaying their questions via the Internet and solving their problems more quickly than they were able to do in a pre-technological era.

4.12 CUSTOMER RELATIONSHIP MANAGEMENT IN THE AIRLINE INDUSTRY

Boland *et al.* (2002:1-4) explain that customer relationship management is indispensable for those operatives in the airline industry who wish to gain a competitive advantage. One of the problems that besets airlines is that they are constantly looking for ways of reducing costs and making operations more efficient rather than attending to the dynamics of customer service and customer satisfaction. Those airlines that do concentrate on CRM find that they are able to acquire, develop, and retain high-value customers. Customer relationship management provides airlines with a rational method for establishing profitable long-term relationships and growth while still achieving operational efficiency. While the main goal of CRM is the personalisation of

services to individual customers, many of the services offered to passengers are indistinguishable from one airline to another. An airline that aims to provide such individualised services needs to differentiate the goals and activities of its CRM programme from those of other airlines. An airline can achieve this by changing its approach to CRM in the following ways:

- **Customer segmentation**

  Boland *et al.* (2002:1) are of the opinion that airlines need to understand that the segmentation of its customers on the basis of a frequent-flier miles programme is inadequate. They point out that high-value customers need to be identified and that this requires value-based and need-based approaches that have the capacity to determine customer needs.

- **CRM initiative development**

  Boland *et al.* (2002:1) and Buttle (1996:131) note that if airlines intend to offer individualised service to their customers, they need first to determine the needs and expectations of such customers. Such airlines need to distinguish the services that they offer from similar services being offered on airlines. It is through individualised services that customer satisfaction can be enhanced and greater customer loyalty and retention can be attained.

- **Organisational design and management**

  Employees need to have a clear understanding of their duties as service providers within the airline business. Airlines must ensure that employees are thoroughly conversant with the attitude of the airline towards its customers and their needs. All employees need to be aware of the part that they have to play in the CRM strategy of the airline (Boland *et al.*, 2002:1).

4.12.1 IMPLEMENTATION OF CUSTOMER RELATIONSHIP MANAGEMENT IN THE AIRLINE INDUSTRY

Donaldson and O'Toole (2002:145-161) have identified six important components in the implementation of a successful CRM strategy that can be particularly useful to airlines. These elements are:

- **Relationship-based interfaces**

  Parvatiyar and Sheth (2001:10-11) note that it is vital for airlines to identify those customers with whom they can form profitable relationships, and to adapt their product offering to meet the needs of those customers in particular. By undertaking a gap analysis, airlines can determine where discrepancies exist between customer expectations and service delivery. A gap analysis enables airlines to determine what customers' expectations are, and the strategies that an airline could develop to satisfy those expectations.

- **An emphasis on quality**

  Drummond and Ensor (2005:157) are of the opinion that if an airline wishes to develop and retain long-term relationships with its customers, it needs to ensure that all interactions with customers include quality service. An airline should therefore try to determine how its customers define quality and what services will be needed to satisfy their expectations. For airlines to provide quality service, certain elements need to be in place. Such services include the willingness of employees to help customers, the efficient and swift handling of complaints, and being open and accessible to queries.

- **Measure customer satisfaction but manage customer service**

  Donaldson and O'Toole (2002:145-161) add that airlines can utilise customers satisfaction surveys to measure the degree of their prevailing customer satisfaction levels. An airline can then use these results to determine which service elements need to be adapted and which need to be included in the whole service package.

- **Investing in people**

  If any CRM initiative is to be successful, airlines need to appoint employees who are capable, efficient and knowledgeable and who have the necessary personality and temperament to form profitable relationships with customers (Chalmeta, 2006:1020).

- **Maintaining a dialogue with customers**

  Brown (2000:30) emphasises the fact that airline employees need to communicate with customers in order for them to determine where service levels might be deficient and whether there are any elements that are missing from the service offering. Airlines can use the information they gather about customers to determine which customers fit the profile of the kind of customer with whom the airline would like to build a relationship.

- **Setting realistic targets and assessing performance**

  Donaldson and O'Toole (2002:145-161) add that airlines need to be realistic whether or not they have the resources to offer customers particular services. They therefore need to set realistic targets for themselves before they attempt to define the kind of relationship that would benefit their company. Airlines also need to monitor the performance of employees so that they will be in a position to identify any deviations from the business's existing targets.

4.13 CONCLUSION

This chapter described various aspects of customer relationship management and clarified the role that CRM plays in providing customer service and customer satisfaction. Customer relationship management offers innumerable benefits to both a business and its customers. Although the establishment of long-term relationships with customers take time, it is possible to create loyalty among customers and, by so doing, make a business more profitable. This chapter also identified the main reasons for the failure of CRM programmes – reasons that relate chiefly to the faulty implementation of a CRM system within a business. It then described the elements that are essential for the

implementation of a successful CRM system. This chapter concluded by offering some insights into how CRM efforts are used in the airline industry.

This chapter emphasised the formation of relationships with customers through the application of CRM to a business. The following chapter will describe how customers can be retained and how their loyalty can be secured.

Chapter 5

CUSTOMER RETENTION AND LOYALTY

5.1 INTRODUCTION

By using the literature discussed in the previous chapters, a business should be able to determine how customer service, customer satisfaction and customer relationship management could affect their rate of customer retention. The objectives of this chapter are to review the factors that affect customer retention and customer loyalty. This chapter also specifically aims to:

- Describe the link between customer satisfaction and customer retention;
- Explain the relationship between customer relationship management and customer retention;
- Describe the links between customer retention, customer loyalty and customer defection;
- Discuss customer retention in terms of its benefits, approaches and improvement;
- Analyse customer loyalty in terms of its definition, benefits, types and loyalty schemes, and
- Explain the role that customer retention and customer loyalty play in the airline industry.

5.2 CUSTOMER SATISFACTION AND CUSTOMER RETENTION

Appiah-Adu, Fyall and Singh (2000:100) are of the opinion that businesses who use the marketing concept (discussed in section 4.2) and who have the necessary means to implement it successfully, will be able to satisfy their customers' needs and, as a consequence, retain them as customers. Although many studies have concluded that customer satisfaction automatically leads to customer retention, some researchers such as Jones and Sasser (1995:89) are of the opinion that this is not always the case and that businesses should be wary of making the assumption that there is an invariable link between customer satisfaction and customer retention. Appiah-Adu *et al.* (2000:100) notes that there has been

insufficient research into the connections between customer satisfaction and customer retention in the tourism industry to determine whether or not the link between customer satisfaction and customer retention is dependable and certain or variable and uncertain.

In spite of the opinions of Jones and Sasser (1995:89) and Appiah-Adu *et al.* (2000:100), Ranaweera and Prabhu (2003:374-375) remain confident that the greater the levels of customer satisfaction, the higher will be the rates of customer retention. Reichheld (1996:58) adds that although businesses utilise customer satisfaction surveys to gather information about customer satisfaction, such businesses should rather focus on trying to determine which particular elements of service elicit loyalty in customers – because it is loyal customers who are more easily retained.

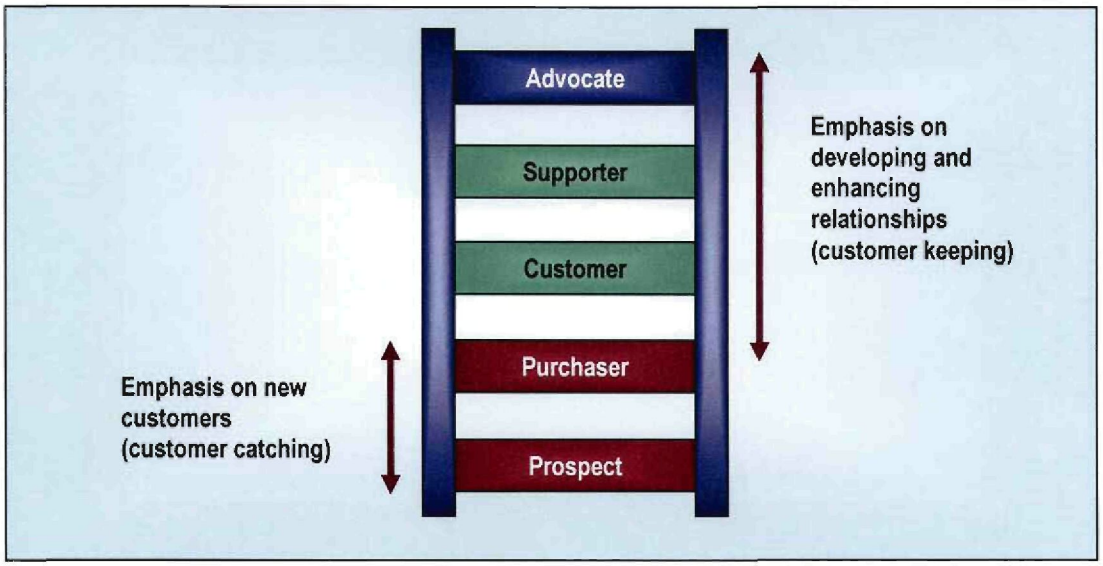
5.3 CUSTOMER RELATIONSHIP MANAGEMENT AND CUSTOMER RETENTION

Payne and Frow (2006:135) and Peppers and Rogers (2004:30) claim that a correlation exists between customer retention and customer relationship management, and they argue that (in many cases) the consistent application of CRM techniques exerts a direct influence on customer satisfaction over time. Businesses use CRM to establish and develop relationships with customers in the hope of retaining their patronage and loyalty over a long period of time. One of the tasks of CRM is to persuade once-off customers to pay return visits to the business and thus eventually become loyal customers. This is one of the tasks for which CRM was specifically designed. Trubik and Smith (2000:200) have observed that even if customers are not satisfied with the customer service levels or relationship they have with a business, they may nevertheless remain as customers of that business because they may have no expectations of receiving better service from a similar business. Although customers of this kind may be retained as customers, one cannot assume that they, in fact, feel any loyalty towards the business which they habitually patronise. What happens in such cases is that as soon as another business offers a better service, the customer may choose to defect. It is therefore necessary for a business to establish long-term and valued relationships with its customers because once customers have become loyal to a business, they will be more likely to remain loyal to such a business – in spite of the blandishments and allure of other businesses that may offer similar or improved products and services. Retention rates are therefore

directly affected by the quality of loyalty that a business has been able to establish in its customers.

Narayandas (2005:136), Cranfield School of Management (2000:112) and Payne (1993:33) illustrate this point by devising what they call "the loyalty ladder" (see figure 5.1). This ladder illustrates the phases through which customers move as they progressed from being a one-time customer to an advocate of the business, i.e. someone in whom a solid degree of loyalty has been established. It should, however, be realised that the process of moving customers up this loyalty ladder is not easy. It is necessary for businesses to invest time, money and effort in a customer in order to establish a long-term relationship on a sound foundation. The first step in this process is to identify the goods and services that a particular customer is buying and how that customer's needs can be satisfied. It is also important for businesses to identify and project ways of differentiating themselves from their competitors if they hope to retain their customers. If a business can improve on basic customer satisfaction by adding elements of to the package of customer services, such a business can retain customer loyalty. Chapter 3 describes how delight can be generated in a customer by offering a quality service that exceeds the customer's expectations.

FIGURE 5.1: THE RELATIONSHIP MARKETING LADDER OF CUSTOMER LOYALTY



Source: Adapted from Payne (1993:33).

Christopher *et al.* (2002:48) describe the various rungs of the loyalty ladder illustrated in figure 5.1 in the following way.

- A *prospect* is a person with whom the business believes it can form a relationship.
- A *purchaser* is a person who has made only one purchase from the business.
- A *customer* refers to individuals who buy from the business repeatedly, but whose feelings towards the business may be negative or neutral.
- A *supporter* is a person who supports the business in an essentially passive manner.
- An *advocate* is someone who is prepared to recommend the business to other people and to be actively engaged in making such referrals.

Narayandas (2005:136) and Peck *et al.* (1999:45-46) explain that before any relationship can be formed with a prospective customer, the business needs to move the person concerned from the level of prospect to the level of a purchaser. It is by offering quality service and by satisfying customer needs that a business is likely to move someone who is on the level of being a purchaser up to the level of being a customer. Once a person has been established as a customer, a business needs to do whatever is necessary to transform the neutral feelings of a customer into the positive feelings about a business and its product that characterises a supporter. The main aim of CRM is, of course, to transform customers and supporters into advocates. People become advocates because they have been drawn into a long-term and satisfying relationship with a business. Once a customer has been transformed into an advocate, it is important for a business to exceed an advocate's expectations in order to retain their loyalty. An advocate is someone who is actually prepared to recommend the business, its products and services to friends and prospects. It is important, however, for businesses to remember that not all customers are worth retaining or worth the effort that is required to develop them into advocates. It is during the acquisition phase of the customer life-cycle that a business should make decisions about which customers to retain.

5.4 CUSTOMER RETENTION, CUSTOMER DEFECTION AND CUSTOMER LOYALTY

Ahmad and Buttle (2002:150) explain that the theory of customer retention developed mainly from a few ideas that had already established themselves in the fields of services marketing, industrial marketing, and general marketing. From the point of view of services marketing, businesses retain customers by providing

them with quality services, by satisfying their needs and by initiating and building up relationships that result in the emergence of customer loyalty. From the point of view of industrial marketing comes the idea that relationships need to be built in the form of structural bonds (relationships formed in the context of joint investments cannot be retrieved when the relationship ends). The purpose of such structural bonds is to establish relationships on a secure footing that will make it difficult for a partner to leave a relationship because of the costs involved (costs such as switching costs). From the point of view of general marketing comes the idea that the importance of customer retention resides in the fact that customer retention practices discourage customers from defecting to other suppliers. When customers do defect, the business concerned attempts to obtain as much information as possible them about their reasons for defection. It then analyses their complaints and institutes remedial action that is designed to minimise whatever conditions encourage customers to defect. By making use of these techniques, a business is able to determine the reasons why customers defect and to minimise the conditions that give rise to defection.

Reichheld (1996:56) is of the opinion that the rate of customer defection (the opposite of customer retention) is one of the most crucial measurements of the condition of a business. Once it has identified the reasons for customer defection, a business can apply rational remedies to whatever areas of the business need adjustment. A business that is able to identify the reasons for customer defection can attract at least some of its lost customers by effecting the necessary changes in problem areas. It is the opinion of Colgate, Stewart and Kinsella (1996:25) that an average business will experience an annual customer defection rate of between 15% and 20%.

Richards (1996:49) adds that because it is impossible to prevent some customers from defecting, a business needs to co-ordinate its customer acquisition and customer retention strategies. This will enable a business to acquire new customers to replace those who have defected while at the same time striving to improve its relationships with its current customers and so discourage them from defecting. Page, Pitt and Berthon (1996:822) explain that businesses need to understand the reasons for customer defection before it is possible for them to develop effective customer retention strategies.

Colgate *et al.* (1996:24) state that many businesses regard customer retention as a substitute for customer loyalty, and customer defection as the opposite of customer loyalty. But this is inaccurate because customer loyalty is a form of customer *behaviour*. It was noted earlier that the customers whom a business retains are not necessarily loyal to the business, and would defect if a better product or services were easily available to them. Loyal customers, on the other hand, are not difficult to retain and will not defect so easily.

Gerpott *et al.* (2001:252-253) note that conceptual and empirical descriptions of customer retention very among academics and practitioners. These discrepancies are caused by the way in which the concept of customer retention is separated from its related constructs of customer loyalty and customer satisfaction. Customer satisfaction has a direct influence on customer loyalty, which, in turn, is an essential element in customer retention. Ranaweera and Prabhu (2003:374-375) make the point that customer satisfaction alone will not ensure customer retention but that a business should rather aim to use customer satisfaction as one of the elements that contribute towards the creation of customer loyalty, which will, in turn, increase rates of customer retention.

Kumar and Reinartz (2006:98) are of the opinion that customer retention cannot be equated with customer loyalty. Before customers can develop loyalty towards a business, they will need to have formed sound relationships with a business and be among those whom the business retains. Retention measures determine whether customers will purchase from the business again, while loyalty refers to a customer having a positive attitude towards the business or its product offering. Customers may, in fact, only continue to purchase from a business because of a lack of viable alternatives or for reasons of convenience. Although it is obviously important for businesses to try to retain customers and form relationships with them, it is vital for customer loyalty to be considered as part of an overall customer retention strategy. As McMullan (2005:470) notes that customer loyalty has become an important part of the marketing strategies of businesses because of the benefits of CRM and customer retention. In spite of this, businesses devise customer loyalty programmes without making loyalty an integral part of the overall customer retention strategy.

Peppers and Rogers (2004:26) agree that even though a business may have retained a customer, such a customer may in fact entertain no feelings of loyalty

towards the business. In the opinion of McMullan (2005:470), this phenomenon indicates that businesses need to acquire a far better understanding of what customer loyalty actually entails.

McMullan and Gilmore (2003:231) suggest that it is a sign of loyalty in customers if they keep purchasing from a business – even if satisfactory alternative suppliers exist. Businesses also need to appreciate that customers might only purchase the product offering as and when the need arises, and it is for this reason that any attempts to improve the frequency of purchases might be futile. It is therefore possible that customers are only loyal under certain situations (situational loyalty).

In this study, the concept of customer retention will be discussed by making reference to all those elements that are needed for customer retention, as well as for the formation of customer loyalty (in order to improve customer retention), and for minimising the number of customers who defect from a business.

5.5 CUSTOMER RETENTION

In this section, customer retention will be discussed in terms of its definition, benefits and approaches, and suggestions will be made as to how businesses can improve their rates of customer retention.

5.5.1 CUSTOMER RETENTION DEFINED

Some of definitions of customer retention of fairly basic, while others are more elaborate. The following could be identified from literature:

- Hoffman *et al.* (2005:339) define customer retention rather basically as the means that a business uses to focus its marketing efforts on existing customers.

- Murphy, Burton, Gleaves and Kitshoff (2006:60 & 144) believe that customer retention refers to the following elements: the extent of a business's commitment and desire to continue doing business with a particular customer, the measure of the commitment of customers to the business, their level of trust in the business, their willingness to recommend the business to others,

and the strength of their intentions to continue purchasing the product offering in the future.

- Gerpott *et al.* (2001:253) provide a more elaborate definition of customer retention. They state that customer retention is concerned with a business's ability to maintain good relationships with customers. This can be achieved by increasing the amount of contact a customer has with a business over time and by strengthening the customers' intentions of continuing to buy the product offering in the future.

On the basis of these definitions, it is possible to define customer retention in the following way: *Customer retention is extent to which a business directs its marketing efforts to current customers with a view to (1) encouraging them to purchase the product offering more frequently, and (2) building up and establishing long-term relationships with customers. Such customers should, as a result of such activities, become committed to a business that they will become willing to recommend the business to others.*

5.5.2 BENEFITS OF CUSTOMER RETENTION

Murphy (2001:1-2) and Rosenburg and Czepiel (1983:45) are of the opinion that businesses should pay far more attention to customer retention because it is easier for a business to establish and strengthen relationships with customers who have been retained than it is to be constantly looking to acquire new customers. Customer retention also contributes to the efficient running of a business because it costs approximately six times more to attract a new customer than it does to retain a current customer.

Kassim and Souiden (2007:218), Payne (1993:230-231), DeSouza (1992:24) and Rosenburg and Czepiel (1983:45) suggest a variety of reasons as to why businesses would want to retain customers. Customer retention enables a business to predict future purchases, and this will result in more accurate inventory activities and profitability. Customer retention also enables businesses to reduce sales and marketing as well as the acquisition costs of customers. Customers who are satisfied with a business will make referrals to other people, and may even be willing to pay higher prices for the product offering. It is a

business's competitors who gain the customers who are not retained by a business, and this decreases a business's profitability.

Ahmad and Buttle (2001:36) believe that customer retention provides both economic and non-economic benefits. Reichheld (1996:57) describes the six economic benefits that derive from customer retention in the following way. Customer retention:

- provides businesses with lower acquisition costs.
- guarantees base profits for a business from existing customers who are known to spend a certain minimum amount within a given period.
- allows a business to obtain a growth in its "per customer" income because customers are more likely to increase their spending with a particular business the longer the relationship endures.
- reduces the operating costs of business because businesses can distribute the cost of keeping a customer over a longer period of time.
- provides a business with referrals from customers.
- allows the business to sell a product at a higher price because customers do not wait for promotions or price reductions before they purchase.

Ahmad and Buttle (2001:36) add that the non-economic benefits of customer retention include the formation of relationships with other partners such as suppliers and employees as well as those customers who are willing to work with the business to improve the product offering and add value.

5.5.3 CUSTOMER RETENTION APPROACHES

Murphy *et al.* (2006:60-61) note that customer retention includes a variety of activities that are aimed at developing relationships with customers. These activities include:

- Volume or frequency discounts;
- Convenient payment methods such as debit or credit cards which standardise the method of payment;
- The Internet which assists in the dissemination of information and facilitates the act of purchasing;

- Newsletters and other customer bulletins, and
- Loyalty schemes which award points to customers for each purchase they have made.

Although all these activities may contribute to retention, Rosenburg and Czepiel (1983:46) are of the opinion that businesses can gain a greater advantage from customer retention by making use of just three approaches, namely, customer portfolio analysis, a customer-retaining marketing mix, and reorganisation for customer retention. They add that although buying behaviour is different for goods as opposed to services, and durables as opposed to non-durable products, these three basic approaches can be adapted to enhance any buying situation.

5.5.3.1 Customer portfolio analysis

Banasiewicz (2004:23-24) suggests that before a business analyses its customer portfolio, it is essential for that the business to identify the link between customer acquisition and customer retention. Before a business can retain customers, that business has to acquire customers who actually *want* to develop a long-term relationship and remain loyal to the business. Once a customer has been acquired and a relationship has started to form, the business needs to analyse the customer portfolio.

Yorke and Droussiotis (1994:6-7) and Rosenburg and Czepiel (1983:46-47) point out that if customer retention is to succeed, a business needs to have a clear record of the purchasing history of the customer. Such purchasing histories provide information about which product the customer purchases most frequently. This information is a predictor of the products that a customer will be most likely to buy in the future. Customers that have been identified as exhibiting similar purchasing behaviours can be segmented into a portfolio. The value of these portfolio segments can be measured in terms of the number of customers they contain and volume of purchases they make, as well as by their demographic and psychographic profiles. By analysing such customer portfolios and obtaining accurate information about customers, a business can determine which product offering would best suit the needs of customers in each portfolio.

5.5.3.2 Customer-retaining marketing mix

In order to retain customers, the marketing mix (described in section 2.4) will need to be adapted so that it meets the changing needs of customers throughout the existence of the relationship. Rosenburg and Czepiel (1983:47-50) describe the elements that need to be included in the marketing mix for a business to retain its customers. These include:

- **Product extras**

  Evans *et al.* (2004:478) believe that businesses who wish to retain customers need to expand on their initial product offering. Businesses should aim to create a total product or service offering. This will enable a business to add value to its relationship by offering its customers additional items in the product line.

- **Reinforcing promotions**

  Nickels and Wood (1997:328-329) and Rosenburg and Czepiel (1983:47-50) state that the marketing communication efforts of a business are more effective when there are aimed at existing customers. Businesses need to be familiar with their current customers before they invest more effort in their marketing communication with existing customers. By understanding the needs and expectations of its current customers, a business will be able to adapt their marketing communications to meet their customers' needs and expectations.

- **Sales force connections**

  Employees play an important role in customer retention. It is the employees with whom customers deal who (consciously or unconsciously) represent what it is that the business offers. Employees who are deficient in product knowledge or who are unwilling or unable to answer customer queries will undermine the integrity of a customer's relationship with a business. Employees therefore need to acquire an understanding and appreciation of how important their role is in the creation and maintenance of relationships

with customers and in the provision of customer satisfaction for the purpose of retaining customers (Murphy, 2001:11).

- **Specialised distribution**

Nickels and Wood (1997:336) and Rosenburg and Czepiel (1983:47-50) add that in order to satisfy customer needs, businesses need to have efficient distribution channels in place so that they can deliver the product to where the customer needs it as quickly as possible. The Internet can be utilised as a specialised distribution channel that offers customers access to products and information when the customer desires it.

- **Post-purchase communication**

Rosenburg and Czepiel (1983:47-50) point out that businesses must anticipate that some customers will encounter problems during or after purchasing. Employees need to be adequately trained so that they can offer customers reassurance during such crises. Employees need to be able to provide customers with whatever information they need about their problems, to deal swiftly and efficiently with such problems, and to explain to customers how and when their problems will be solved. If employers are not sufficiently trained to give customer satisfaction when a problem arises, the customer may not repurchase (in the case of, for example, a vehicle) or may decide to cancel the arrangement (in the case of, for example, a magazine subscription). Ndubisi (2007:103) adds that customer problems need to be rectified in such a way that the customer experiences the minimum of inconvenience.

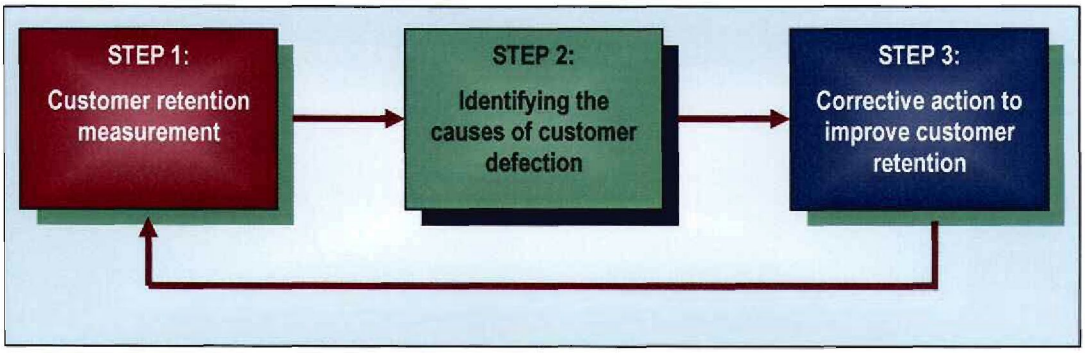
5.5.3.3 Reorganisation for customer retention

Gilmore (2000:70-71) offers a supplementary approach to ensure customer retention. This approach requires a business to restructure its organisation so that proper provision is made within the business for carrying out the activities that are necessary for relationship building customer and retention. Gilmore believes that employees or managers should be appointed to take care of existing customers and their needs, and many businesses have, in fact, appointed customer relationship managers for this task.

5.5.4 CUSTOMER RETENTION IMPROVEMENT

DeSouza (1992:24) notes that although businesses understand the benefits of customer retention, they often neglect this element from their plans for strategy development. Christopher *et al.* (2002:59) point out that since many businesses place an emphasis on acquiring new customers while ignoring the needs of their current customers, a business that is serious about customer retention needs to adopt an organised and structured approach to customer retention. Improving rates of customer retention can best be achieved by implementing the following three sequential steps: measuring the extent of customer retention, identifying the root causes of defection from the business, and devising whatever corrective action may be needed to improve rates of retention. This framework is illustrated in figure 5.2.

FIGURE 5.2: CUSTOMER RETENTION IMPROVEMENT



Source: Cranfield School of Management (2000:114).

5.5.4.1 Step 1: Measuring customer retention

While section 5.5.1 provided a number of standard definitions of customer retention from the literature, Ahmad and Buttle (2001:33-34) explain that it is important for businesses to understand how *they* personally define customer retention. Businesses need to ascertain whether they define customer retention in terms of the number of customers they have or in terms of the amount of purchases their customers make. The way in which a business defines customer retention will influence the way in which they measure customer retention. Defining retention in terms of the number of customers who purchase from a business can be problematic because a customer who purchases only occasionally from a business may be actively engaged in making a greater volume of purchases from a competitor during the same period of time. It is for

this reason that it may be more accurate to define customer retention in terms of the volume and frequency of purchases made by existing customers.

- Cranfield School of Management (2000:114) defines the customer retention rate as the percentage of customers at a beginning of a period who are still loyal to the business at the end of that period.

Christopher *et al.* (2002:59) explain that measuring the customer retention rates of existing customers can help a business to improve customer loyalty and profitability. This step includes measuring customer retention rates over time, in terms of the applicable market segment, and for each product or service. Where there are customers who purchase from various suppliers, a business needs to determine what each business receives in the form of a "share of wallet", i.e. the amount that each purchaser spends on each supplier.

Kumar and Reinartz (2006:96) define customer retention rates as the average likelihood that customers will purchase from a business in a given period (t), provided that the customer has purchased during the last period (t – 1). This activity is expressed in the following formula which can be used to ascertain the customer retention rate of a business.

FIGURE 5.3: CUSTOMER RETENTION RATE

Retention rate = $\left(\frac{a/b}{b}\right)x100$, where:

a = Number of customers in cohort buying in a given period of time (t)

b = Number of customers in cohort buying in (t – 1)

Source: Kumar and Reinartz (2006:96).

While a measurement of the customer retention rate is important, businesses also need to be aware of their customer defection rate. DeSouza (1992:24-25) suggests that a business can only determine the absolute cost of losing a customer (i.e. customer defection) by determining how much that customer would have spent with the business over a whole purchasing life-time.

If a business cannot determine what the customer retention or defection rate is, that business will not be able to manage customer retention. While it is possible to measure the retention rate by means of determining the crude rate (i.e. by

treating all customer losses as equivalent to one another), such a rate cannot provide clear picture of what customer losses will mean to a business in terms of long-term profitability or loss. It is more accurate to measure retention or defection rates by weighting the customers in terms of *how much* they purchase on average and would therefore purchase over the whole of the customer life-cycle. A customer who purchases a greater volume of products more frequently than other customers is of greater value to a business than the customer who purchases less and more infrequently. When customers of the former kind defect, a business experiences much greater long-term losses (DeSouza, 1992:24-25).

It was noted above that a business needs to determine what a customer's life-time value (CLV) is in order to determine the cost of that customer's defection to the business in the long-term. Payne (2006:149-151) affirms that the calculation of CLV gives a business a method of determining what a customer will contribute in the future. In order to calculate a CLV, a business must calculate the projected future profit that a customer will bring into a business over the customer's purchasing life-time with that business.

Jamieson (1994:11) adds that is necessary for businesses not only to measure customer retention rates, but also to gather information about how they can best improve their customer satisfaction and service quality. Undertaking such a process will enable a business to collect information about why certain customers defect. Such information is a pre-requisite for any actions that a business undertakes to improve its customer retention rates.

5.5.4.2 Step 2: Identifying causes of defection and key service issues

It is a view of Christopher *et al.* (2002:59-60) that the second step in the process of improving customer retention rates should be devoted to identifying the reasons why customers defect. While market research will enable the business to collect a certain amount of relevant information, such information is not always sufficient for determining the root causes of defection. Cranfield School of Management (2000:116-117) suggest four analytical approaches that can be used for determining the root causes of defection. These root causes consist of defection analysis, trade-off analysis, competitive benchmarking, and customer complaint analysis.

A) Analysis of the root causes of defection

Cranfield School of Management (2000:116-117) note that while businesses make use of customer satisfaction surveys, such surveys are not always helpful for elucidating the root causes of customer defections. The root causes of defection could include factors such as unhelpful staff and long and slow-moving queues.

DeSouza (1992:25-26) adds that a business can only obtain really useful information about why customers defect by interviewing customers who have defected. Customers who have defected are often in a position to provide a business with valuable information about the causes or reasons for their defection. This information will be invaluable to a business because there are bound to be other customers who are being adversely affected in the same way. This puts a business in a position to take steps to take remedial action to eliminate the root causes for defection, and thus make it less likely that other customers will defect in the future for the same reasons. It should, however, be noted that not all defections occur because of something that the business itself has done or of some oversight for which the business is responsible. There are many external factors that cause customers to defect – factors over which the business might have no control at all. DeSouza (1992:25-26) has suggested the following six internal as well as external reasons for customer defection. These include:

- **Price reasons**

  Customers frequently defect from a business because competitors might be offering lower prices. These customers can be regained by the business if it also offers lower prices or discounts on selected items. Customers who are habitually on the lookout for lower prices are difficult to retain because they will defect as soon as they find the same article being offered at a lower price elsewhere (Martin-Consuegra, Molina & Esteban, 2007:461).

- **Product reasons**

  DeSouza (1992:25-26) explain that customers who defect because of their dissatisfaction with a particular product will defect if they can find a better-quality version of the same product being offered by a competitor. Regaining customers who have defected because of a perceived inferiority in the product

are almost impossible to regain because they would have already formed opinions about the superiority of a competitor's product.

- **Service reasons**

Seawright, DeTienne, Bernhisel and Hoopes Larson (2008:253) note that poor service is undoubtedly one of the major causes of defection. Customers who have defected because they find that they can obtain better service elsewhere will be difficult to regain. In spite of this, businesses should determine where their service levels might be improved by obtaining as much information as they can from the customers who have defected. If they do this and take action to improve their overall service package, they will prevent similar customers from defecting for the same reasons in the future.

- **Market reasons**

Customers who defect because of market reasons are lost to the business and its competitors because they might have gone out of business or left the market area. Defections for market reasons do not reflect poorly on a business or its product offering (DeSouza, 1992:25-26).

- **Technology reasons**

Customers who defect for this reason are lost to a business because they have been converted to a product offering made by businesses who operate outside the industry. As customers become more aware of the variety of products or technologies being offered by other businesses, they frequently find that they can satisfy their needs by adopting such products. When such customers become interested in a new kind of technology, they may well be lost to the business (DeSouza, 1992:25-26).

- **Organisational reasons**

Internal or external political considerations can also cause customers to defect. Such political considerations could oblige a business to change their product offering in such a way that it would no longer satisfy its customer needs (DeSouza, 1992:25-26).

B) Trade-off analysis

Payne (2006:132) describes a trade-off analysis as a weighting system by means of which different elements are weighted according to importance to the business. This technique requires a business to trade some elements off against others in an attempt to ascertain which elements are more important to their customers. The Cranfield School of Management (2000:116-117) explains that businesses need to rank service elements in a hierarchy of importance to customers, so that they will know which service elements are more important to customers and which are less important. By making a trade-off analysis, it is possible for a business to compare the different elements of its service package and rate these elements in order of importance. A business which has performed such an analysis will be in a position to enhance customer retention because it will know which elements of the service package are more important to customers.

C) Competitive benchmarking

Nickels and Wood (1997:15-16) state that businesses can use competitive benchmarking for the purpose of comparing their own product and service offering with those of their competitors. It is possible to set certain standards for the purpose of determining which service elements are critical to customer retention. Businesses can also use competitive benchmarking to ascertain which of their services either match or exceed those of competitors, and so improve their services wherever necessary in order to retain customers.

D) Customer complaint analysis

The Cranfield School of Management (2000:116-117) and Stone *et al.* (2000:95-96) point out that businesses can determine where service or product elements are deficient by analysing customer complaints. Customer complaints are valuable because they help businesses to identify the reasons why customers defect and because they indicate what aspects of products and services need to be rectified so that customers can be retained. The employers of a business should also always be alert to the reasons why customers defect so that they and the business as a whole can take steps to prevent those problems from recurring.

5.5.4.3 Step 3: Corrective action to improve customer retention

A management that is committed to establishing and building up long-term relationships with customers should dedicate itself to the improvement of customer retention. Management can achieve this by introducing whatever corrective actions are needed to enhance the business's customer retention programme. Corrective action of this kind will include the provision of consistently services of a high quality and shifting the business's focus from acquiring new customers to retaining and satisfying existing ones (Christopher *et al.*, 2002:60).

The Cranfield School of Management (2000:117-119) offer five broad guidelines to help businesses to develop corrective action with the purpose of improving customer retention. These five broad guidelines include increased visibility on the part of top management and their endorsement of the customer retention programme, the monitoring of customer retention and employee satisfaction, the utilisation of best practice in this field, the creation of switching barriers and mechanisms for service recovery.

- **Visible top management endorsement**

  Grönroos (2004:359) suggests that a business that wishes to improve its rates of customer retention will need a management that is committed to customer service, customer satisfaction, and the nurturing of relationships with customers. Wherever management is committed to such practices, employees are bound to follow suit.

- **Customer retention and employee satisfaction**

  Murphy (2001:11) is of the opinion that employees must be able to witness the extent to which their business accords priority to customer satisfaction and retention. The literature offers evidence that internal customer service influences employee satisfaction and that, in turn, influences the rate of customer retention. Those employees who possess the requisite interpersonal skills and product knowledge should be the ones who are appointed to build strong relationships with customers. Such employees should be charged with determining the precise extent of customer needs and expectations. They will then be in a position to ensure that the services

provided by the business are commensurate with the service standards that the business has formally adopted to satisfy customers' expectations.

- **Utilising best practices**

The Cranfield School of Management (2000:118) suggests that precise information about best practice within business and the industry can be obtained from benchmarking, and that the information thus gained can be implemented in a business. Businesses need to scrutinise the practices of other businesses that have excellent customer retention rates, and should attempt to find out how such businesses are managed. This information can then later be adapted and used to meet the needs and strategy of a particular business.

- **Building switching barriers**

"Switching barriers", by definition, discourage, inhibit or dissuade customers from switching to competitors. Customer retention strategies should have a clear idea how of which barriers are most effective in preventing customers from defecting (Cranfield School of Management, 2000:119).

DeSouza (1992:27-28) explains that although it is necessary for businesses to analyse the causes of defections and to take note of customer complaints, a business that develops a successful customer retention strategy will also be aware of the most effective switching barriers. Businesses should identify which switching barriers are most effective for discouraging customers from defecting. Businesses could also acquire useful information about switching barriers from businesses outside the sector in which they operate. A business could then adapt the barriers identified to suit the industry within which it operates and so gain a competitive advantage (White & Yanamandram, 2007:298).

- **Service recovery**

Apart from taking specific action to discourage customers from defecting, businesses should put a service recovery strategy in place. Ahmad (2002:24) explains that although all businesses should endeavour to offer excellent

service, it is inevitable that service failures will occur from time to time. The manner in which a business reacts to specific service failures influences a customer's decision about whether to defect or not. Customers, who are of the opinion that their problems have been solved in an acceptable manner, will not defect. A policy of service recovery also gives businesses opportunities to regain former customers. When this happens, the relationship between a customer and a business can be even more strongly established.

Boshoff and Staude (2003:9-10) state that although it is possible for businesses to utilise a service recovery strategy to regain a large percentage of the defected customers and thereby increase the customer loyalty of such customers, few businesses actually have any service recovery strategy in place. When the customer experiences a business's service recovery strategy, such a customer ends up by feeling that the quality of service offered by the business is even higher then he or she first thought it was. When a business has no effective service recovery strategy in place, a customer will lose confidence in the business and so become likely to defect. The basis of service recovery is to regain customers by offering them apologies and compensations in conjunction with an even higher level of service – all of which enhance the degree of customer satisfaction that the customer experiences.

Ahmad and Buttle (2001:42) make use of three steps to create a framework for determining those strategies or approaches businesses can use to secure customer retention in different situations. Table 5.1 illustrates the various measures that businesses use to retain customers (which are described in section 5.5.4.1). These customer retention strategies are effective in the three different markets of consumer goods, services, and businesses.

TABLE 5.1 A FRAMEWORK FOR DETERMINING THE APPROPRIATENESS OF POTENTIAL STRATEGIES TO A PARTICULAR BUSINESS SITUATION

Markets	Products / services	Usage of products / services	Suitable forms of measure of retention	Potential sets of strategies for managing customer retention
Consumers of fast-moving consumer goods	Mainly standardised	Mainly uniform and predictable	Mainly in terms of crude rate – percentage of absolute number of customers retained or defected	• Dividing customers into groups which share similar buying behaviour • May use standard price and brands to attract and keep these groups of customers • Focus on deriving economic benefits • Adjust marketing mix to attract, retain and develop particular groups of customers
Consumers of services	Partly standardised; Partly customised	Partly uniform and predictable; Partly fluctuating	Partly in terms of crude rate – percentage of absolute number of customers maintained or defected. Partly in terms of weighted rate – taking into account the share of spends and also customer life-time value (CLV)	• Focus on deriving both economic and non-economic benefits • Focus on developing and maintaining social bonds with individual customers • Focus on improving service quality • Consider grouping customers of standard services in terms of their consumption and purchasing behaviours • Maintain both standard and flexible pricing
Business as users of physical goods and services	Mainly customised	Mainly fluctuating	Mainly in terms of weighted rate – taking into account the share of volume, the value of purchases and their customer life-time value (CLV)	• Focus on deriving both economic and non-economic benefits • Focus on developing and maintaining both social and structural bonds • Focus on creating multilevel customers' dependency • Focus on providing a total value proposition • Maintain flexibility in pricing

Source: Ahmad and Buttle, 2001:42.

5.6 CUSTOMER LOYALTY

This section will expand on the previous section's focus on customer retention by describing how customer loyalty can be used to maintain or improve levels of customer retention. This section will specifically define customer loyalty and discuss and describe its benefits, types, and schemes.

5.6.1 CUSTOMER LOYALTY DEFINED

What follows below are three various definitions of customer loyalty:

- Doyle (2005:113) defines customer loyalty as the customer's behaviour when a business has the ability to retain customers so that they keep purchasing the business's products over a long-term period.

- Peelen (2005:32) defines loyalty as a commitment on the side of customers to repeat their past purchases of a preferred product, service, or business in the future.

- McMullan and Gilmore (2003:231) state that customer loyalty refers to the behavioural outcome of a customer's preference for a certain product over a period of time – even when suitable or more convenient alternatives exist.

By combining elements from the definitions above, it is possible to create the following definition of customer loyalty. *Customer loyalty is the behavioural outcome that follows from a customer's preference for a product or service offering, and a customer's commitment to repeat purchases of a product or service offering over a long-term period.*

5.6.2 BENEFITS OF CUSTOMER LOYALTY

The main benefits of customer loyalty include:

- **Improved service to the customer**

  Frazer-Robinson (1997:338-339) states that when customers are loyal, they are more willing to describe their needs and expectations to the employees of

a business. When the employees of a business have been trained to receive information from customers in a helpful manner, the customer service of that business is bound to be of a high quality, and its customer service will meet the individual needs of customers whenever there is a point of contact between business and customer.

- **Increased customer satisfaction**

Lamb *et al.* (2005:220) suggest that customer satisfaction can be improved through increasing the quality of customer service by not only meeting, but also by exceeding what a customer needs and expects. Customers who have been satisfied in this way will be willing to act as advocates of the business and will also refer others to the business.

- **Increased business stability**

Ang and Buttle (2006:85) and Faulkner (2003:3) note that customers who are loyal are much more consistent and predictable in their purchasing behaviour. This enables a business to make more accurate forecasts which are important in planning processes. Loyal customers will also purchase across product and service lines, and this will increase a business's profitability. If a business devotes its energies to retaining its loyal customers, it will not have to divert its resources to the acquisition of new customers because new customer acquisition is not as cost-effective as customer retention. Such businesses will also have to spend less money on the replacement of defectors.

- **Demonstrate an immunity to the pull of competition**

Murphy (2001:43) has observed that loyal and satisfied customers cannot easily be persuaded to defect from one business to its competitors. Most customers are reluctant to develop a new relationship with another business that may not fully comprehend or meet their needs.

5.6.3 CUSTOMER LOYALTY TYPES

Murphy (2001:3-4) has observed that various types of loyalty are involved in the retention of customers. While some types of loyalty are relatively inconsistent,

others can be relied upon to create effective customer retention. Businesses are usually not in a position to choose their customers. This means that businesses need to identify the kind of customer whose needs can be satisfied by the product offering, and then provide such customers with quality service. Although businesses can make use of incentives such as frequent flier miles, coupons, family discounts and loyalty gifts to engender loyalty, customers will feel no obligation to remain loyal when such incentives cease. When the differences between various types of loyalty are understood, businesses can aim to imbue their customers with the particular kind of loyalty that will suit their needs. The various types of loyalty that exist include those based on price, monopoly, inertia, disloyalty, and emotional loyalty.

- **Price loyalty**

  Peelen (2005:155) and Grönroos (2004:131) suggest that price plays a major role in determining the purchasing decisions of many customers. Customers will remain loyal for just as long as it is able to match or improve on the prices of competitors. When such customers defect, it may be as a result of changing lifestyles rather than any dissatisfaction with the business.

- **Monopoly loyalty**

  Murphy (2001:3) explains that this type of loyalty is possible when a business holds the monopoly over the supply and distribution of a particular product or service. As soon as a competitor enters the market, customers who have been dissatisfied or who have felt neglected will defect to the new business. The most important element in monopoly loyalty is quality of service. Customers who are offered quality service will tend to remain loyal even when an alternative supplier enters the market.

- **Inertia loyalty**

  Murphy (2001:3) and Turner and Wilson (2000:958) explain that inertia loyalty is the quality that customers display when they remain loyal to one business because they are not prepared to make the effort to find anything better. Such customers will purchase the product offering because they are familiar and comfortable with the product offering. But if such customers are not attended

to, they will eventually reach a point where they might begin to look for alternatives. Businesses should therefore be careful to develop a proper service relationship with customers who are loyal only because of their inertia. By so doing such customers will remain loyal to the business and refrain from defecting because they will be satisfied with what they are getting.

- **Disloyalty**

Murphy (2001:4) said while regular customers may indeed be familiar with the business and its products, they may also be familiar with what other suppliers because their friends and associates also are active in recommending other businesses. Familiarity with different businesses supplying the same product may lead customers to make comparisons. Unless a particular business can satisfy its customers' expectations by providing quality service, customers who are familiar with alternative businesses might well defect to competitors.

- **Emotional loyalty**

This type of loyalty is one for which all businesses should strive. A customer who is emotionally loyal to a business will be willing to pay higher prices, endure minor defects and difficulties, and will recommend the business to others. Because these customers are the most loyal, they are the most profitable type of customer that any business could have (Evans *et al.*, 2004:284).

There also are the types of loyalty apart from those mentioned above, and businesses can use these additional classifications to understand those of their customers who display these other kinds of loyalty. Rowley (2005:575) and Aspinall, Nancarrow and Stone (2001:81) point out that there are a number of researchers who define loyalty in terms of two essential components, namely *behaviour* and *attitude*. By making use of these two constructs, a matrix for loyalty classification was developed which is depicted in table 5.2. Table 5.3 expands the relevance of the matrix by describing the particular nature of the loyalty one would associate with different types of loyalty and the corresponding levels of satisfaction that one could associate with each type of loyalty. Jones and Sasser (1995:96) suggest that it is important for businesses to understand how the attitudes and behaviours of customers express certain kinds of loyalty. There

are four different types of customer behaviour that can be derived from the attitudes of customers towards a business or product offering and the level of satisfaction or dissatisfaction that they feel with regard to the business. In terms of this typology, customers may be *loyalists, defectors, mercenaries* or *hostages* (as described in table 5.3). The type of loyalty described in table 5.2 is described under the "loyalty" column in table 5.3.

TABLE 5.2 FRAMEWORK FOR LOYALTY CLASSIFICATION

Behavioural loyalty / Attitudinal loyalty	High	Low
High	High loyalty	Latent loyalty
Low	Spurious loyalty	Low loyalty / no loyalty

Source: Aspinall *et al.* (2001:81).

TABLE 5.3 INDIVIDUAL CUSTOMER SATISFACTION, LOYALTY AND BEHAVIOUR

	Satisfaction	Loyalty	Behaviour
Loyalist / Apostle	High	High loyalty	Staying and supportive
Defector / Terrorist	Low to medium	Low loyalty / no loyalty	Unhappy and leaving or having already left
Mercenary	High	Latent loyalty	Coming and going; low commitment
Hostage	Low to medium	Spurious loyalty	Unable to switch; trapped

Source: Jones and Sasser (1995:97).

Rowley (2005:575), Colgate *et al.* (1996:24) and Jones and Sasser (1995:96-97) describe the four types of loyalty indicated in tables 5.2 and 5.3.

- **Loyalist / Apostle with high loyalty**

  This type of loyalty refers to the behaviour of a customer who has a positive attitude toward a business and demonstrates that loyalty through repeated purchases. This type of loyalty is most desirable type of loyalty for any business because it enables a business to retain its customers. The loyalist is the most accommodating customer with regard to service because they are completely satisfied with the business's product offering. The experience and

perception of the product offering on the part of loyalists always exceeds their expectations. On those occasions when service failures has occurred and the business has been quick enough to remedy the situation to the complete satisfaction of a loyalist, he or she will become an *apostle* and this experience will further strengthen the relationship between customer and business. Even though customers might be loyalists, business should be careful to offer such customers to express any potential dissatisfactions so that a business will give itself opportunities to remedy and recoup a situation whenever a lapse has occurred. By making such a provision, a business will be able to retain this most loyal of all possible customers (Colgate *et al.,* 1996:24 and Jones & Sasser, 1995:96).

- **Mercenary with latent loyalty**

"Latent loyalty" refers to the attitude of customers who have a record of low purchasing volumes although they feel loyal towards a business. When a business encounters this type of loyalty, it needs to identify why customers do not increase their rate of purchases and whether or not customers are purchasing from other suppliers. This is important because customers who are merely satisfied are obvious candidates for defection. It is therefore to the advantage of a business to gather as much information as they can about what their customers need and expect from the product offering. In order to move a customer from the mercenary category to a higher level of loyalty, a business needs to establish a stronger relationship with that customer (Colgate *et al.,* 1996:24 and Jones & Sasser, 1995:96).

- **Hostage with spurious loyalty**

The customer with this kind of loyalty demonstrates a high volume of repeat purchases, but has an ambivalent attitude towards the business. "Spurious loyalty" therefore refers to a situation in which a customer buys from a business because of a lack of alternative suppliers or the high cost of switching to alternative businesses. This type of loyalty is undesirable for a business because as soon as a new supplier appears on the scene and offers a superior product offering, the customer is likely to defect. Hostages are customers who are compelled to accept whatever levels of service the business offers – whether good or bad – because they have no alternatives

from which to choose. A business should remain aware of these customers because if an alternative supplier enters the market, such customers will be quick to defect (Colgate *et al.,* 1996:24 and Jones & Sasser, 1995:97).

- **Defector / Terrorist with low or no loyalty**

This type refers to a customer who feels no loyalty towards the business, makes few repeat purchases, and whose attitude towards the business is at best equivocal. But it is possible even for satisfied customers to defect, and the business should make an effort to find out whether such defectors can be regained through the application of service recovery efforts or whether it would be a waste of money to attend to regain such customers. A defector who becomes a "terrorist" is a customer who will never purchase from the business again because of a bad experience, and who will attempt to prevent others from purchasing from the business by telling other people of the bad experience. A defector will become a terrorist if a business did not respond *immediately* to a customer's bad experience or makes no attempt to compensate a customer for the service failure by a special effort to undo the harm that was done (Colgate *et al.,* 1996:24 and Jones & Sasser, 1995:97).

5.6.4 CUSTOMER LOYALTY SCHEMES

Lewis (2004:218) explains that loyalty programmes or schemes are used by businesses to increase customer retention. Because such programmes are designed to encourage customers to repeat their purchasing behaviour, they offer customers attractive incentives to increase their purchasing behaviour. McMullan and Gilmore (2003:231) suggest that one of the problems with loyalty schemes is that they encourage repeat purchases because of the anticipated rewards rather than because of an improved quality of service.

Peelen (2005:176-178) distinguishes between three groups of loyalty schemes, namely, saving schemes, club schemes and relationship marketing schemes.

- **Saving schemes**

Saving schemes focus on encouraging customer purchases by rewarding customers with points for each purchase. Short-term saving schemes are

designed to stimulate purchasing behaviour. If a certain number of purchases is made during a specific period, a customer can be rewarded with a gift. Long-term saving schemes, such as frequent flier miles, work by awarding customers points for each purchase. Once a customer has accumulated a certain number of points, he or she can apply for a discount on the price of a ticket – or even obtain a ticket without paying any further supplementary amount (Peelen, 2005:176).

- **Club schemes**

Club schemes offer customers opportunities to enjoy certain benefits after they have become members of the club. When customers register with a club scheme, there are given a card that identifies them as participants in the scheme. These cards could offer members the same privileges that are available to those holding private label cards and can offer credit to co-branded credit cards. Members of the schemes enjoy the advantage of receiving business magazines, discounts, convenient payment facilities, and privileged forms of insurance. Such benefits may only become available if the customer makes a certain number of purchases from the business during a predefined period (Peelen, 2005:177).

- **Relationship marketing schemes**

Another group of scheme is the relationship marketing scheme which, according to Peelen (2005:178), is the "real" loyalty scheme. The goal of such schemes is to intensify the involvement which customers have a particular business. The rewards that customers can claim from this type of scheme consist of complimentary products and services that include customer magazines, professional advice, special services, privileged discounts, and the availability of credit. Businesses can use this type of scheme to identify how frequently their customers purchase and what it is that they purchase. Because of the strength of the relationship that a relationship marketing scheme is able to engender between customers and suppliers, it becomes possible to offer desirable customised services to individual members. They also enable businesses to focus on their marketing communications and to offer incentive products to those customers who will most benefit from the product offering.

5.7 CUSTOMER RETENTION AND CUSTOMER LOYALTY IN THE AIRLINE INDUSTRY

The following section describes and discusses the influence that customer retention and customer loyalty exert over the airline industry.

5.7.1 CUSTOMER RETENTION APPROACHES

Murphy *et al.* (2006:60-61) explain the ways in which airlines can make use of various methods to retain customers. These methods include:

- Volume or frequency discounts such as the discards that are offered to particular tour groups and frequent travellers.
- Easy payment methods. Some airlines allow their customers to for their tickets only Internet by using their credit cards.
- Other uses of the Internet: Many airlines have created facilities that enable their customers to book their flights on their own website. These websites also offer detailed information about particular flights. All the information that customers need in connection with permissible baggage and maximum baggage weight, as well as other in matters of importance, can be accessed from the website before the flight takes place.
- Newsletters. Airlines encourage allow customers to subscribe to their newsletter because there newsletters offer details about special offers and other useful information.
- Loyalty schemes. Certain airlines make use of frequent flier miles schemes that typically award points to customers on the basis of the distance that they fly on each trip they make with the airline. After a customer has obtained a certain number of points, they become entitled to a discount, an upgrade or even a free flight.

The literature has, however, made it clear that the exercise of these techniques alone do not guarantee customer retention. The techniques described by Murphy *et al.* (2006:60-61) should therefore be used as part of a much more comprehensive customer retention strategy that makes use of customer portfolio analysis, a suitable customer retention mix, and reorganisation for the purpose of customer retention.

5.7.1.1 Customer portfolio analysis

Yorke and Droussiotis (1994:6-7) explain that if airlines wish to obtain good results from their customer retention schemes, they need to possess accurate records of their customers' purchasing histories. By making proper use of the information which they gain in this way, airlines will put themselves in a position in which they can more accurately predict the future purchasing behaviours of their customers. By analysing a customer's portfolio, it is possible for an airline to identify those customer services that particular customers are most likely to use.

5.7.1.2 Customer retention marketing mix

Airlines can revise and adapt their marketing mix for the purpose of retaining their customers. They can do this by including the following components in their customer retention marketing mix:

- Product extras. Evans *et al.* (2004:478) note that if an airline offers its customers certain extra services, it becomes more likely to increase its customer retention rate. Such extra services might include reserving a special lounge in which to accommodate the most valued customers before a flight, or the provision of complementary magazines or free in-flight beverages.
- Reinforcing promotions. Once airlines possess accurate information about customer needs and expectations, they can adapt their marketing communications to include explanations of how they intend to fulfil such needs and expectations (Nickels & Wood, 1997:328-329). Some airlines, for example, have focused in their marketing communications on the extra leg room that they make available to meet the needs of customers to whom that extra space during a flight may be desirable.
- Sales force connections. Murphy (2001:11) observe how vitally important it is for airline customers to receive certain kinds of information from airline employees such as information about anticipated delays in flights. Unless employees are given information of this kind in good time, they will not be in a position to assist the airline's customers, and this can damage the relationship that an airline has built up with its customers.
- Specialised distribution. Nickels and Wood (1997:336) describe how important the Internet has become to the overall operation of any airline. Airlines have utilised advances in Internet and other technology so that

customers can not only obtain information about future flights, but can also purchase their tickets on line.

- Post-purchase communication: Rosenburg and Czepiel (1983:47-50) describe the special problems that customers will experience from time to time — problems relating, for example, to difficulties connected with a particular flight or service delivery (such as discovering that there is no existence no record of a flight having been booked). The manner in which an airline handles such problems will determine the willingness of customers to form or sustain a future relationship with the airline concerned.

5.7.1.3 Reorganisation for customer retention

Airlines need to ensure that their organisational structure includes divisions that focus on relationship building and customer retention. This would include areas of training of front-line staff to deal directly with customer service and relationship building. No reorganisation for customer retention can be without areas for analysing customer complaints, compiling customer portfolios and measuring the rates of customer retention (Gilmore, 2000:70-71).

5.7.2 CUSTOMER RETENTION IMPROVEMENT

Airlines can make use of the steps that were discussed in section 5.5.4 to improve their customer retention strategy. Such steps would include the measurement of customer retention, identification of the causes of defection, and a programme of corrective action for improving customer retention rates.

5.7.2.1 Measuring customer retention

Airlines need to determine which methods they will use to measure customer retention. It is the opinion of Ahmad and Buttle (2001:42) that airlines should use a combination of *the crude rate* and *the weighted rate* of customer retention measurement. The crude rate will provide airlines with basic information about the number of customers who have been retained (or the number of customers who have defected), while the weighted rate is able to calculate a customer's value to business throughout that customer's whole purchasing life-time.

5.7.2.2 Identifying causes of defection

In order accurately to identify the reasons why customers defect, airlines need to assemble information from those customers about why they chose to defect as well as any information that can be gathered from the record of customer complaints. Some of the reasons why customers defect include the ability to obtain tickets for comparable flights at lower prices from competitors or the availability of better services from competing airlines (DeSouza, 1992:25-26).

5.7.2.3 Corrective action to improve customer retention

Christopher *et al.* (2002:60) suggest that airlines can improve their customer retention rates by taking corrective action to resolve customer problems and ensuring that such problems will not arise again in the future. By resolving or responding to customer needs and by undoing the damage that has resulted from a service failure, airlines will be able to minimise lost passenger business and further strengthen their relationships with their existing customers.

5.7.3 TYPES OF CUSTOMER LOYALTY

Section 5.6.3 described various types of customer loyalty. By basing their calculations on the loyalty classification framework (table 5.2) and by determining how different customers will behave in different types of loyalty (table 5.3), an airline will be able to predict how customers will behave. This will provide them with the necessary information they need to influence customer loyalty.

Airlines benefit most from those customers who demonstrate a high degree of loyalty and profitable purchasing behaviour (i.e. from customers who are loyalists or apostles). Customers of this kind are the easiest for an airline to retain because they already have a favourable attitude towards the airline. Airlines should also aim to reposition customers who have a favourable attitude toward the airline but who make few repeat purchases (i.e. the kind of customer called the "mercenary") so that they increase the number of their purchases and so become "loyalists". Before they can do this, airlines need to identify the reasons why such customers are making too few purchases and should take remedial action to rectify the situation. Airlines also need to be aware of the category of customers who have no loyalty to the business and who are therefore liable to defect after a

bad experience ("defectors"). In order to prevent such customers from becoming "terrorists", airlines need to respond as quickly and efficiently as they can to each complaint and they must also be ready with a plan of action that will discourage customers from defecting after a bad experience (Jones & Sasser, 1995:97).

5.7.4 CUSTOMER LOYALTY SCHEMES

Binggeli, Gupta and de Pommes (2002:6-11) describe how many airlines introduced the frequent-flier programmes in the early 1980s – programmes that were designed to increase the loyalty of customers. These frequent-flier programmes were used extensively during the 1980s, and they therefore came to constitute the central feature in the attempts of many airlines to manage their customer relationships. A survey of 17 airlines from around the world produced evidence that these airlines possessed a very elementary understanding of the nature of their customer markets. It was noted, for example, that many of the airlines that were surveyed possessed little or no knowledge about which customers could be most valuable to them or which factors were most likely to affect customer behaviour. This resulted in the failure of many CRM systems within the airline industry at the time.

Binggeli *et al.,* (2002:6-11) point out that the CRM systems of numerous airlines are either deficient in their purposes, and do not therefore possess any accurate or consistent information about their customers. One of the reasons why they lack this essential data is because they neglect to collect information from all useful points of interaction such as information that derives from telephone contacts, Internet exchanges, airports behaviour, exchanges at customer service desks, and events in aeroplanes themselves. It is only by means of an effective CRM programme that an airline will be able to track and collate information about customer complaints or distressing flying experiences. Such information in the context of a properly functioning CRM programme will enable an airline to determine whether or not these experiences are likely to affect a customer's frequency of flying. Many airlines, for example, are ignorant about how frequently their customers fly with competing airlines. A customer who travels infrequently on one airline but more frequently on another airline should present a profitable target for marketing.

As Peelen (2005:176-178) point out that three different loyalty schemes can be utilised. Most airlines make use of frequent flier miles schemes to secure customer retention. But airline should also institute other customer relationship management schemes so that they can improve the relationship between themselves and their customers. But a frequent flier miles schemes is a useful point at which to begin to exert a favourable influence on customer retention. The data that appears when customers provide their frequent flier mile card needs to be captured for a database and used to track improvements in the relationship between an airline and its customers. If airlines are able to determine, for example, the destinations to which a customer most frequently flies, they will be able to offer that customer additional discounts, special facilities and upgrades that relate to that customer's most frequent destination. They could also offer additional services to frequent flier mile card holders, such as assistance in car hire arrangements and the booking of hotel reservations. Newsletters and other marketing communications can also be customised to meet the needs and expectations of individual customers.

5.8 CONCLUSION

This chapter completed the literature review by prescribing and discussing the elements of customer retention and customer loyalty. The following chapter will use all the information and conclusions from the literature chapters (i.e. the chapters that describe services marketing, customer service and satisfaction, CRM, customer retention and loyalty) as a basis for discussing an appropriate research methodology, creating an accurate problem statement and proposing the research propositions on which this study is based.

Chapter 6

EMPIRICAL RESEARCH METHODOLOGY

6.1 INTRODUCTION

The earlier literature review chapters (2, 3, 4 and 5) provided a background for the concepts involved in this research study. They also offered definitions of customer service, satisfaction, retention and loyalty in the airline industry.

This chapter elaborates on the research methodology described in Chapter 1 by discussing the process of marketing research and by then describing how this was applied to the present study. It is the specific purpose of this chapter to:

- Describe marketing research by offering a definition and discussing its importance and limitations;
- Discuss the marketing research process;
- Show how the marketing research process was applied to this study, and by elucidating the reason for the study by means of the problem statement and research propositions, and
- Explain the empirical research methodology that was chosen for this study by describing the sampling procedure and research instrument (questionnaire) used.

6.2 MARKETING RESEARCH

Doyle (2005:24) states that marketing research is an inextricable part of the function of the marketing environment. It is by means of marketing research that businesses are able to obtain valuable information regarding the way customers view their product or service as well as how the business itself is viewed by customers. Marketing research, furthermore, enables businesses to identify and analyse their target market in terms of its size, trends and needs. Roe (2004:9) adds that properly conducted marketing research can inform businesses about the direction in which the target market is moving and

thus enable businesses to identify future opportunities and overcome obstacles.

6.2.1 MARKETING RESEARCH DEFINED

Below are two definitions of marketing research:

- The American Marketing Association, in McDaniel & Gates, 2005:5-6, offer the following comprehensive definition of marketing research: "Marketing research is the function which links the consumer, customer, and the public to the marketer through information – information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process. Marketing research specifies the information required to address these issues; designs the method for collecting information; manages and implements the data collection process; analyses the results, and communicates the findings and their implications."

- Zikmund (2003:4) defines marketing research as the systematic and objective process of obtaining information in order to make informed marketing decisions. Marketing research includes detailing what information is needed, how the research will be conducted, how data will be collected and processed, analysing the results and presenting the findings so as to enhance the decision-making of marketing managers.

By using various elements from these two definitions, the following definition of marketing research can be made: *Marketing research is a systematic process whereby marketing problems or opportunities can be identified, analysed and rectified. This process consists of identifying the problem, designing the methods used in the research, detailing the data collection method, analysing the data and presenting the results to decision-makers.*

6.2.2 IMPORTANCE OF MARKETING RESEARCH

Doyle (2005:24) notes that marketing research is important because it allows researchers to test marketing concepts. Through marketing research, various

kinds of information such as consumer attitudes and intentions can be tested and analysed for the purpose of marketing decision-making.

McDaniel and Gates (2005:6-9) suggest that marketing research is important to management as it enables businesses to acquire an understanding of what customers deem to be important – an understanding that is essential for the purposes of customer satisfaction and retaining existing customers. Moreover, marketing research helps management to understand the changes that are occurring in the marketplace and to take timely action to avoid potential threats. Marketing research means that businesses can stay competitive, adding to the survival of the business.

6.2.3 LIMITATIONS OF MARKETING RESEARCH

Although marketing research is indispensable, Roe (2004:9) believes that marketers and management need to understand and be aware of its limitations so that adequate and accurate results can be obtained. According to Roe (2004:9-10); Aaker *et al.* (2003:16-17) and Neal (2002:26-27) the following limitations have to be recognised:

- **Error**

  When dealing with marketing research, the researcher should be aware of the different types of errors that can occur. Measurement errors can occur if the wrong respondents are included in the study or if the questions are asked and recorded in the wrong way. Another error that affects results is bias. Since not every person who is approached will agree to take part in the study, sample biases occur. While errors cannot be totally excluded from a study, the researcher needs to try and minimise these errors as far as possible.

- **Lack of financial resources**

  Marketing research can be expensive, and because of budget limitations, researchers are often forced to decrease the size of the sample. This can increase the rate of sample error. A lack of financial resources can often

be attributed to the fact that businesses view marketing research as an expense instead of regarding it as an investment in risk reduction.

- **Lack of human resources**

  Insufficient human resources can hamper the research process. In order to conduct proper research, the people who are used to distribute questionnaires or assist in the research process need to be properly trained.

- **Time limitations**

  Marketing research is often used for making marketing decisions which need to be taken within a certain period of time. But properly conducted marketing research takes a long time. These time constraints may be caused by poor research planning, design, data collection and analysis.

- **The inability to project results**

  The lack of financial resources and time limitations often leads to researchers obtaining small sample sizes. The sample size is furthermore limited due to low cooperation rates by respondents. This makes researchers unable to project the results obtained in the study to the population as a whole (Peters, 1992:9).

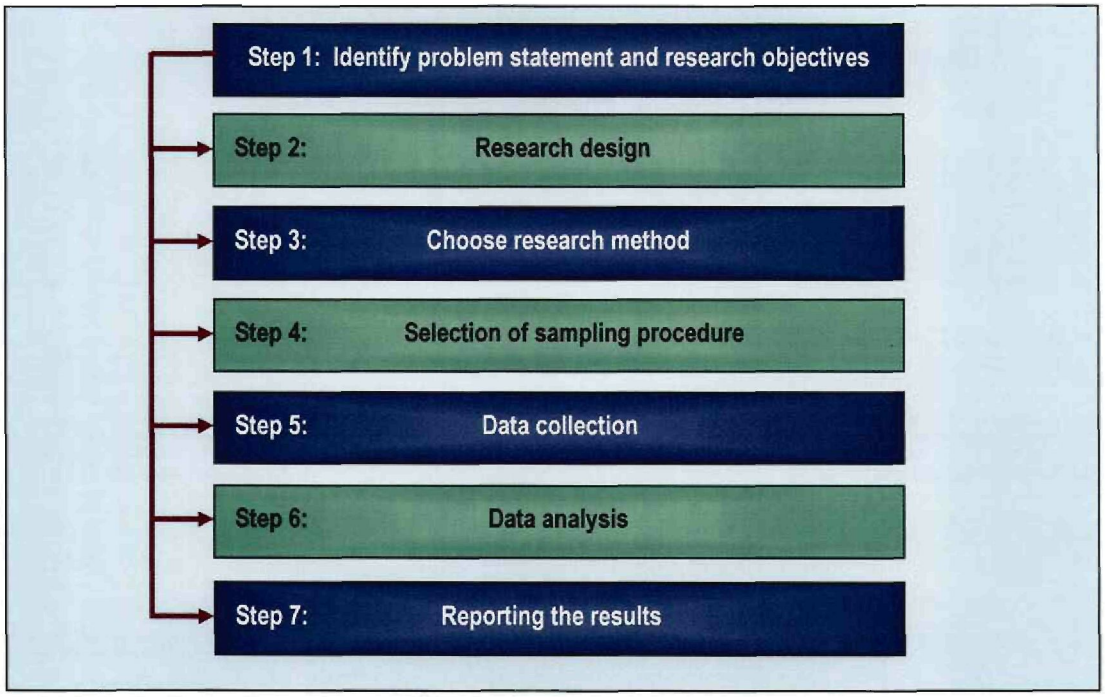
- **Relevance**

  According to Aaker *et al.* (2003:16), marketing research is often conducted in such a way that it corroborates a managers' prior beliefs and prejudices. Kent (1999:5) adds that research is often designed to support the preconceived ideas of management. The results obtained are therefore often misused or misinterpreted. For marketing research to be effective, it should be conducted properly and be relevant and it should be able to aid the decision-making in specific situations.

6.3 MARKETING RESEARCH PROCESS

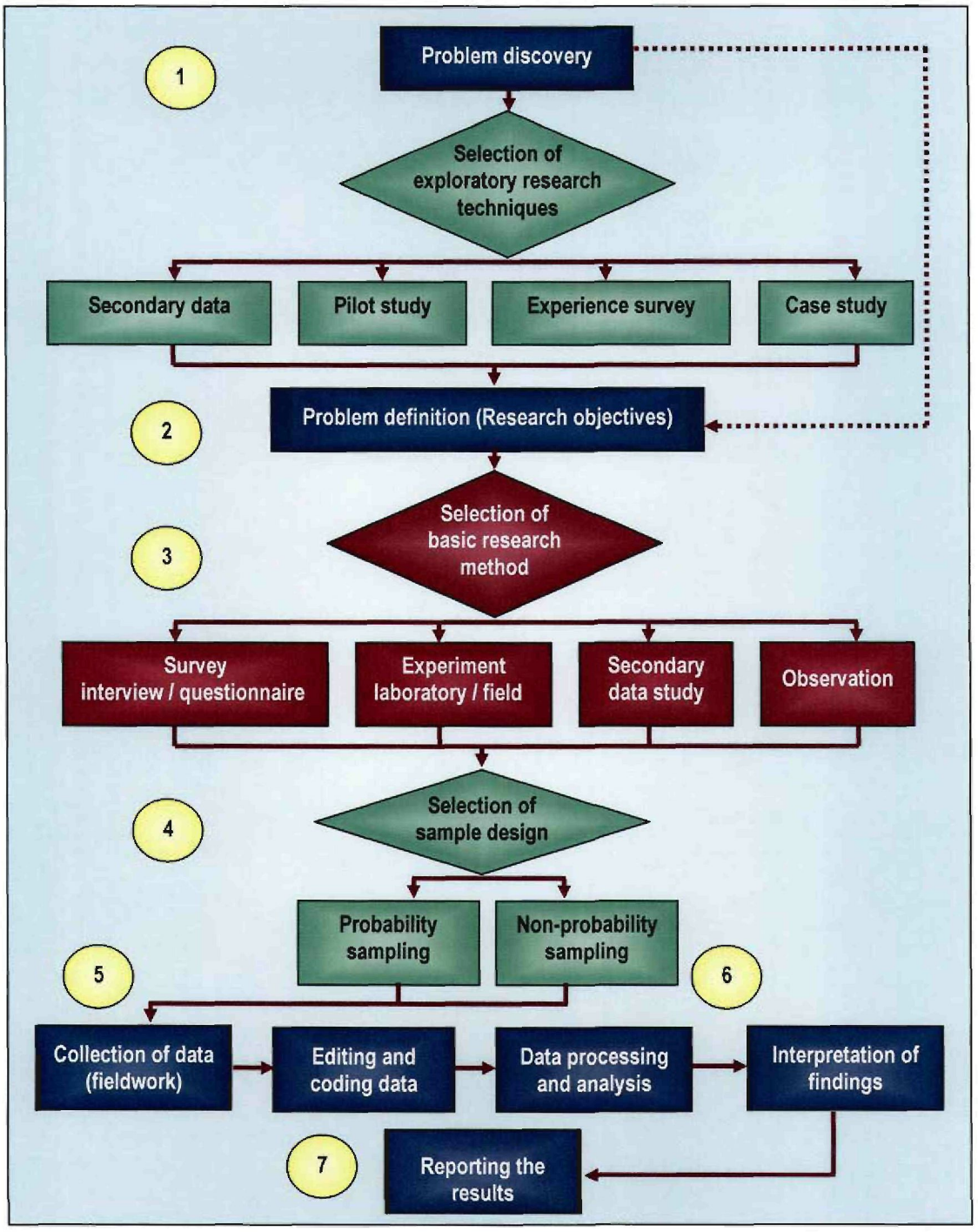
Various methods of marketing research can be identified from the literature on the subject. This study will make use of the steps of the research process that are presented by McDaniel and Gates (2005:61-66). The steps in the marketing research process used in this study are presented in figure 6.1.

FIGURE 6.1: STEPS IN THE MARKETING RESEARCH PROCESS



Source: Adapted from McDaniel and Gates (2005:61).

FIGURE 6.2: FLOWCHART OF THE MARKETING RESEARCH PROCESS



Source: Adapted from Zikmund (2003:55).

The seven steps presented in figure 6.2 are discussed in detail, and the way in which the research process was applied in the study will be described.

6.3.1 STEP 1: IDENTIFY PROBLEM STATEMENT AND RESEARCH OBJECTIVES

The following section describes the identification of the research problem and the development of research objectives for the study at hand.

6.3.1.1 Identification of problem statement

The initial part of the first step in the marketing research process concerns identifying the research problem. Welman, Kruger and Mitchell (2005:13) explain that identifying the research problem or problem statement requires researchers to narrow down their focus from a more general research field to one that is small enough to research. Malhotra (1999:11) supports this by suggesting that all of the following elements are part of the purpose of the study: gathering secondary information which provides relevant information; identifying what information is required; determining how the study and its results will be used in decision-making. Zikmund (1999:47) adds that by having this information available, researchers will be able to collect relevant information and ensure that clear research objectives can be set that will aid in the undertaking, and correct use, of the research process.

The literature review in the previous chapters provided definitions and descriptions of customer service, customer satisfaction, building relationships with customers, and customer loyalty and retention. These topics need to be integrated into the domestic passenger airline industry to provide insight into its problems as well as to suggest possible solutions to its problems.

The recognition of the importance of services in marketing aided in the development of services marketing and so forms an important aspect of airline industry. In order to attract customers, airlines need to make use of the marketing mix (which was discussed in Chapter 2 – section 2.4) and to use it to market their service in such a way as to provide customer satisfaction and service quality and gain competitive advantage (Drummond & Ensor, 2005:10; Lancaster & Reynolds, 2005:41; Jobber, 2004:816; Clemes *et al.*, 2000:575; Martin, 1999:324 and Brown *et al.*, 1994:21-22).

Often, airlines are not able to provide customers with satisfaction due to the gaps that occur between what customers expect and what they actually receive (as was discussed in the Gaps Model in Chapter 3 – section 3.5.3.2). These gaps need to be bridged in order to fulfil customer needs, desires and expectations. Customer dissatisfaction is often caused by poor service or by service levels that no longer meet their expectations. By identifying customer expectations and delivering quality customer service, airlines could improve their customers' satisfaction and will, in so doing, retain their customers (Boone & Kurtz, 2005:173; Quester *et al.*, 2004:534 and Rust & Zahorik, 1993:193).

Boland *et al.* (2002:1-4) explain how forming relationships with customers has become vital to the airline industry in order to gain a competitive advantage. Airlines, however, seem to place more emphasis on reducing costs rather than providing their customers with quality service and satisfaction. Although airlines appear to aim for CRM and customer retention by providing individualised services and loyalty rewards, many services are indistinguishable from airline to airline. In order to provide individualised services, airlines need to devise more effective CRM programmes. While airlines tend to concentrate on frequent flier miles programmes or lower prices in their attempts to retain customers, customers defect anyway as soon as another airline offers better loyalty schemes or lower prices. For this reason, airlines need to identify other, more concrete, ways of retaining customers (Peelen, 2005:155; Binggeli *et al.*, 2002:6-11 and Murphy, 2001:4).

As Gilbert and Wong (2003:519) explain, for airlines to provide quality services and therefore to retain customers, it is essential that airlines understand what customers expect from the service quality. Jobber (2004:463) believes that customer expectations are increasing as competitors improve their service standards. As discussed in Chapters 2 and 3, understanding services marketing and customer service are important steps in determining customer expectations. Theoretically, in order to retain their customers, airlines need to form relationships with customers. Temporal and Trott (2001:20) explain that, in order to form relationships, effective customer service needs to be provided. It follows then that in order to retain their customers, airlines will have to provide customer service and form relationships with customers.

As discussed in Chapter 1, no research has been done on customer retention in the domestic passenger airline industry of South Africa and so this field offered an ideal opportunity for research.

From the above, the following were identified as issues that needed to be resolved during the literature review:

- Service businesses (such as airlines) need to ensure that all the elements of the marketing mix are incorporated in their marketing strategy;
- Customer expectations need to be identified and delivered through customer service to provide customer satisfaction;
- Airlines need to identify those gaps that cause service failures and customer dissatisfaction, and they also need to be able to identify how to bridge those gaps;
- Airlines use loyalty schemes as their CRM strategy, yet fail to recognise the importance of a comprehensive CRM strategy;
- Even though loyalty schemes are ways in which airlines retain customers, customers defect to competitors as soon as a competitor offers something better;
- No research on customer retention for the domestic passenger airline industry has been conducted in South Africa, and
- This provides an opportunity to study customer retention in the South African domestic passenger airline industry.

A study into customer retention will benefit the South African airline industry and will encourage better decision-making for customer service strategies within the industry. *This study therefore aims to determine whether there are logical connections between customer service, relationship building, customer loyalty and customer retention in the domestic airline industry.*

6.3.1.2 Research objectives

The second part of this step refers to setting research objectives. Zikmund (1999:50) explains that the research objectives refer to the researcher's description of the problem that needs to be solved. The research objectives allow the research to be described in measurable terms and to explain what

the study should accomplish. McDaniel and Gates (2005:60) describe how researchers often express research objectives in the form of a proposition. However, before the propositions for the study can be stated, it is important to explain the concept. A research proposition can be described as:

- "A statement that can be refuted or supported by empirical data" (Zikmund, 2003:58), or
- a "conjectural statement about a relationship between two or more variables that can be tested with empirical data" (McDaniel and Gates, 2005:60).

Churchill and Iacobucci (2005:76) add that a proposition carries clear implications for testing the relationship. In the starting phases of the research process, the researcher has no clear understanding into the formulation of propositions, but as the research process continues (for example, after the literature study), it becomes easier to understand what exactly needs to be researched. By understanding what needs to be researched, a proper proposition can thus be formulated.

This study is based on the following research propositions:

- **Proposition 1**

  Lovelock and Wirtz (2004:37) state that customers will buy the services of airlines to meet their specific needs. Airlines therefore need to understand what customers' needs are and must provide services to meet those needs. Airlines also need to understand that customers have different levels of needs. Jobber (2004:656) emphasises that airlines should set high customer service standards since these can lead to a competitive advantage. Christopher *et al.* (2002:151) maintain that airlines must be flexible enough to adapt their service standards to meet customer needs.

  The first proposition is therefore formulated as:

  Proposition 1:
  Different customer segments view the importance of service elements differently.

- **Proposition 2**

Boone and Kurtz (2005:173) indicate that customer satisfaction can be determined by the quality of the services provided. Airlines should aim to reduce the gap between customer expectations and what service levels customers need to ensure satisfaction. Lovelock and Wirtz (2004:44) and Olsen *et al.* (1996:166) note that customers have certain expectations in terms of service standards and will therefore compare the level of service provided to their expectations, and then make a decision as to the quality of the service based on this comparison. Customers will be satisfied if their perceptions meet (or exceed) the expectations of services provided.

As Hoffman *et al.* (2005:331) and Temporal and Trott (2001:20) emphasise, customer relationship management and customer service are closely related because CRM aims to build long-term relationships by giving customers valued experiences. Customer service is an important part of relationship building for every business, but especially for service businesses. By providing customers with good customer service, businesses have an opportunity to understand customer needs as well as opportunities to build long-term relationships with customers. Unfortunately, many businesses have not taken advantage of these opportunities in this results in damaged relationships. Each time a business does not offer quality service, the relationship will be broken down even further.

The second proposition is therefore formulated as:

Proposition 2:
Satisfied customers will form a relationship with the domestic airline.

- **Proposition 3**

Businesses must build long-term relationships with customers to ensure future success. The quality of this relationship often influences the length of the relationship and this can assist in retaining existing customers and increasing customer loyalty levels. Furthermore, as businesses form relationships with customers, loyalty can be obtained with less investment

from the business (Temporal & Trott, 2001:20; Jobber, 2004:796-797 and Murphy, 2001:4).

Gummesson (2002:310) explains that once relationships have been formed with customers, businesses can determine customer needs. Once these needs have been met, increased customer loyalty and retention occurs. Drummond and Ensor (2005:158) reiterate this point by stating that the relationship building efforts of the business aims to develop loyalty among customers.

As Peppers and Rogers (2004:30) and Kumar and Reinarts (2006:68) emphasise, customers will only become loyal to the business (which will increase customer retention rates) if an effective relationship has been formed.

Proposition three builds on the second proposition and is formulated as:

Proposition 3:
Customers who have formed a relationship with a domestic airline will remain loyal.

- **Proposition 4**

Hoffman *et al.* (2005:331) and Temporal and Trott (2001:20) emphasise that CRM aids in helping businesses to build long-term relationships by giving customers valued experiences. By providing customers with good customer service, businesses have the opportunity to understand customer needs as well as the ability to build long-term relationships with customers. Yet, every time a business does not offer quality service, the relationship deteriorates. This indicates that customer satisfaction levels and customers' willingness to form a relationship with the business can be affected by the CRM efforts of the business. Mithas *et al.* (2005:202-203) add to this by stating that customer satisfaction has an effect on the CRM efforts of a business because a business that understands customer needs will satisfy them and only satisfied customers will be susceptible to the CRM efforts of the business.

Abram and Hawkes (2003:73-74) and Peelen (2005:36-37) state that the CRM efforts of the business can aid in the formation of long-term relationships with customers. These CRM efforts should be used to enhance the relationship. Brown (2000:12) continues by explaining that for the CRM efforts of the business to be effective, customers must have formed a relationship with the business. Furthermore, Lovelock and Wirtz (2004:376-377) mention that the CRM efforts of a business should be used to maintain the relationship that has been formed with the customer.

Stone *et al.* (2000:115) suggest that in order to retain customers, businesses have to offer additional services or incentives such as loyalty rewards which form part of the CRM efforts of a business. Pepper and Rogers (2004:30) explain that customer loyalty and retention can be enhanced through a business's CRM efforts.

Trubik and Smith (2000:200) state that by providing quality services that satisfy customer needs and by forming effective relationships with customers, customers can become loyal to the business and that this will increase customer retention rates. If the above is taken into account, it is possible that the only customers who are satisfied are those who have formed a relationship, and those who are loyal will be more receptive to the businesses CRM efforts.

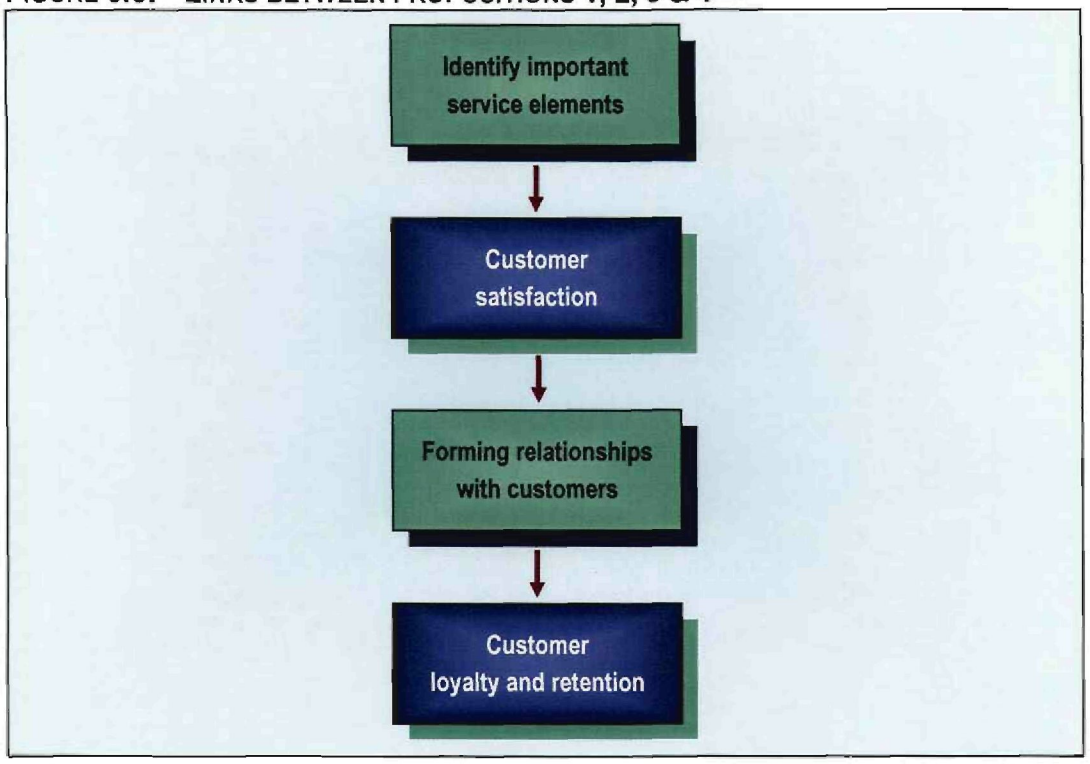
Proposition four is therefore formulated as:

Proposition 4:
The effectiveness of the domestic airlines' CRM efforts to create customer loyalty and retention is influenced by customers' satisfaction, relationship with the domestic airline, and loyalty towards the domestic airline.

A) The relationship between propositions 1, 2, 3 and 4

Figure 6.3 demonstrates the links between propositions one, two, three and four.

FIGURE 6.3: LINKS BETWEEN PROPOSITIONS 1, 2, 3 & 4



B) Association between study objectives and research propositions

The primary and second objectives for the study were described in Chapter 1. The research propositions were designed so that the study objectives could be reached. Table 6.1 indicates the research propositions and corresponding secondary objectives.

TABLE 6.1 ASSOCIATION BETWEEN STUDY OBJECTIVES AND RESEARCH PROPOSITIONS

	Secondary objectives	Proposition
1)	Conduct a literature review to identify service elements that are important to domestic airline passengers	-
2)	Determine if passengers view the importance of service elements differently	1
3)	Determine if passengers are satisfied with the service elements offered by the domestic airline	2
4)	Determine whether or not passengers have formed a relationship with the domestic airline	2 & 3
5)	Determine if passengers are loyal to the domestic airline	3
6)	Determine how airlines' CRM efforts are viewed by passengers	4

6.3.2 STEP 2: RESEARCH DESIGN

The second step in the marketing research process is creating a research design which can be defined as "a plan for addressing the research objectives or hypothesis" (McDaniel & Gates, 2005:61). The following section describes the three main types of research designs a researcher could follow.

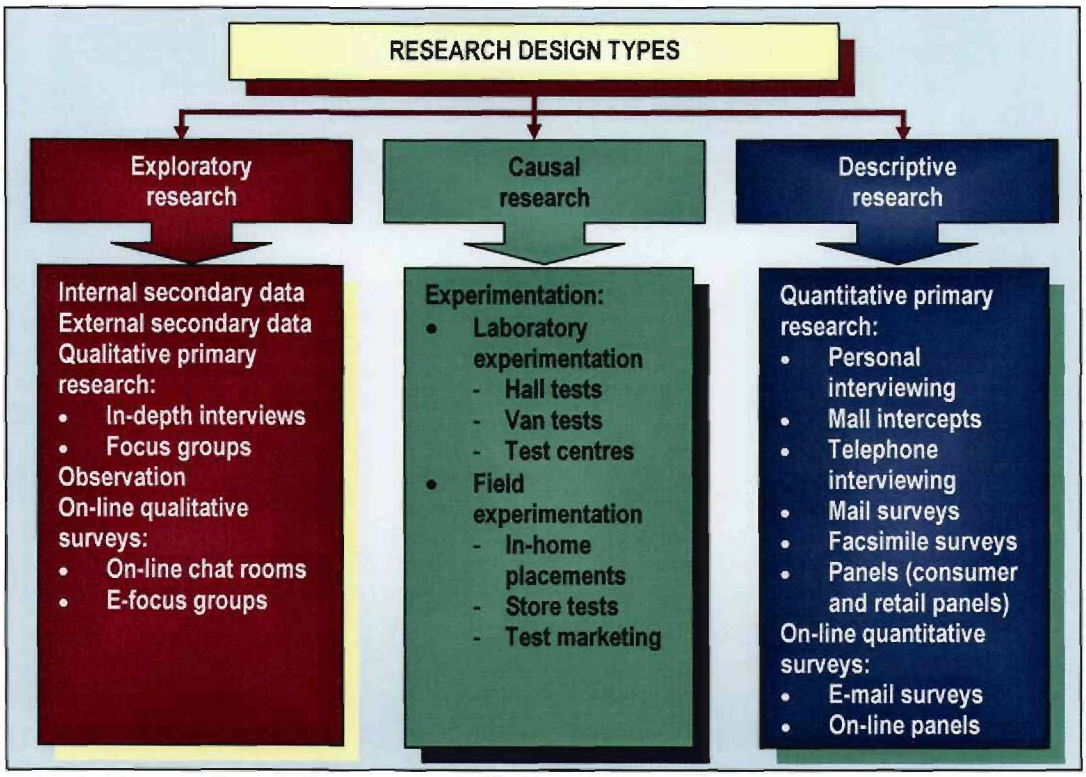
6.3.2.1 Types of research designs

Again, before a research question or problem can be answered, the researcher needs to develop an overall plan that will be followed to answer this question or solve the problem (McDaniel & Gates, 2005:61).

Two research approaches can be followed, either quantitative or qualitative research. According to Trochim and Donnelly (2006:11), quantitative research refers to obtaining data which is measured using numbers, while qualitative research refers to obtaining data of variables which are in the form of text, sounds, etc., that cannot be measured in numerical form. In addition, Malhotra and Peterson (2006:150) believe that quantitative research provides researchers with conclusive evidence that can be obtained through statistical analysis. Bagozzi (1994:68) is of the opinion that since qualitative data is difficult to code, and cannot be readily subjected to statistical analysis, the results obtained in qualitative research are less reliable. *After taking the above arguments into consideration and after identifying the nature of the proposed study, it was decided to use quantitative research as the main research approach in this study.*

A researcher has to decide what type of research design will be used and which one best meets the needs of the problem at hand. Malhotra (1999:83) states that the research design that could be used can be classified as either exploratory or conclusive. Causal or descriptive research designs are two categories of conclusive research, while descriptive research designs could be either cross-sectional or longitudinal.

FIGURE 6.4: CLASSIFICATION OF RESEARCH APPROACHES BY DATA COLLECTION METHOD



Adapted from: Tustin, Lighthelm, Martins and van Wyk (2005:83) and Kent (1999:106-107).

Figure 6.4 illustrates the research design types that could be used to aid in data collection, namely, exploratory research and causal and descriptive research (which can be classified as conclusive research), as well as the different types of research methods that fall under each category (described in step 3). Each of the three research design types is now discussed below:

- **Exploratory research**

  As Tustin *et al.* (2005:84-86) and Zikmund (2003:56-58) are of the opinion that exploratory research is an appropriate research design to use when researchers need to obtain more insight into the research problem since there is not a great deal of knowledge on which to build. This should be done during the early stages of the research. By making use of exploratory research, the researcher is able to obtain insight into the problem, and is thereby able to develop more accurate and specific research objectives. Exploratory research includes literature reviews and unstructured interviews such as focus groups, panels or observation.

Malhotra (1999:85-86) explains that exploratory research is used to explore a research problem further and could be used for various purposes that include the clearer formulation of a research problem, the development of propositions, the identification of variables and relationships that warrant further research, as well as the establishment of areas for further research.

- **Causal research**

According to Tustin *et al.* (2005:87) and McDaniel and Gates (2005:62), causal research aims to determine whether one variable influences another variable in order to perhaps establish a link between the variables.

Aaker *et al.* (2003:77) explain that although descriptive research illustrates whether a relationship exists between variables, causal research can determine whether one variable influences another variable. This implies that exploratory and descriptive research studies should be conducted before causal research which determines the cause-and-effect relationship between variables (Zikmund, 2003:51).

- **Descriptive research**

Descriptive research forms part of conclusive research and so lies on the continuum between exploratory and causal research and answers who, what, when, where and how questions (Lehman, Gupta & Steckel, 1998:63-64 and McDaniel & Gates, 2005:62).

Zikmund (2003:51) states that descriptive research is based on researchers having prior knowledge about the research problem, unlike exploratory research. Although there is some prior knowledge regarding a research problem, no formal proof or evidence that will solve the problem has, to that point, been collected.

Descriptive research is often used in studies of consumers and, as Shoa (2002:43) points out, this type of research helps researchers to describe consumer "attitudes, perceptions, characteristics, activities and situations". Furthermore Shoa (2002:44-45) posits that while the results obtained from

exploratory research are preliminary, the results obtained from descriptive statistics are conclusive and enable researchers to indicate whether a relationship between variables exist.

In this study the literature review conducted in the previous chapters exhibited knowledge about the customer retention that needed to be obtained and provided the basis of the research problem. No formal proof of customer retention within the South African domestic passenger airline industry was available. For this reason, *this study* undertook descriptive research to gain a more complete view of the situation in the market, and so to draw informed conclusions from the data obtained.

Table 6.2 provides a comparison between exploratory, descriptive and causal research. The table provides this in terms of the purpose of each research design, the amount of knowledge needed before the research can be conducted, how structured and flexible the research design is, how representative of the population the sample is, the type of research environment, expenditures on the research, and, finally, how conclusive the findings are.

TABLE 6.2 COMPARISONS OF RESEARCH DESIGNS

Issue	Exploratory	Causal	Descriptive
Purpose	Identify problems, generate hypotheses, gain insights	Determine cause-and-effect relationship	Describe elements
Assumed background knowledge	None to minimal	Considerable	Considerable
Degree of structure	Little	A lot	A lot
Flexibility	A lot	Little	Little
Sample	Usually non-representative	Representative	Representative
Research environment	Relaxed	Highly controlled	Formal
Expected expenditures	Low	High	High
Findings	Preliminary	Conclusive	Conclusive

Source: Shao (2002:44).

6.3.3 STEP 3: CHOOSE RESEARCH METHOD

McDaniel and Gates (2005:63) and Aaker *et al.* (2003:86) argue that once a research design (exploratory, descriptive or causal) has been identified, the next step in the marketing research process must be to choose a research method. The third step, according to these authors, should then describe all aspects of the study which include such aspects as describing the research design methods used in the study, as well as the questionnaire format itself.

6.3.3.1 Four basic research design methods

In this section, the four basic research design methods (also known as design techniques), as identified by Zikmund (2003:58), for causal and descriptive research (which include secondary data, experimentation, observation, and surveys), will briefly be discussed.

- **Secondary data**

  Secondary data (also known as historical data) refers to data that has been collected for purposes other than for the study at hand, but which can give the researcher some insights into the problem and can be used in exploratory, descriptive and causal research (Zikmund, 2003:60).

  Shao (2002:124-125) lists some reasons that indicate the importance and possible uses of secondary data:

  - Since the data has already been collected, it allows researchers to save both time and money. This data can now be collected in relatively short periods of time due to its availability. Often the data was available to the public at a relatively low cost;
  - Secondary data allows the researcher to gather insights into the problem. Even though the data had previously been collected for other reasons, the data remains pertinent;
  - The data is readily available from sources available to researchers such as journals, databases or the Internet. Through the increased use of technology such as computers and the Internet, the information is easily accessible, and

- Secondary data complements primary data as it can be used to confirm results obtained, or used to help in the generation of a problem statement or hypothesis.

In this study, secondary data was obtained by means of a literature review. The literature review aimed to obtain further information regarding customer service, customer satisfaction, customer relationship management and customer loyalty and retention and the possible links between these concepts. (The conclusions drawn from the literature review were discussed in Chapters 2 to 5.) The secondary data thus obtained was used to develop a questionnaire that was used as part of a survey to gather primary data.

- **Experimentation**

Experimentation, as illustrated in figure 6.4, forms part of causal research and aims to determine cause-and-effect relationships between variables. Welman *et al.* (2005:78) note that experimentation always involves a form of intervention since the participants are exposed to situations to which they would not normally be exposed. According to Kent (1999:106), two main types of experimentation can be identified, namely laboratory experiments and field experiments.

As McDaniel and Gates (2005:63-64) explain, laboratory experimentation is usually conducted in a controlled environment where one variable can be held constant while other variables are manipulated. This allows the relationship between variables to be tested to determine the cause-and-effect relationship between variables. Kent (1999:106) identifies three main types of laboratory experimentation, namely hall tests, van tests and test centres. Hall tests require that the researcher makes use of a venue in close proximity to the respondents, and people are then asked to participate in that venue. Van tests follow the same principle of hall tests, but allow the researcher to be more mobile and target participants at various locations. Test centres are preferred to the other two methods of laboratory tests, and they are used when the equipment needed to perform the experiment cannot be transported to the participants. The participants

in test centre experiments are then invited to the test centre to take part in the experiment.

Field experiments as identified by Kent (1999:106-108) are conducted in a realistic research environment and include in-home placement, store tests and test marketing. Field experiments are usually conducted on physical products. During in-home placement tests, participants are asked to use the products to be researched in their own home. This allows the researcher to determine the use of the product in its intended environment. Store tests are experiments with product prices or promotional items within the store where the product will be sold.

- **Observation**

Observation refers to researchers observing the actions of respondents without making direct contact (McDaniel & Gates, 2005:63).

According to Zikmund (2003:60-61), observation takes place using either mechanical methods such as cameras, or through the human recording of respondents' behaviour by researchers. For this, observation is a useful method to use (Roe, 2004:101) since researchers do not need to rely on respondents' memory. Shao (2002:173) notes the following features about observation:

- People tend to believe the results obtained from observation since they gather data about respondents' current behaviour, and not their intentions for future behaviour;
- Since respondents are not asked to recall their past actions and are observed without any interaction from researchers, observation allows researchers to reduce recall error;
- The results obtained during observation cannot be generalised to a population and are limited to the observed respondents. This is due to small sample sizes often used due to the high costs involved in observation;
- Only the actions of the respondents can be observed. This means that their attitudes, opinions, motives, and intentions cannot be observed;

- The findings obtained during observation rely greatly on the objectivity of the observer or researcher, and
- Observers are often expected to spend a great deal of time observing respondents. This could lead to observer fatigue and inaccurate results.

- **Surveys**

While observation does not allow respondent-researcher interaction, the descriptive research method of surveys relies on some form of interaction either through personal contact or through questionnaires (Zikmund, 2003:59).

Trochim and Donnelly (2006:119-120), Churchill and Iacobucci (2005:218), McDaniel and Gates (2005:63 & 152-158) and Shao (2002:186-191) believe that surveys are useful when attempting to obtain facts, opinions, and attitudes from respondents, and that different methods of surveys can be used, including:

- **Door-to-door interviews**

  This type of survey requires respondents to be interviewed in person in their own homes. Since the research takes place in a personal setting, researchers are able to obtain immediate feedback from respondents. By dealing directly with respondents, researchers are able to ask more complicated questions and can immediately determine whether the respondent understands the question. As the research takes place in the respondent's own home, respondents feel more comfortable in their own environment and will probably be more willing to respond to questions. Some negative aspects of door-to-door interviews include the time and costs involved as well as the fact that some respondents will not allow researchers into their home. Another form of door-to-door interview is the executive interview, where business people are interviewed in their offices. Executive interviews are mainly used for researching business issues and their product offerings (Churchill & Iacobucci, 2005:218 and McDaniel & Gates, 2005:63 & 152-158).

- **Mall-intercepts**

  While door-to-door surveys require that researchers go to respondents, in mall-intercepts, the respondents come to the researcher. The mall-intercept takes place when a researcher intercepts shoppers at a shopping mall or other public areas of shopping malls and these shoppers are interviewed in the shopping centre. Mall-intercept surveys enable the researcher to interview respondents without leaving the area, but with door-to-door interviews researchers have to travel from one home to another before they can interview another respondent. This means that mall-intercepts are less expensive and time consuming than door-to-door interviews. Although mall-intercepts may have these advantages, many limitations exist which include low response rates because not many shoppers will be prepared to complete the survey. This could lead to a respondent selection bias where only respondents who want to complete the survey will be interviewed. Since respondents visiting the shopping mall usually live in a small geographic area or attract certain types of respondents, the data obtained may not necessarily be representative of the target population. For example, upscale stores tend to draw respondents with higher incomes, while discount stores attract more people with lower incomes. Researchers need to bear this in mind when determining the sample population. If respondents from all types of income groups are to be included in the survey, then the researcher may have to interview respondents at various shopping areas (Trochim & Donnelly, 2006:119-120; Churchill & Iacobucci, 2005:218 and Shao, 2002:186-191).

  In this study an intercept survey method was used by intercepting passengers at OR Tambo International Airport in Johannesburg. The fieldworkers intercepted the passengers after they had checked in for their domestic flight. The fieldworkers asked passengers a screening question to determine how often they fly with the airline (this was needed to determine retention rates). Only those passengers who had flown twice or more in the previous 12 months were asked to complete the questionnaire. Using this method, fieldworkers were available to clarify any problems respondents might experience with the questionnaire.

- **Telephone interviews**

  Telephone interviews require that researchers interview respondents by telephone. This method has the advantage of being able to reach a large number of respondents over a wide geographical area as most people worldwide now have access to a telephone, either land lines or mobile telephones. Often, researchers input the answers from respondents directly into a computer programme thus making data collection fast and simple. Nevertheless, telephone interviews also have disadvantages. These include high costs depending on the respondents' location and the length of the interview. The further away the respondent is, and the longer the interview is, the higher the costs become. Interviewer bias could occur when interviewers change the content of the question. Respondents might not be willing to respond to interviewer questions. The extent to which respondents will respond often depends on the time of day when the calls are made, the demeanour of the interviewer as well as the length of the interview (McDaniel & Gates, 2005:63 & 152-158 and Shao, 2002:186-191). According to Statistics South Africa (2003:88), only 42.4% of the South African population have access to a telephone and this indicates that it would be difficult to obtain a representative sampling by using this survey method.

- **Self-administered questionnaires**

  In self-administered questionnaires, no interviewer is present when respondents complete the questionnaire. Self-administered questionnaires can be distributed by mail or electronically. One problem with self-administered questionnaires is that there is no interviewer present is to explain a question which might lead to a misunderstanding. For this reason, the questionnaire needs to be pre-tested to ensure that there are no errors in the questionnaire or misinterpretation of questions (Trochim & Donnelly, 2006:119-120 and Churchill & Iacobucci, 2005:218).

6.3.3.2 Questionnaire design and content

Since questionnaires are widely used with surveys, and therefore form part of the choice of research method, the steps involved in questionnaire design will be discussed below.

Tustin *et al.* (2005:384-385) explain that questionnaires allow researchers to gather primary data and so ensure that consistency is applied to the research process. More formally, a questionnaire can be defined as a research instrument that is used for data collection that aims to gather information from respondents through sets of formal questions.

Malhotra (1999:293-294) specifies that a questionnaire has three main purposes which include the following: setting up sets of questions that respondents have the ability to answer so as to gather data about the problem formulated in the first step of the research design; motivating the respondent to answer the questions as accurately as possible, and minimising response error. Tustin *et al.* (2005:387-388) add to these purposes by stating that questionnaires help researchers to compare data from numerous respondents. This allows the researcher to determine if either similarities or differences exist between respondents.

Tustin *et al.* (2005:388) suggest that the quality of the primary data that is collected through questionnaires largely depends on its design and content because poorly phrased and designed questionnaires will lead to inaccurate data which will in turn be useless to researchers. To aid in the development of questionnaires, Proctor (2005:193) suggests the use of a seven step questionnaire design process. This is discussed below.

A) Step 1: Preliminary considerations

Proctor (2005:193) describes how, as part of the first step in the design of a questionnaire, researchers need to determine what information is required and will be obtained from the questionnaire. Furthermore, researchers need to determine the type of respondents who will be included in the study. Another issue that must be taken into account concerns the method that will be used to survey respondents.

B) Step 2: Question content

A number of elements should be considered when setting questions for the questionnaire. Proctor (2005:193-195) believes that the researcher should determine whether the questions are necessary, and whether they will enable the researcher to gain the required data. Furthermore, when researchers develop questions, they need to ensure that the respondent is willing and able to answer the question and whether all respondents will understand and interpret the question in the same way.

C) Step 3: Question phrasing

After the researcher has determined which questions need to be included in the questionnaire, the phrasing of the questions becomes important. Tustin *et al.* (2005:389) and Proctor (2005:195-199) provide some guidelines about the phrasing of questions in order to increase the quality of data that can be obtained:

- The respondents need to understand the language and style of the language used in the questionnaires. This means that words used should be familiar to the respondents;
- The questions should be kept as short as possible and to the point. Researchers therefore need to ensure that ambivalent questions are avoided. This means that only one question is asked at a time and words such as "and" or "or" should not be included in the question because these types of questions are often the two questions and if can be confusing;
- Questions that are ambiguous and vague need to be avoided. If respondents are unsure of the meaning of the question, they cannot be expected to provide accurate answers;
- Questions that require respondents to speculate about the answer should also be avoided. Ensure that respondents have adequate knowledge and information to respond accurately to the question; and
- The reliability and validity of questions must be considered. Reliability indicates the extent to which a respondent will provide the same response to a question if asked to answer the same question at another point in time. Validity refers to whether the researcher is getting the data from an answer that is intended as a response to that question.

D) Step 4: Types of response formats

When designing a questionnaire, researchers need to decide in which form the respondent should respond to the question and which form best suits the type of question. Again, two main types of response formats exist, namely open-ended and closed-ended questions.

Open-ended questions (also known as unstructured questions or free-response questions) refer to questions that have no alternatives for the respondent to choose and the respondents are then able to answer the question in any way they prefer (Proctor, 2005:199-200). Tustin *et al.* (2005:396-397) describe how open-ended questions are valuable to researchers who wish to obtain data about respondents' opinions, attitudes or behaviours. Open-ended questions enable researchers to probe further into answers provided by respondents by offering the respondents the opportunity to further explain their answers. The biggest disadvantage of open-ended questions refers to the difficulty that researchers will have in coding the received data, as the great deal of variation that can be obtained from such responses makes open-ended questions more qualitative in nature. For this reason, open-ended questions need to be used sparingly and the researcher must determine whether the question cannot be asked in a different way by making use of a closed-ended response format.

Closed-ended questions as described by Proctor (2005:199-200) are response formats where the researcher sets pre-determined answers for respondents to choose from. The following forms of closed-ended questions can be identified:

- **Dichotomous questions**

  As Trochim and Donnelly (2006:101) explain, dichotomous questions are closed-ended responses in its simplest form. This form of response provides respondents with two options to choose from, such as yes/no, true/false, or agree/disagree. This type of response is applicable to questions where the researcher is certain that responses will fall in only one of two possible categories. This leads to a criticism of dichotomous questions as argued by Malhotra (1999:304-305) where respondents are forced to choose between only two options, when they may feel indifferent

towards either choice. For this reason, researchers may opt to include a neutral response between the two options, although including this neutral response could in itself bias the results as respondents can avoid making a decision regarding the alternative to choose (the rule of central tendency).

- **Multiple-choice questions**

Tustin *et al.* (2005:397-401) describe how multiple-choice questions are similar to dichotomous questions except that with multiple-choice questions more than two fixed-alternative choices are provided. Respondents are asked to indicate which alternative – or in some cases alternatives – best express their opinion. To overcome the probability that the alternatives do not best express the respondents' opinions, Malhotra (1999:304) suggests adding another option where respondents can specify another opinion. Multiple-choice questions are best suited for questions where possible responses can be classified into fixed alternatives. This type of response format is easily coded and facilitates data entry.

- **Scaled responses**

Tustin *et al.* (2005:397-401) explain that scaled responses are formulated in a scale from, for example, 1 to 5. This type of response format enables researchers to measure the intensity of responses which cannot be measured in multiple-choice questions. Researchers can therefore make use of more and different types of statistical analysis techniques. Since a scale is used in responses, the numbered scale can serve as the codes for data capture and this saves times.

According to Kent (1999:30), a properly developed scale response must meet three criteria, namely, that the values or answers on the scale:

- must include all possible answers that can be given by respondents;
- may not overlap, which implies that the answers must be "mutually exclusive"; and
- do not include two elements (single dimension).

Table 6.3 provides details of each scale in terms of the scale's characteristics, examples of each scale and the types of statistics that can be used with each scale.

TABLE 6.3 PRIMARY SCALES OF MEASUREMENT

Scale	Basic characteristics	Marketing examples	Permissible statistics	
			Descriptive	Inferential
Nominal	Numbers identify and classify objects.	Brand numbers, store types, gender classification	Percentage, mode	Chi-square, binomial test
Ordinal	Numbers indicate the relative positions of the objects but not the magnitude of differences between them.	Preference rankings, market position, social class	Percentile, median	Rank-order correlation, Friedman ANOVA
Interval	Differences between objects can be compared: zero point is arbitrary.	Attitudes, opinions, index numbers	Range, mean, standard deviation	Product-moment correlations, t-tests, ANOVA, regression, factor analysis
Ratio	Zero point is fixed; ratios of scale values can be computed.	Age, income, costs, sales, market shares	Geometric mean, harmonic mean	Co-efficient of variation

Source: Malhotra (1999:249).

Trochim and Donnelly (2006:101), Churchill and Iacobucci (2005:457-458) and Malhotra (1999:248-252) describe the primary measurement scales that were mentioned in table 6.3:

- **Nominal scales**

  A nominal scale is where each alternative has a number assigned to that alternative. The number has no meaning other than for coding purposes. Nominal scales are therefore only used for categorising alternatives. An example of a nominal scale is where the numbers 1

and 2 are assigned to the alternative male and female respectively. Welman *et al.* (2005:229) add that the type of statistics conducive to nominal scales include: mode, frequency analysis, correlation coefficients, Chi-square analysis, Chaid-analysis and correspondence analysis

- **Ordinal scales**

  Ordinal scales assign numbers to each alternative, but in contrast to nominal scales, the numbers assigned reflect an order or respondents' preference for an alternative. It is therefore a ranking scale, but does not indicate the degree of difference between the alternatives. An example of an ordinal scale is where 1=good, 2=average and 3=poor. With ordinal scales the following statistics can be used: Median; frequencies; Correlation coefficient; Chi-square; tests of difference between distributions; Discriminant analysis; Chaid-analysis and correspondence analysis (Welman *et al.*, 2005:229-230).

- **Interval scale**

  Where an ordinal scale reflects a ranking order, interval scales allow researchers to determine the degree of difference between alternatives as the difference between each numeral is exactly the same (for example, 1 is as close to 2 as 3 is to 4). According to Welman *et al.* (2005:230-231), the following statistics can be used in interval scales: Mean; frequencies; standard deviations; *z*-scores; Pearson's product moment correlation; Chi-squares; tests of difference between distributions including *t*-test and analysis of variance (or *F*-test); and discriminant analysis.

- **Ratio scale**

  A ratio scale is an interval scale (which therefore includes all the characteristics of nominal and ordinal scales) that has an absolute zero point. Ratio scales are therefore used to identify, rank and compare differences between alternatives. Welman *et al.* (2005:231) indicates that the same statistics can be used for ratio scales as with interval scales.

In this study, the final questionnaire (see Appendix B) consisted of open-ended and closed-ended questions which included dichotomous, multiple choice and scaled type questions. Table 6.4 illustrates the answer format and scales used in each question.

TABLE 6.4 FINAL QUESTIONNAIRE ANSWER FORMAT AND SCALES

Section	Question	Closed / Open ended	Response format	Primary scale
Section A	1	Closed-ended	Scaled	Nominal scale
	2	Closed-ended	Scaled	Interval scale
	3	Closed-ended	Multiple-choice	-
	4	Closed-ended	Multiple-choice	-
	5	Closed-ended	Scaled	Ordinal scale
Section B	6.1	Closed-ended	Dichotomous	-
	6.2	Open-ended	-	-
	6.3	Closed-ended	Scaled	Ordinal scale
	6.4	Open-ended	-	-
	6.5	Closed-ended	Scaled	Ordinal scale
	6.6	Open-ended	-	-
	6.7	Open-ended	-	-
	6.8	Closed-ended	Scaled	Ordinal scale
	6.9	Closed-ended	Scaled	Ordinal scale
	6.10	Closed-ended	Scaled	Ordinal scale
Section C	7	Closed-ended	Scaled	Ordinal scale
Section D	8	Closed-ended	Scaled	Ordinal scale
Section E	9.1	Closed-ended	Scaled	Ordinal scale
	9.2	Open-ended	-	-
	9.3	Open-ended	-	-
	9.4	Closed-ended	Scaled	Ordinal scale
	9.5	Open-ended	-	-
	9.6	Open-ended	-	-
Section F	10.1	Closed-ended	Scaled	Nominal scale
	10.2	Closed-ended	Multiple-choice	-
	10.3	Closed-ended	Scaled	Ratio scale
	10.4	Closed-ended	Multiple-choice	-
	10.5	Closed-ended	Multiple-choice	-
	10.6	Closed-ended	Multiple-choice	-
	10.7	Closed-ended	Multiple-choice	-
	10.8	Closed-ended	Multiple-choice	-

E) Step 5: Question sequence

In order to get respondents to cooperate in completing the questionnaire, the sequence of questions needs to be considered. Proctor (2005:201-203) and Tustin *et al.* (2005:391-392) suggest the following guidelines for question sequence to enhance respondent interest:

- The questions' sequence should follow a logical flow. By grouping questions with a common idea or topic together, the respondent is assisted to follow the line of thought of the questionnaire. The general rule is to ask the more general questions first and then subsequently move into the more specific topics. A well-designed questionnaire has questions that follow on each other and that create an easy and logical flow between questions and topics;
- The first question should be simple to answer and should generate an interest in the questionnaire. Respondents will probably be more willing to complete the rest of the questionnaire if the first question stimulates their interest and is easy to answer;
- It must be indicated clearly which questions need to be answered. The respondent does not want to waste time answering questions that are not relevant to be answered. By clearly indicating the sequence of questions that must be answered, the researcher enables the respondent easily to answer only those questions, thereby improving the cooperation of the respondent; and
- Sensitive questions or questions requiring classified information must be included toward the end of the questionnaire. These questions include questions about demographics (age, education, ethnic group, and salary and income).

F) Step 6: Questionnaire layout

Once the question sequence has been determined, the layout of the questionnaire has to be considered. A well laid-out questionnaire encourages respondent participation. Proctor (2005:204) states that a poor questionnaire layout could lead to either non-response or measurement error. Furthermore, Proctor (2005:204) suggests that keeping the questionnaire as short as possible, using routing and / or branching instructions to guide the respondent,

using an easily readable font and the use of appropriate spacing to improve presentation, will all aid in enhancing respondent participation and motivation.

The *questionnaire used in the study* was developed by considering the concepts identified in the literature review and the questionnaires used in similar studies such as that of Gilbert and Wong (2003) whose study concentrated on passenger expectations of airline services in Hong Kong.

The questionnaire was divided into six sections:

- Section A intended to determine how often the passengers flies (this was needed since the customer needed to fly more than twice a year for retention relevancy) and which options the passenger considers when determining airline choice;
- Section B aimed to determine the elements regarding service failures;
- Section C identified how important service elements were to customers as well as how satisfied they were with the services provided by the airline;
- Section D aimed to obtain data about the customers' relationship with the airline;
- Section E identified areas of importance for customer retention and loyalty; and
- The final section, section F, gathered passengers' demographic information.

Table 6.5 illustrates the links between the research objectives, the research propositions and the questionnaire sections.

TABLE 6.5 LINKS BETWEEN RESEARCH OBJECTIVES, RESEARCH PROPOSITIONS AND THE QUESTIONNAIRE SECTIONS

Secondary research objectives	Research propositions	Questionnaire section
Conduct a literature review to identify service elements that are important to domestic airline passengers	-	Section C
Determine if passengers view the importance of service elements differently	P1: Different customer segments view the importance of service elements differently.	Section C
Determine if passengers are satisfied with the service elements offered by the domestic airline	P2: Satisfied customers will form a relationship with the domestic airline.	Section C
Determine whether or not passengers have formed a relationship with the domestic airline.	P2: Satisfied customers will form a relationship with the domestic airline. P3: Customers who have formed a relationship with the domestic airlines will be loyal.	Section E
Determine if passengers are loyal to the domestic airline.	P3: Customers who have formed a relationship with the domestic airlines will be loyal.	Section D and E
Determine how airlines' CRM efforts are viewed by passengers.	P4: The effectiveness of domestic airlines' CRM efforts to create customer loyalty and retention is influenced by customers' satisfaction, relationship with the domestic airline and loyalty towards the domestic airline.	Section D and E

G) Step 7: Pre-test and revision of final questionnaire

Malhotra (1999:315) states that pre-testing occurs when the questionnaire is tested by a small sample of the intended respondents so that problems and misunderstandings in the questionnaire can be eliminated before the questionnaire is distributed to the entire sample group. Pre-testing, therefore, permits problems in question content, wording, sequencing and layout to be

determined and rectified. An important element of pre-testing is that the questionnaire is tested by respondents from a similar group of the population because such respondents are familiar with the problems that need to be studied in the questionnaire. Proctor (2005:205) adds that two types of pre-testing can be used. The *debriefing method* is where respondents are probed regarding any problems with the questionnaire after they have completed the questionnaire, and this method ensures that all respondents have understood the questions correctly. The *protocol method* is where the respondents comment on the questionnaire while they are completing it.

In the study, the questionnaire was pre-tested with 30 respondents from the study population (see Appendix A for the pilot study questionnaire). Certain adjustments were made to the final questionnaire such as replacing the "neutral" option in questions seven and eight with a "not applicable" option, while the "neutral" option was removed from questions 6.3, 6.5, 6.10, 9.1 and 9.4. The reason for removing the "neutral" option was that the majority of respondents in the pilot study selected this option and therefore did not complete the open-ended question correlating to the question. This furthermore helped customers to complete the open-ended questions in the final questionnaire so that they could offer further insights into their thoughts.

6.3.4 STEP 4: SELECTION OF SAMPLING PROCEDURE

Once the research method that will be used in the study has been identified and the questionnaire is developed, the next step in the marketing research process requires that researchers select the sample that will be used for the study.

McDaniel and Gates (2005:64) note that a sample can be seen as "a subset from a larger population". The sample refers therefore to the people who will complete the questionnaires (respondents).

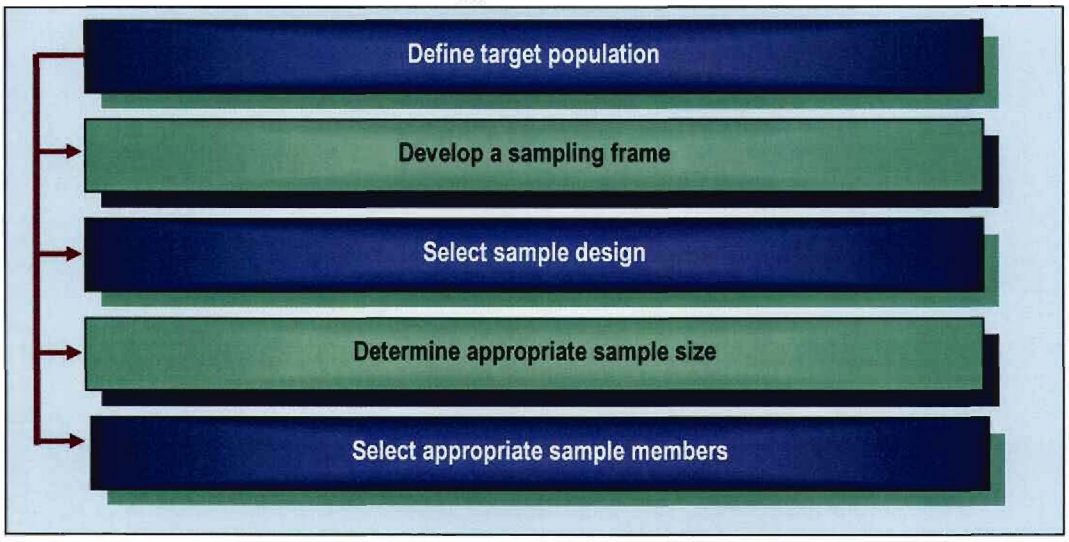
As Zikmund (2003:64-65) mentions, the sample drawn from the population allows the researcher to make conclusions regarding the whole population. Generally, larger samples provide more accurate results than smaller samples but, by using the correct sample procedure, the researcher can determine

which sampling method and how many respondents should be included in the sample for reliable and valid results.

6.3.4.1 Stages in sample selection

Proctor (2005:108) describes the stages that researchers can follow when selecting a sample. These stages are presented in figure 6.5 and will be discussed.

FIGURE 6.5: STAGES IN SAMPLE SELECTION



Source: Proctor (2005:108).

A) Define the target population

As indicated in figure 6.5, the first stage in the selection of a sample is defining the target population. Zikmund (1999:276-277) points out that this is a vital step since having a clearly defined target population will enable the researcher to identify the correct sample for data collection purposes.

According to Proctor (2005:109), the target population refers to the total group that needs to be studied and adds that the population has to be defined in terms of elements, units and time. *In this study* the population for the sample was identified as all the domestic passengers flying from OR Tambo International Airport in Johannesburg on different domestic airlines to any domestic destination within South Africa.

B) Develop a sampling frame

According to Churchill and Iacobucci (2005:679), a sampling frame can be defined as a "list of sampling units from which a sample will be drawn; the list could consist of geographic areas, institutions, individuals or other units". Kent (2007:571) defines a sampling unit as that specific entity that is being sampled.

Zikmund (1999:278-279) explains that although a sampling frame is drawn from the defined population, in research it often happens that the sampling frame does not fully represent the target population. This means that certain population elements can be left out or even over-represented in the sampling frame and that this can create a sampling frame error. Proctor (2005:110-111) adds that researchers should be aware of these errors, and need to adjust their planning and sampling frame to counteract these errors. *In this study*, the sampling frame consists of the passengers flying on domestic flights departing from OR Tambo International Airport during the time period that the research took place.

C) Select sample design

The third stage in selecting a sample requires that researchers select a sample design, or a sample method. Researchers need to select one of two main sampling methods, namely probability and non-probability sampling. Each of these types of sampling methods and their respective sampling techniques is discussed below.

- **Probability sampling**

  Proctor (2005:111-112) explains that probability samples give sampling units an equal and known chance of being selected for the sample. Malhotra and Peterson (2006:328) and Kent (1999:131) expand this by stating that with probability sampling, the probability of each member in the population is predetermined. The researcher, therefore, does not make use of personal judgement to select the sampling units that will participate in the study and sampling error can be predetermined.

Various probability sampling methods can be used, namely simple random, systematic, stratified, cluster, and multistage area sampling. Each of these methods is briefly discussed below together with their accompanying costs, usages, advantages and disadvantages (these are all represented in table 6.6).

TABLE 6.6 PROBABILITY SAMPLING METHODS

Description	Cost and usage	Advantages	Disadvantages
Simple random: Each member of sampling frame is assigned a number, then sample units are selected randomly	• High cost • Moderately used	• Easy to analyse and compute error	• Need sampling frame • High costs since respondents may be widely dispersed
Systematic: A random starting point is selected from the sampling frame and sampling units are selected at pre-selected intervals	• Moderate cost • Moderately used	• Simple to draw sample and easy to check	• Variability could occur if the sampling interval is related to periodic ordering of the population
Stratified: Population is divided into groups. Sub-samples are randomly selected from each group	• Moderate cost • Moderately used	• All groups in sample are represented and comparisons between strata can be made.	• Need accurate information on proportion in each stratum
Cluster: Sampling units are selected randomly. Then a probability sample is drawn within the group	• Low cost • Frequently used	• The characteristics of the cluster and population can be estimated.	• Larger error for comparable size • Population members need to be assigned to unique cluster to prevent duplication or omission
Multistage: Smaller areas are selected in each stage by some combination of the first four techniques	• High cost • Frequently used	• Depends on techniques combined	• Depends on techniques combined

Source: Zikmund (2003:435).

1. Simple random sampling

Roe (2004:19), Aaker *et al.* (2003:380) and Shao (2002:364-366) describe simple random sampling as a sampling method which gives everyone in the sampling frame an equal chance of being selected. In simple random sampling, the researcher needs a complete list of each member of the sampling frame. Each member is then allocated a number. The researcher can then select sample units by choosing randomly selected numbers by, for example, drawing numbers from a hat. Proctor (2005:114) adds that this method is usually used when the researcher has a small population, since it is difficult to obtain a list of each sample member for larger samples. This would make this method prohibitively costly and time consuming for large numbers.

2. Systematic sampling

Zikmund (2003:429) defines systematic sampling as "a sampling procedure in which a starting point selected by a random process and then every n^{th} number on the list is chosen". This means that the researcher will need a complete list of the sampling frame. From this list, a starting point is randomly selected and then every n^{th} number listed to provide the sample. Trochim and Donnelly (2006:45) provide the following five-step process to select a sample systematically:

1. Number the members in the population from 1 to *N*;
2. Determine the number of members (*n* or sample size) for the sample;
3. Calculate the interval size *k* (which is calculated by *N/n*);
4. Randomly select a number between 1 and *k*; and
5. Select every k^{th} unit for inclusion in the sample.

As Malhotra (1999:339-340) notes, one advantage of systematic sampling is that a lower sampling error is obtained and the sample is more representative of the population.

3. Stratified sampling

According to Trochim and Donnelly (2006:44), stratified random sampling refers to a sampling method in which the researcher divides the population into homogeneous subgroups (strata) after which a simple random sample is selected in each stratum. Shao (2002:366-367) adds that this method is used when the researcher has some knowledge about the strata. Since each member in the stratum has an equal chance of being selected, the sampling error is minimised. Two main types of stratified sampling can be identified, namely, proportional and disproportional sampling.

Aaker *et al.* (2003:383) and Zikmund (2003:430-431) explain that a proportional stratified sample is obtained when the number of sampling units obtained from each stratum is proportional to the population size. If proportional stratified sampling does not provide a sufficiently large sample size, disproportional stratified sampling can be used in cases where enough sampling units are selected from each stratum.

4. Cluster sampling

In cluster sampling, as demonstrated by Proctor (2005:115) and Malhotra (1999:342-343), the population is classified into homogeneous segments or clusters. The researcher can then randomly select all units with certain clusters (one-stage cluster sampling) to include in the sample, or randomly select sampling units within each cluster (multistage cluster sampling). Cluster sampling is useful when the population consists of geographic areas.

5. Multistage area sampling

Trochim and Donnelly (2006:47) explain that multistage area sampling requires that all of the other probability sampling methods are combined to create a more effective sample.

Aaker *et al.* (2003:385-386) argue that area sampling is the best known method of multistage area sampling. For example: area sampling

firstly requires that cluster sampling be used to segment the areas in the province into relevant clusters. Within these clusters, a sample of cities from each area is then selected. Within the cluster of cities, a cluster sample of blocks is taken. Systematic sampling is then used to select a sample of houses within the block and simple random sampling can be used to select respondents within each house. For this method to be representative, the cluster chosen must be proportionate to the size of the area.

- **Non-probability sampling**

Shao (2002:369) points out that non-probability sampling refers to the sampling technique where researchers mainly rely on their judgement when selecting sampling units. Through this method, all sample units do not have an equal chance of being included in the sample which means that the findings of non-probability sampling techniques cannot be predicted to the entire population. Non-probability samples provide researchers with an easy and inexpensive way to gather data, even though the extent of sampling error cannot be determined.

Aaker *et al.* (2003:387) express the opinion that non-probability sampling methods enables research to be conducted when the researcher has limited time and financial resources available and is most often used when:

- the research is still in the beginning phase;
- the questionnaires need to be pre-tested;
- the population can be seen as homogenous;
- limited statistical knowledge is available; and
- the researcher has limited time and financial resources available.

As Malhotra (1999:334) states, non-probability sampling techniques that can be used by researchers include convenience, judgemental, quota and snowball sampling. Table 6.7 provides an overview of these techniques and describes the advantages and disadvantages of each.

TABLE 6.7 NON-PROBABILITY SAMPLING TECHNIQUES

Description	Cost and usage	Advantages	Disadvantages
Convenience: Use the most convenient sampling units available	• Low cost • Widely used	• No population list is needed.	• Sampling error can occur. • Data cannot be projected to the population.
Judgement: Research units are selected to fulfil a specific purpose.	• Average cost • Average use	• Can be used for forecasting or to meet a specific objective.	• Sampling bias can occur which could make the sample unrepresentative. • Data cannot be projected to the population.
Quota: The desired proportion of a classified sample is chosen and fixed quotas are allocated to each interviewer.	• Average cost • Widely used	• No population list is required and some stratification of population is introduced.	• Sampling biases can occur. • Sample error cannot be determined. • Data cannot be projected to the population.
Snowball: Probability sampling is used to select initial respondents, with the other respondents being obtained from referrals.	• Low cost, • Used in special situations	• Useful in locating members of rare populations	• High bias because sample units are not independent. • Data cannot be projected to the population.

Source: Zikmund (2003:434).

1. Convenience sampling

Zikmund (2003:426) explains how this type of sampling refers to obtaining sampling units that are available and convenient to the researcher and how it is used when researchers need to obtain data

quickly and inexpensively. Aaker *et al.* (2003:388) cautions that a convenience sample is probably best suited for pre-testing questionnaires to identify weaknesses.

Malhotra and Peterson (2006:330) clarify that convenience sampling is useful as the sampling units are both available and are easy to measure. Nevertheless, Steyn *et al.* (1999:39) warns that the results obtained from a convenience sample cannot be projected to the entire population.

In this study a convenience sampling method was used. It was originally planned to use a stratified random sampling method but difficulties experienced in the data collection process required the shift to a convenience sampling method. When attempting to obtain permission to distribute questionnaires at the departure terminal of OR Tambo International Airport just before the passengers boarded their flight, the fieldworkers could only be accommodated at the airline counter where passengers booked in for their flights. Each domestic airline was contacted to determine the number of passengers that fly with the airline. This information was needed to calculate the sample size for each stratum. The airlines declined to share this information and this meant that the size of each stratum could not be calculated.

Because of these problems, a convenience sampling method was used to obtain a variety of respondents from each domestic. As Aaker *et al.* (2003:387) note, although it is more beneficial to use a probability sampling method, non-probability sampling designs are often used justifiably and are still effective.

2. Judgement sampling

As Shao (2002:369) and Steyn *et al.* (1999:39) describe, judgement sampling occurs when researchers select sample units based on their own judgement and knowledge of sample units. This implies that researchers have enough experience in the research field in order to know who should be included in the sample. As with any non-probability sample, the data obtained from the sample cannot be

projected to the entire population as it is not known whether the sample units included in the study represent the population. This method of non-probability sampling is inexpensive and easy to administer since the sampling units are known to the researcher. Proctor (2005:120) adds that judgement sampling usually takes place in business market research.

3. Quota sampling

Trochim and Donnelly (2006:50) and Tustin *et al.* (2005:347) explain that quota sampling is a non-probability sampling method which requires that researchers continue to choose sampling units to be included in the sample until a pre-determined number of sample units are obtained. Malhotra (1999:336-337) adds that quota sampling is a two-step process. The first step requires that researchers determine the characteristics (for example, gender or age) based on the sampling unit which will be selected. Once these characteristics have been determined, the second stage is to select sampling units that comply with these characteristics. These sampling units are selected on the basis of researcher judgement or convenience.

4. Snowball sampling

Zikmund (2003:428) describes snowball sampling as a process where certain sampling units are selected using probability sampling methods, and where the rest of the respondents are contacted through referrals from the initial sampling units. This method is often used when only a small population exists. Since the respondents are referred to the researcher by other respondents, it is easy for the researcher to contact respondents, and this makes this sampling method easy and cost effective. The main disadvantage associated with snowball sampling is that sampling biases occur as respondents tend to refer the researcher to others who are similar to themselves in terms of their demographics, attitudes, opinions or behaviours.

D) Determine appropriate sample size

As Steyn *et al.* (1999:393) argue, researchers need to determine the appropriate sample size for their particular study to ensure that accurate and meaningful results can be obtained. It is understandable that it is not always possible to interview all population members.

A researcher can make use of four main methods when determining the sample size. Proctor (2005:127-128) describes these four methods:

- **Intuition**

  This method is completely subjective as the researcher makes use of personal intuition as to how many sampling units should be selected. This method should only be used on rare occasions since it does not consider the precision of the survey or the cost of obtaining the sampling units.

- **Statistical precision**

  Statistical methods can be used to determine the sample size. When selecting the sampling units they must reflect the populations' characteristics and allow for the required data to be collected. Using the statistical precision method requires that the researcher takes note of the following two elements:

  - Sampling error: The larger the sample size, the smaller the sampling error will be as the sample will more closely reflect the population.
  - Confidence interval: Proctor (2005:128) explains that researchers usually seek a 95% probability which means that there is only a 5% chance that the results obtained lie outside the range of the stated value from the parameter.

- **Cost limitations**

  Researchers are always faced with the cost implications when they select a large sample. For this reason, researchers are often obliged to

determine the sample size on the basis of their budget for the study. This method requires the researcher to subtract the cost of items such as questionnaire design, data analysis and report generation from the available budget. The remaining money could then be divided by the estimated cost per sampling unit. This then allows the researcher to determine how many sampling units can be included in the sample. This method can, however, be problematic as it may lead to a small sample size that reduces the accuracy and reliability of the study (Proctor, 2005:128).

- **Industry standards**

When using industry standards in the determination of sample size, the researcher would first determine what the industry standard is for sample size. The sample size chosen often depends on the type of study and in which industry it takes place. This method is usually used in non-probability samples.

When determining the number of sample units to be included *in the study* the statistical precision method was used. The statistical formula is used in this study since the size of the target population is known. The following formula for determining sample size was used (Statistiese Konsultasie Diens, 1990:13-17):

$$n = \frac{N}{1 + \left(N \times \frac{d^2}{10000} \right)}$$, where

n = size of the sample,
N = size of the population, and
d = 100% - 95% confidence interval (5% level of significance)

The population size (that is, the number of passengers flying on domestic flights during the month of March 2006) used for the study was taken from the number of passengers who departed from the OR Tambo International Airport on domestic flights and was obtained from statistics available from the Airports Company of South Africa website (ACSA, 2007). The sample size can therefore be calculated as:

$$n=\frac{N}{1+\left(N\times\frac{d^2}{10000}\right)}$$

$$n=\frac{408275}{1+\left(408275\times\frac{5^2}{10000}\right)}$$

$$n=399{,}61$$

E) Select appropriate sample members

After the researcher has determined the sample design and sample size, the sample members need to be selected. These are the respondents or the people who will take part in the study.

6.3.5 STEP 5: DATA COLLECTION

Once the researcher has determined which type of sample method (for example, personal interviews, surveys, etc.) will be used, and which respondents will be included in the sample, the data can be collected. This step, as described by Malhotra (1999:405), includes selecting, training and supervising the fieldworkers who collect the data. These fieldworkers are the people involved in the study and they contact the chosen respondents and convince them to complete the questionnaires or to take part in the study. Lehmann *et al.* (1998:69) adds that this step allows researchers the opportunity to ensure the analytical procedures that will be used are in place, and suggests that the process should be pre-tested to rectify any possible problems before the collection of data from the main study is obtained.

In this study, five fieldworkers were selected to distribute the questionnaires to passengers of the different domestic airlines at OR Tambo International Airport in Johannesburg. Before the fieldworkers were sent to the airport, they underwent training to enable them to identify prospective respondents, and also taken through the questionnaire to enable them to clarify possible questions from respondents.

The fieldworkers then approached passengers at random who were flying with each domestic airline. Only passengers who met the criterion of the screening

question were asked to complete the questionnaire. The questionnaires were handed out between Monday the 5th of March and Saturday the 17th of March 2007. This period was chosen as it was not during a holiday period and passengers would include those people who usually flew on airlines. Over the two week period, the questionnaires had been distributed over various time periods including early morning, late morning, afternoon and early evening.

6.3.6 STEP 6: DATA ANALYSIS

The next step in the marketing research process refers to analysing the data obtained in the previous step. McDaniel and Gates (2005:65) explain that this is necessary to allow the researcher to interpret and draw conclusions from the data. Shao (2002:53) adds that before the data can be analysed, it needs to be edited and coded. Editing of data means that the responses obtained are checked for completeness, consistency, and accuracy. Once the data is edited, the responses need to be coded (each response is assigned a number or score). Data that has been correctly edited and coded grants the researcher more accuracy for data analysis. *In this study* the data was analysed using the SAS, SPSS, and STATISTICA statistical programmes (SAS Institute Inc, 2007; SPSS Inc, 2006 and StatSoft, Inc, 2006).

Analysis of data requires that the researcher to determine the reliability and validity of the study as well as the types of statistics that will be used for analysis purposes.

6.3.6.1 Reliability and validity

Bradley (2007:64) suggests that in order to determine the success of a study, the reliability and validity of the study must be determined.

According to Kent (2007:141), *reliability* refers to the extent to which consistent results would be obtained if the study were to be repeated. Different forms of reliability can be identified as determined by Kent (2007:142), Trochim and Donnelly (2006:87), Porkess (2005:211) and Welman *et al.* (2005:146-148):

- **Test – re-test reliability**

  In order to make a measuring instrument (such as a questionnaire) reliable, it is important to test it. Once it has been tested, the required changes need to be made and then the instrument needs to be re-tested. When testing and re-testing the measuring instrument, it is important to test it within the same representative sample. When re-testing the measuring instrument, the time between tests should be relatively short to reduce the chance of major changes occurring in the market. The results of all the tests conducted are then correlated.

- **Internal consistency**

  This form is used to determine the consistency of results obtained across different items within a measuring instrument. The measuring instrument is only administered to the sample units once. Every item is correlated with the other items and then an average inter-item correlation measure is calculated which indicates the reliability of the study. This inter-item correlation measure can be applied by making use of *Cronbach's coefficient alpha* which shows the degree to which all the tested items measure the same construct. Bagozzi (1994:18) explains that a Cronbach Alpha ranges between 0 and 1, where a Cronbach Alpha of 0.6 is acceptable, but a Cronbach Alpha of 0.7 is preferred to indicate a higher level of reliability.

The second element that researchers need to consider is *validity*. Kent (2007:141) defines *internal validity* as the extent to which the measuring instrument actually measures what is intended. Cooper and Schindler (2003:231) explain that while internal validity looks at the measuring instrument, *external validity* refers to whether the data gathered from the measuring instrument can be generalised to other external areas such as people, settings and time.

Kent (2007:144-145), Trochim and Donnelly (2006:20-22 & 34), Welman *et al.* (2005:144-145) and Cooper and Schindler (2003:231-233) explain that three main types of validity, namely construct, criterion-related and content validity, can be identified:

- **Construct validity**

  Construct validity is the degree to which the measuring instrument measures the intended constructs instead of irrelevant constructs. Two types of construct validity can be identified, namely, convergent and discriminant validity. Convergent validity refers to how high the correlation or relationships between measures of the same construct is, while discriminant validity refers to how low the relationship or correlation is between measures of different constructs.

- **Criterion-related validity**

  The measuring instrument predicts the relevant criterion or variable to this degree. *Concurrent validity* is the manner in which the results obtained from a group correlate with scores from individual sampling units in the group. *Predictive validity* shows the extent to which the results in the measuring instrument can be used for predictions, or to estimate the existence of behaviours. For predictive validity, all sampling units from the population need to complete the measuring instrument.

- **Content validity**

  This type of validity measures the extent to which the measuring instrument and measuring scales adequately cover the questions of the study.

The Cronbach alpha was obtained to measure reliability *in this study.* To measure the validity of the study, respondents who had completed the pilot study were asked to comment on the questionnaire with regard to whether the scales used adequately covered the question or not. Hardy and Bryman (2004:26) also explain that factor analysis can be used to measure validity to determine which elements of the questionnaire measure one or more constructs. The Cronbach alpha's obtained in the questionnaire ranged between 0.78 and 0.94 and this indicated that the questionnaire was reliable. The Cronbach alphas were obtained as part of the factor analysis which will be discussed in more detail in Chapter 7 (see Section 7.3.4.2 F).

6.3.6.2 Types of statistics

Two main types of statistics can be identified, namely, descriptive and inferential statistics. As Welman *et al.* (2005:231) and Steyn *et al.* (1999:5) explain, *descriptive statistics* involve describing the data by ordering and summarising the data obtained from the respondents in the sample. Descriptive statistics therefore allow the researcher to determine trends and properties of the data. This type of statistic is also called univariate analysis (if one variable is involved), bivariate analysis (if two variables are involved) or multivariate analysis (if more than two variables are involved). According to Trochim and Donnelly (2006:294) and Porkess (2005:124), *inferential statistics* allow the researcher to build on the descriptive statistics and to make conclusions about a population from the data obtained from respondents.

As described in table 6.3 (primary scales of measurement), various descriptive and inferential statistics can be used when dealing with quantitative data and questionnaires. A brief description of the statistical techniques that are used in this study follows:

- **Mode**

As Kent (2007:311) and Trochim and Donnelly (2006:266) explain, mode is a measure of central tendency that occurs by identifying the value that arises most often in the data. Steyn *et al.* (1999:115) provides the following formula for calculating the mode:

$$Mo = k_l + \frac{(k_u - k_l)(f_m - f_{m-1})}{(2f_m - f_{m-1} - f_{m+1})}$$, where

k_l = lower case boundary of modal interval,
k_u = upper case boundary of modal interval,
f_m = frequency of modal interval,
f_{m-1} = frequency of interval preceding modal interval, and
f_{m+1} = frequency of interval following modal interval.

- **Mean**

Kent (2007:310) defines the mean as a measure of central tendency, and is obtained by adding all the values in a distribution and dividing it by the number of values in the distribution. Argyrous (2002:69) provides the following formula for calculating the mean:

$\bar{X} = \frac{\sum X_i}{n}$, where

n =

X_i = the size of the sample, and each score in a distribution

- **Percentage**

Porkess (2005:184) states that a percentage is a "proportion or rate per hundred parts, expressed as %". According to Cooper and Schindler (2003:506), percentages can serve two purposes in data analysis. Firstly, they enable the researcher to reduce all numbers to a number between zero and 100, which simplifies the data. This additionally allows comparisons between data to be made since all data is converted to a standard form.

- **Range**

Steyn *et al.* (1999:124) explains that range is the simplest measure of spread and is the difference between the largest and smallest value, namely:

$r = x_{max} - x_{min}$, where

x_{max} = the largest number in the distribution, and

x_{min} = the smallest number in the distribution

- **Frequencies**

Frequencies allow the researcher to determine whether the distribution is even, or whether the distribution clusters around certain intervals. This interval measurement enables researchers to determine whether responses are skewed towards a certain side of the scale and is illustrated by the symbol *f* (Welman *et al.*, 2005:230).

- **Standard deviation**

As Cooper and Schindler (2003:475) explain, the standard deviation determines the extent to which the data lies away from the average data value. This allows researchers to determine the amount of variability that exists between respondents in the sample. The standard deviation (denoted by SD or population standard deviation denoted by σ) as shown by Trochim and Donnelly (2006:267), can be calculated by:

$$\sqrt{\frac{\sum\left(x-\bar{x}\right)^2}{(n-1)}}$$, where

x = each score,

$\bar{x}$ = the mean or average,

n = the number of values, and

$\sum$ = means one sums across the values

- **Phi-Coefficient**

The phi-coefficient is another form of a correlation coefficient and is used when both variables for which the researcher wants to determine a correlation or relationship are nominal. Malhotra and Peterson (2006:447) clarify that the phi-coefficient is used when a cross-tabulation takes the form of two rows with two columns. This statistic ranges between 0 (for no association) to 1 (for perfect association). Steyn (1999:8) provides the following guidelines for the phi-coefficient: $w = 0.1$ indicates a small effect, $w = 0.3$ indicates a medium effect and $w = 0.5$ a large effect.

- **Effect size**

Bagozzi (1994:248) states that often researchers want to determine the size of an effect's significance. This implies that an effect may be statistically significant, yet be of little practical importance. Effect sizes aid researchers in determining whether the effect is practically significant (that is, of practical importance).

As Ellis & Steyn (2003:51) explain, various types of effect sizes can be used when interpreting data, although the most common forms are for interpreting the difference in means, two-way frequency tables and for multiple regressions.

In this study the effect sizes in terms of the difference in means and for two-way frequency tables (called contingency tables) will be used. Ellis and Steyn (2003:51) explain that in order to calculate the effect size for the difference in means of two populations, the difference between the means needs to be divided by the estimated standard deviation. Ellis and Steyn (2003:51) provide the formula for calculating the effect size for the relationship in contingency tables as follows:

$w = \sqrt{\frac{x^2}{n}}$, where

x^2 = Chi-square statistic for the contingency table, and

n = sample size.

- **Factor analysis**

Porkess (2005:94) defines factor analysis as "a collection of techniques used in multivariate analysis mainly to reduce the number of variables and to find structure in the relationship between variables".

Kent (2007:420) states that factor analysis starts with the calculation of a correlation matrix that determines the correlation coefficient of each variable with each other variable. This is usually done by means of the *principal components analysis* method. The correlation matrix then

creates factors that correlate closely with each other. The first factor describes the largest amount of overall variance, while the second factor describes the second greatest variance that is not described by the first factor. The number of factors that are obtained depends on the variances not described by the previous factor. Bradley (2007:336) continues by stating that each of the variables in each factor is assigned a "factor loading" and that this indicates how well the variable correlates with the factor. A very high factor loading (which describes the factor very well) is >0.6, a high factor loading is >0.3, while a low factor loading of <0.3 should be omitted. Cooper and Schindler (2003:636) add that *eigen values* (which are the sum of the variances of the factor values) estimate the total variance that can be explained by the factor.

Kent (2007:420) and Cooper and Schindler (2003:636) explain that it often happens that some variables may be heavily loaded on other factors and that this makes it unclear as to which factor the variable is described. To solve this problem, rotation can be used to make the meaning of the variables clearer. The rotation requires that the axes are kept at right angles and the intersection points do not change, but the axes are rotated to find the best fit for the variables. Researchers can make use of the *varimax* for *orthogonal* rotations or *oblimin* for *oblique* rotations.

Hardy and Bryman (2004:32) describe how axes can be rotated so that they stay at right angles to each other (orthogonal), or may be rotated so that they do not remain at right angles (oblique). The varimax rotation is the most common form of an orthogonal rotation and the oblimin and promax rotations are the most common forms of an oblique rotation. Aaker *et al.* (2003:570-571) explain that in a varimax rotation, the factors with high factor loadings, load on a small number of variables. This makes it easier for the researcher to interpret the results. The varimax rotation therefore explains the variance of each unrotated factor by rotating the axes at right angles and recalculating the variance of each factor. Oblique rotations are used by rotating axes in such a manner to try and explain as much of the variance as possible for better interpretations. Hardy and Bryman (2004:32) continue by stating that oblique rotations represent reality more accurately, but that the value of one factor can be predicted by other factors if the factors are related.

6.3.7 STEP 7: REPORTING THE RESULTS

The seventh step in the marketing research process refers to reporting the results obtained in the study. During this step, the researcher reports the conclusions and recommendations for the study (McDaniel & Gates, 2005:635). *In this study*, this step is presented in the next chapter where the obtained results are discussed and interpreted.

6.4 CONCLUSION

This chapter describes the details of the marketing research process. It also discusses what is needed to identify a problem statement, to create a research design, to choose a research method, and the procedure that has to be followed when selecting a sample or collecting data, when performing data analysis, and when reporting the results of the study. During each step, the methods that were used in the study were discussed.

The following chapter discusses the results that were obtained from the study and it also provides an analysis of these results.

Chapter 7

DISCUSSION AND INTERPRETATION OF RESULTS

7.1 INTRODUCTION

This chapter builds on the research methodology described in the previous chapter by presenting, discussing, and interpreting the results obtained from the empirical research. Specifically this chapter aims to:

- Discuss the realisation rate and demographic profile of respondents;
- Present the empirical research results obtained from the research by describing the frequencies and statistical results from each section;
- Describe the main factors which respondents consider as important when flying with a domestic airline;
- Present the main findings from each section in the questionnaire; and
- Present the main findings obtained pertaining to the propositions for the study.

7.2 REALISATION RATE AND DEMOGRAPHIC PROFILE

The following section provides the realisation rate in terms of the number of questionnaires obtained as well as providing a demographic profile of the respondents participating in the study.

7.2.1 REALISATION RATE

As discussed in the previous chapter, the questionnaires were handed out at OR Tambo International Airport by fieldworkers to people flying with the various South African domestic passenger airlines. These questionnaires were distributed between Monday the 5th and Saturday the 17th of March 2007. This period was chosen as it was not during a holiday period and would include people who usually fly. Over the two week period, the questionnaires were distributed over various time periods including early morning, late morning, during the afternoon and early evening, to accommodate the departure times of different airlines.

Table 7.1 provides data of the number of questionnaires handed out as well as the number of usable questionnaires obtained after editing and coding.

TABLE 7.1 REALISATION RATE

Airline	Questionnaires distributed		Usable questionnaires	
	Frequency	% of Distributed	Frequency	%
1-Time	32	7.9	24	7.4
Kulula.com	81	20.0	68	21.0
Mango	56	13.8	48	14.8
Nationwide	61	15.1	46	14.2
South African Airlink	16	4.0	8	2.5
South African Airways	132	32.6	111	34.3
South African Express	27	6.7	19	5.9
Realisation rate	**405**	**100**	**324**	**100**

As table 7.1 indicates, 405 questionnaires were distributed to people flying with a domestic airline during the two weeks of the survey. Time constraints due to respondents having to board the aeroplane led to some questionnaires not being completely filled in. These questionnaires were discarded for the data analysis process. Due to this, only 324 usable questionnaires were obtained which led to a realisation rate of 80%. Since the questionnaire contained open and closed-ended questions, only questionnaires where most of the closed-ended questions were completed were included for statistical analysis. This led to questionnaires that included uncompleted open-ended questions being included during the data analysis process which could lead to missing responses in the open-ended questions. In the case where only a few missing values were observed in the closed-ended questions, the missing values were replaced with the mean for that specific question.

Although it was determined in Chapter 6 (section 6.3.4.1 D) that 399 questionnaires had to be obtained, as indicated in table 7.1 only 324 questionnaires were obtained. After a discussion with a statistical consultant at the North-West University (Potchefstroom Campus), it was determined that 300 complete questionnaires would be sufficient for statistical analysis (Ellis, 2007a). Since a non-probability sampling method was used, the results cannot be generalised to the entire population, but this sampling method still provides

accurate estimates of the population's characteristics (Malhotra & Peterson, 2006:327).

7.2.2 DEMOGRAPHIC PROFILE OF RESPONDENTS

In order to fully comprehend the results obtained from the questionnaire, it is important to profile the type of respondent flying with domestic passenger airlines.

The demographic profile of respondents can aid in providing this insight. The demographic profile of the respondents was determined in terms of gender, population group, age, education level, employment, with whom the respondent usually travels, the reason for travel, as well as who makes the decision as to which domestic airline will be used. The frequencies relating to each of these variables are presented in table 7.2. In this chapter, "frequency" will be denoted by the symbol "F".

TABLE 7.2 FREQUENCY TABLE INDICATING THE DEMOGRAPHIC PROFILE OF RESPONDENTS

Demographic variables		F	%
Gender	Male	181	55.9
	Female	143	44.1
Population group	African	62	19.1
	Asian / Indian	16	4.9
	Coloured	31	9.6
	White	215	66.4
Age	Younger than 20 years old	21	6.5
	20 – 30 years old	107	33.0
	31 – 40 years old	105	32.4
	41 – 50 years old	65	20.1
	51 – 60 years old	20	6.2
	61 years old and older	6	1.9
Highest level of education	Primary school	5	1.5
	High school	61	18.8
	Diploma	103	31.8
	University degree	104	32.1
	Post-graduate degree	51	15.7

TABLE 7.2 continued

Demographic variables		F	%
Level of employment	Full-time employed	205	63.3
	Part-time employed	22	6.8
	Pensioner	5	1.5
	Self-employed	43	13.3
	Student	42	13.0
	Other	7	2.2
Whom respondents usually travel with	Alone	143	44.1
	With family	75	23.1
	With friends	21	6.5
	With colleagues	85	26.2
Reason for travel	Business	170	52.5
	Tourist / holiday	100	30.9
	Visiting friends / relatives	47	14.5
	Other	7	2.2
Decision-maker	Business policy	80	24.7
	Family member	38	11.7
	Travel agent	38	11.7
	Passenger	160	49.4
	Other	8	2.5

From table 7.2, it can be discerned that more male respondents (55.9%) participated in the survey than female respondents (44.1%). Furthermore, the greatest number of respondents (33.0% + 32.4% = 65.4%) were between the ages of twenty and forty with another 20.1% being between the ages of 41 and 50. The table also indicates that 31.8% of respondents had a diploma, with 32.1% having a university degree and 15.7% having a post-graduate degree, indicating that 79.6% (31.8% + 32.1% + 15.7%) of respondents have a post matric qualification. The majority of respondents have some form of employment, and are either full-time, part-time, or self-employed (63.3% + 6.8% + 13.3% = 83.4%). Just over seventy percent (44.1% + 26.2% = 70.3%) of respondents either travel alone or with colleagues. It can furthermore be observed that the majority of respondents (52.5%) travel for business reasons. Just under half (49.4%) of the respondents make their own decision regarding the choice of domestic airline, while 24.7% of respondents indicated that this decision is dependent on business policy.

7.3 EMPIRICAL RESEARCH RESULTS

The following section describes the results obtained from each section in the questionnaire (see Appendix B). The results of the questionnaire were analysed by means of descriptive statistics, cross-tabulations, factor analysis and effect sizes. The data in this study was captured and analysed using the SAS, SPSS, and STATISTICA statistical programmes (SAS Institute Inc, 2007; SPSS Inc, 2006 and StatSoft, Inc, 2006).

The following section describes the guidelines that were used for interpreting the statistics, and is followed by the empirical results obtained from each section of the questionnaire.

7.3.1 GUIDELINES FOR THE INTERPRETATION OF STATISTICS

This section adds on the discussion presented in Chapter 6 by describing the guidelines for interpreting the statistics. This section furthermore explains the statistically related concepts used in this chapter.

7.3.1.1 Statistical significance

According to Hardy and Bryman (2004:180) and Reid (1987:113) statistical significance illustrates whether a result obtained is significant and indicates the likelihood of whether a result occurred by chance. This is usually measured in terms of the p-value. The problem with statistical significance is although it can indicate significance, it cannot determine the strength (importance) of the significance.

- **Pearson's Chi-square statistic**

  As Reid (1987:113) states, the Pearson's Chi-square statistic is mostly used in contingency tables (also known as two-way frequency tables) and measures the difference between the expected and actual frequencies in a table. This statistic indicates whether the value is statistically significant. In this study, a Pearson's Chi-square statistic with an exceedence probability of < **0.05** is determined as being statistically significant. In conjunction with the Chi-

square statistic, the *w*-value (effect size for associations) is used to determine whether associations exist between variables.

7.3.1.2 Practical significance

Steyn (1999:i) and Bagozzi (1994:248) hold that practical significance measures the strength of the significance of values that cannot be measured by statistical significance and provides the researcher with the ability to judge the practical importance of an effect or result and indicates whether the study is valid in terms of external measures. Ellis and Steyn (2003:51) furthermore define practical significance "as a large enough difference to have an effect in practice". Practical significance is measured by means of the effect size.

- **Effect size for associations**

  Since a non-probability sampling method (convenience sampling) was used in the study, p-values would not be the correct measure to use. In this case, effect sizes can be used to determine whether a practical significant effect can be identified between variables rather than just relying on descriptive statistics (Ellis & Steyn, 2003:51). Steyn (1999:8) uses the "*w*" symbol for the effect size for the relationship in a contingency table (two-way frequency table) which is interpreted by using the phi-coefficient "ø" and furthermore provides the following guidelines for interpreting the phi-coefficient:

  - $w = 0.1$: small effect,
  - $w = 0.3$: medium effect, and
  - $w = 0.5$: large effect which is practically significant and indicates that an association between variables can be observed.

- **Effect size for the difference in means**

  Bagozzi (1994:248) explains that although it is important to determine whether a value is statistically significant, the size of the value or effect needs to be determined in order to establish whether the effect is practically significant and of importance. Ellis and Steyn (2003:51) amplify this stating that by using the standardised difference between means for two given populations – the effect size between means – researchers can observe whether the effect is

practically significant. Cohen (as quoted by Steyn, 1999:3) represents the effect size for the difference between means as a d-value with the following guidelines for its interpretation:

- $d = 0.2$: small effect with no significance,
- $d = 0.5$: medium effect, and
- $d = 0.8$: large effect which indicates the association is practically significant.

In this chapter, only results that are statistically and practically significant will be discussed.

7.3.2 RESULTS OBTAINED FROM SECTION A OF THE QUESTIONNAIRE

Section A of the questionnaire gathered information regarding which domestic airline respondents fly with, how often they fly with the airline as well as determining the criteria respondents consider when selecting a domestic airline. Section A of the questionnaire consisted of questions one, two, three, four, and five of the questionnaire (see Appendix B).

7.3.2.1 Results obtained from question 1

The first question in the questionnaire had three main parts. The first part determined with which domestic airline respondents travel the majority of the time. The second part established which domestic airline the respondent was travelling with on the day of the survey and the third element determined with which domestic airline respondents prefer flying. Table 7.3 provides the frequencies regarding the results obtained from question one.

TABLE 7.3 DOMESTIC AIRLINE WITH WHICH RESPONDENTS FLY THE MAJORITY OF THE TIME, ON THE DAY OF THE SURVEY AND PREFERRED AIRLINE

Airline	Majority		Today		Prefer	
	F	%	F	%	F	%
1-Time	14	4.3	24	7.4	8	2.5
Kulula.com	103	31.8	68	21.0	82	28.4
Mango	11	3.4	47	14.5	10	3.1
Nationwide	37	11.4	50	15.4	38	11.7
South African Airlink	4	1.2	8	2.5	6	1.9
South African Airways	140	43.2	108	33.3	140	43.2
South African Express	15	4.6	19	5.9	30	9.3
Total	**324**	**100**	**324**	**100**	**324**	**100**

The results shown in table 7.3 indicate that South African Airways is the domestic airline that most respondents fly with the majority of time (43.2%), were flying on the day of the survey (33.3%) and prefer flying with (43.2%), followed by Kulula.com with 31.8% of respondents that fly with this airline the majority of the time, 21.0% on the day of the survey and 28.4% who prefer flying with this airline. It must to be noted that at the time of the survey, Mango airline had only been in business for a few months, which could indicate why more respondents were flying with this airline on the day of the survey than those who fly with this domestic airline the majority of the time or prefer flying with the airline.

The following main finding can be made from table 7.3:

- **Main Finding A1:** Most respondents fly with South African Airways the majority of the time, on the day of the survey and prefer flying with this domestic airline.

Apart from determining which domestic airline respondents prefer flying with and which airline they fly with most, it needs to be determined whether there is a practically significant association between these variables. From further statistical analysis, it was determined that respondents flying with SA Express (93.3%) represent the largest percentage of respondents that fly with the domestic airline of preference for the majority of the time, followed by SAA respondents (78.6%) and Kulula.com respondents (78.6%). Furthermore, a Chi-square test was conducted to determine whether there is an association between the domestic

airline respondents prefer flying with, and the domestic airline they fly with most often (**see Appendix D** for details regarding these calculations). The test realised an exceedence probability of $p < 0.00001$, indicating a statistically significant association between the variables. Furthermore, it is also important to determine if the association between the variables is practically significant. A *w*-value of 1.56 was realised, indicating that there is a large effect between variables representing a practically significant association between variables.

From the above, the following main finding can be drawn:

- **Main Finding A2:** A statistically and practically significant association can be observed between the domestic airline respondents fly with the majority of the time and prefer flying.

Further analysis was conducted on the data in terms of the domestic airline that respondents fly with the majority of the time and other demographic questions in the questionnaire (see Appendix B question 10). This analysis was conducted by means of cross-tabulations, Chi-square tests (indicating statistical associations) and effect sizes (indicating practical associations). The following noteworthy deductions could be made:

- Population group (question 10.2): The largest percentage of African (36.4%) and White (44.2%) respondents fly with South African Airways, with the largest percentage of Asian / Indian (25.0%) respondents flying with Mango. The largest percentage of Coloured respondents (46.7%) flies with Kulula.com the majority of the time. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.43$) association was observed between the domestic airline the respondents fly with the majority of the time and respondents' population group.
- Age (question 10.3): It was observed that 81.0% of respondents between the ages of 20 and 30 fly with Kulula.com the majority of the time followed by 39.6% of respondents between the ages of 31 and 40. Respondents between the ages of 41 and 50 (46.7%) as well as respondents between the ages of 51 and 60 (63.1%) and respondents older than 61 (34.6%) tend to fly with South African Airways the majority of the time. A statistically significant (exceedence probability of $p < 0.00001$) and a large practical significant ($w = 0.51$)

association between the domestic airline respondents fly with the majority of the time and age was observed.

- Employment (question 10.5): The largest percentage of respondents who are employed full-time (46.3%), and self-employed (66.7%) fly with SAA the majority of the time. The largest percentage of respondents that are employed on a part-time basis (50.0%) and students (64.3%) fly with Kulula.com the majority of the time. A statistically significant (exceedence probability of $p < 0.00001$) and a large practical significant ($w = 0.62$) association exists between the domestic airline that respondents fly with the majority of the time and their employment.
- Reason for travel (question 10.6): The majority of respondents that travel for business (59.2%) fly with South African Airways the majority of the time. The majority of respondents travelling on holiday (57.3%) and for visiting friends and family (51.1%) tend to fly with Kulula.com. A statistically significant (exceedence probability of $p < 0.00001$) and large practically significant ($w = 0.57$) association between the domestic airline that respondents fly with the majority of the time and reason for travel can be observed.
- Decision-maker (question 10.8): South African Airways is flown by the majority of respondents whose business policy dictates the domestic airline (62.5%) to be flown with, as well as the largest percentage of respondents whose decision as to which airline is flown with is made by travel agents (47.2%) and others (such as secretaries) (87.5%). Kulula.com is the domestic airline chosen by the largest percentage of respondents whose family members (47.4%) make the decision as to which domestic airline to fly with as well as the respondent who make the decision themselves (45.9%). A statistically significant (exceedence probability of $p < 0.00001$) and a large practically significant ($w = 0.52$) association exists between the domestic airline that respondents fly with the majority of the time and the decision-maker as to with which domestic airline the respondents travel.

From the above discussion, the following main finding can be reported:

- **Main Finding A3:** There is a statistically and medium to large practically significant associations between the domestic passenger airline that respondents fly with the majority of the time and respondents' population group ($w = 0.43$); age ($w = 0.51$); employment ($w = 0.62$); reason for travel (w

= 0.57) and the decision-maker as to with which domestic airline the respondent will travel with (w = 0.52).

In the rest of the chapter's discussion, reference will be made to the domestic airline that respondent's travel with. This refers to the domestic airline that respondents fly with the majority of the time. Furthermore, reference will be made to the "airline respondent's travel with", which refers to the domestic passenger airline.

7.3.2.2 Results obtained from question 2

Table 7.4 presents the results obtained from question two of the questionnaire that determined the number of other domestic airlines respondents have flown with in the past year apart from the airline they fly with the majority of the time.

TABLE 7.4 NUMBER OF DOMESTIC AIRLINES FLOWN WITH IN THE PAST YEAR APART FROM AIRLINE FLOWN THE MAJORITY OF THE TIME

Times	F	%
None	139	42.9
One	102	31.5
Two	54	16.7
Three	21	6.5
Four	7	2.2
Five	1	0.3
Total	**324**	**100**

The data presented in table 7.4 indicate that the majority of respondents (42.9%) have not flown with another domestic airline in the twelve months prior to the survey. Furthermore, it can be observed that 91.1% (42.9% + 31.5% + 16.7%) of respondents have flown with two or less airlines apart from the airline they fly with the majority of time in the past year. Only one respondent indicated that he/she flew with five different domestic airlines, apart from the airline he/she flew with the majority of time. From this data, the following main finding can be observed:

- **Main Finding A4:** Just over 91% of respondents have flown with two or less domestic airlines in the twelve month period prior to the survey apart from the domestic airline they fly with the majority of the time.

7.3.2.3 Results obtained from question 3

Table 7.5 presents the reasons why respondents are flying with a different domestic airline (question three in the questionnaire). Only respondents who were travelling with a different domestic airline other than the one they usually travel with (185 respondents) completed the question. Respondents could select more than one answer.

TABLE 7.5 REASONS WHY RESPONDENTS ARE FLYING WITH ANOTHER DOMESTIC AIRLINE THAN WHAT THEY FLY WITH THE MAJORITY OF TIME

Reason	F	%
Business policy	55	17.0
No flights were available	60	18.5
No seats were available on the flight	33	10.1
Price	151	46.6
Random decision	16	4.9
Service quality	0	0.0
Other	4	1.2

From table 7.5 it can be determined that 46.6% of all respondents (324) indicated that the main reason why they travelled with another domestic airline on the day they completed the questionnaire was due to price. No respondents indicated that they are travelling with another domestic airline due to service quality. The data obtained from question three in the questionnaire resulted in the following main finding:

- **Main Finding A5:** Price is the main consideration for travelling with another domestic airline than the airline respondents fly with the majority of the time (46.6%).

7.3.2.4 Results obtained from question 4

Question four in the questionnaire determined the reasons why respondents select a specific domestic airline. Table 7.6 provides the frequencies in terms of these reasons. As with the previous question, the respondent could select more than one answer.

TABLE 7.6 REASONS WHY RESPONDENTS SELECT A DOMESTIC AIRLINE

Reason	F	%
Availability of flights	110	34.0
Business policy	75	23.1
Frequent flier miles / points	38	11.7
Price	174	53.7
Random decision	26	8.0
Service quality	75	23.1
Other	3	0.9

From the results presented in table 7.6, the majority of respondents (324) choose a specific domestic airline due to price (53.7%), followed by the availability of flights (34.0%). Business policy and service quality were both of equal importance (23.1%) when respondents were selecting a domestic airline.

When the data was further analysed in terms of the reasons respondents stated for selecting a specific airline and the domestic airline that respondents fly with by means of a Chi-square test, business policy realised a statistically significant (exceedence probability of $p < 0.000001$) and a medium practically significant association ($w = 0.40$). Furthermore, price realised a statistically significant association (exceedence probability of $p < 0.00001$) and a large practically significant association ($w = 0.55$). Service quality also presented a statistically significant association (exceedence probability of $p = 0.00001$) and a medium practically significant association ($w = 0.33$). From table 7.6 and these results, the main findings that can be observed from this data are:

- **Main Finding A6:** The main reason for selecting a specific domestic airline is price (53.7%), followed by the availability of flights (34.0%).
- **Main Finding A7:** Statistically significant and medium to large practically significant associations exist between the domestic airline that respondents selected and business policy ($w = 0.40$), price ($w = 0.55$) and service quality ($w = 0.33$).

7.3.2.5 Results obtained from question 5

Table 7.7 depicts the frequencies pertaining to the results obtained from question five in the questionnaire. This question aimed to identify the number of times respondents have flown with the domestic airline during the past 12 months.

TABLE 7.7 NUMBER OF TIMES RESPONDENT HAS FLOWN WITH THE AIRLINE DURING THE LAST YEAR

Number of times	F	%
1 – 2 times	137	42.3
3 – 6 times	127	39.2
7 – 12 times	47	14.5
13 times and more	13	4.0
Total	**324**	**100**

The results provided in table 7.7 indicate that the majority of respondents (42.3%) have flown with the domestic airline less than three times in the 12 months prior to the survey, with 39.2% flying between three and six times. This indicates that the majority of respondents (42.3% + 39.2% = 81.5%) have flown with the domestic airline six or less times. Only four percent of respondents have flown with the domestic airline 13 times or more in the 12 months leading to the survey. From this data, the following main finding can be made:

- **Main Finding A8:** The majority of respondents (81.5%) have flown with the domestic airline six times or less in the preceding year.

7.3.3 RESULTS OBTAINED FROM SECTION B OF THE QUESTIONNAIRE

Section B (questions 6.1 – 6.10 in the questionnaire in Appendix B) specifically aimed to determine whether respondents had suffered a service failure with the domestic airline and whether respondents are satisfied with the airlines' response to the service failure.

7.3.3.1 Results obtained from question 6.1

Table 7.8 presents the data in terms of whether respondents had suffered a service failure with the domestic airline.

TABLE 7.8 WHETHER SERVICE FAILURES WERE SUFFERED WITH THE DOMESTIC AIRLINE

Suffered a service failure	F	%
Yes	71	21.9
No	253	78.1
Total	**324**	**100**

Seventy-one respondents (21.9%) indicated that they had suffered a service failure across airlines as indicated in table 7.8. Although the majority of respondents had not suffered a service failure (78.1%), it is still important to determine what the effect of the service failure was on the respondents who had suffered a service failure.

- **Main Finding B1:** Almost 22% of respondents have suffered a service failure with the domestic airline.

The rest of section B was only completed by respondents who had suffered a service failure.

7.3.3.2 Results obtained from question 6.2

Question 6.2 in the questionnaire was an open-ended question asking respondents to describe the nature of the service failure. Table 7.9 provides a summary of the service failures experienced by respondents.

TABLE 7.9 NATURE OF THE SERVICE FAILURE

Nature of service failure	F	%
Delayed flight	43	61.4
Poor service	12	17.2
Lost luggage	8	11.4
Technical problems	7	10.0
Total	**70**	**100**

Table 7.9 indicates that the majority of respondents (61.4%) indicated that the service failure occurred due to delayed flights. The second highest percentage of service failures occurred due to poor service (17.2%).

- **Main Finding B2:** The service failures experienced by most of the respondents with the domestic airline were delayed flights (61.4%) followed by poor service (17.2%).

7.3.3.3 Results obtained from question 6.3

Table 7.10 indicates the degree of the service failure.

TABLE 7.10 THE DEGREE OF THE SERVICE FAILURE

Degree of service failure	F	%
Major	20	28.2
Less than major	15	21.1
Average	26	36.6
Less than average	7	9.9
Minor	3	4.2
Total	**71**	**100**

From table 7.10, it can be concluded that 36.6% of respondents indicated that the service failure was "average". Just under half (21.1% + 28.2% = 49.3%) of respondents who had suffered a service failure indicated that the service failure was "less than major" to "major".

- **Main Finding B3:** Just under half (49.3%) of respondents who had suffered a service failure indicated that the service failure was "less than major" to "major" to them.

7.3.3.4 Results obtained from question 6.4

Question 6.4 was an open-ended question asking respondents to describe what the domestic airline did to solve their problem or to rectify the mistake of the service failure. The responses are presented in table 7.11.

TABLE 7.11 AIRLINES' RESPONSE TO SERVICE FAILURE

Airlines' response	F	%
Nothing	38	56.7
Discounts / vouchers for next flight	14	20.9
Booked respondent on next flight	7	10.4
Apologise	6	9.0
Delivered luggage to house	2	3.0
Total	**67**	**100**

Table 7.11 indicates that in the majority of cases (56.7%) the domestic airline did nothing to solve the problem or rectify the service failure. Almost 21% (20.9%) of respondents, however, indicated that the airline provided discounts or vouchers for the next flight.

- **Main Finding B4:** The majority of respondents (56.7%) indicated that the domestic airline did nothing to solve the problem or to rectify the service failure experienced.

7.3.3.5 Results obtained from question 6.5

Table 7.12 presents the data in terms of how satisfied respondents were with the domestic airlines' response to the service failure.

TABLE 7.12 RESPONDENTS' SATISFACTION WITH AIRLINES' RESPONSE TO SERVICE FAILURE

Satisfaction level	F	%
Very satisfied	3	4.2
Satisfied	20	28.2
Dissatisfied	37	52.1
Totally dissatisfied	11	15.5
Total	**71**	**100**

The results shown in table 7.12 indicate that 52.1% of respondents were dissatisfied and 15.5% were totally dissatisfied with the airlines' response to the service failure.

- **Main Finding B5:** Following the airlines' response to respondents' service failure, 52.1% of the respondents were dissatisfied and 15.5% totally dissatisfied with the airlines' response to their service failure.

For the purpose of this study, it is important to determine if there are significant associations between whether or not respondents are satisfied with the domestic airline's response to the service failure and other variables measured in the questionnaire. The only variable that presented a statistical and practical association was in terms of the decision-maker determining with which domestic airline the respondent will fly.

From further analysis of the research data of respondents that suffered a service failure, it was determined that 56.3% of respondents whose business policy dictates which domestic airline they travel with are totally dissatisfied with the airline's response to the service failure. The largest percentage of respondents whose family member selected the airline (42.7%), as well as those respondents who selected the airline themselves (56.1%) were dissatisfied with the airline's response to the service failure. All respondents whose decision as to which airline to fly with was made by a travel agent or by others (such as a secretary) were dissatisfied with the airline's response to the service failure. A Chi-square test realised an exceedence probability of $p < 0.00001$, indicating a statistical association between these variables. Furthermore, a large effect size of $w = 0.94$, indicating a large practically significant association, was observed.

- **Main Finding B6:** A statistically and large practically significant association exists between whether or not respondents were satisfied with the domestic airline's response to the service failure and the decision-maker regarding with as to with which domestic airline the respondent will fly.

7.3.3.6 Results obtained from question 6.6

Question 6.6 in the questionnaire was an open-ended question which allowed respondents who indicated they were very satisfied or satisfied in question 6.4 (airlines' response to the service failure) to provide reasons as to their satisfaction. Table 7.13 presents these results.

TABLE 7.13 REASON FOR SATISFACTION WITH RESPONSE TO SERVICE FAILURE

Reason for satisfaction	F	%
Kept respondents informed by giving explanations to service failure	10	47.7
Professional and friendly staff	7	33.3
Put respondents on next flight	2	9.5
Provided respondents with vouchers	2	9.5
Total	**21**	**100**

From the above table, 47.7% of the respondents who had suffered a service failure indicated that they were satisfied with the domestic airlines' response to the service failure since the airline kept them informed and gave explanations as to the service failure. Respondents were also satisfied with the domestic airline had professional and friendly staff (33.3%) who were to assist in the solving of the service failure.

- **Main Finding B7:** Most of the respondents who indicated they were satisfied with the domestic airlines' response to the service failure were satisfied because the domestic airline kept them informed and gave explanations for the service failure (47.7%).

7.3.3.7 Results obtained from question 6.7

Table 7.14 presents the results of the open-ended question in terms of what the domestic airline should have done in response to the service failure. This question was answered by respondents who indicated they were dissatisfied or totally dissatisfied with the domestic airlines' response.

TABLE 7.14 HOW THE DOMESTIC AIRLINE SHOULD HAVE HANDLED THE SERVICE FAILURE

What airline should have done	F	%
Keep respondents informed and apologise	24	51.1
Offer better service	15	31.9
Offer discounts	6	12.8
Put respondents on other flights	2	4.2
Total	**47**	**100**

Most respondents who were dissatisfied with the airlines' response to the service failure indicated that the domestic airline should have informed them about the

nature of the service failure and apologised (51.1%) as indicted in table 7.14. Furthermore, the domestic airline should have offered better service (31.9%) which could have led to respondents being more acceptable of the service failure.

- **Main Finding B8:** More than half of the respondents (51.1%) who were dissatisfied with the airline's response to the service failure stated the domestic airline should have kept them informed and apologised.

7.3.3.8 Results obtained from question 6.8

Table 7.15 indicates what the effect of the service failure and the domestic airlines' response to the service failure was on the respondents' relationship with the domestic airline.

TABLE 7.15 THE SERVICE FAILURES' EFFECT AND RESPONSE TO SERVICE FAILURE ON THE RESPONDENTS' RELATIONSHIP WITH THE DOMESTIC AIRLINE

Effect on relationship	F	%
Broken	10	14.1
Weakened	37	52.1
Unchanged	21	29.6
Strengthened	3	4.2
Total	**71**	**100**

The results presented in table 7.15 indicate that 52.1% of respondents' relationship with the domestic airline was weakened following the airlines' response to the service failure, while 14.1% of respondents indicated their relationship with the domestic airline was broken. Only 4.2% of respondents indicated that the airlines' response to the service failure strengthened their relationship with the domestic airline.

- **Main Finding B9:** Just over 52% (52.1%) of respondents indicated their relationship with the domestic airline was weakened, while 14.1% of respondents indicated their relationship was broken following the airlines' response to the service failure.

7.3.3.9 Results obtained from question 6.9

In order to elaborate on question 6.8, question 6.9 aimed to determine how often respondents have flown with the domestic airline after experiencing the service failure. This data is presented in table 7.16.

TABLE 7.16 HOW OFTEN RESPONDENTS HAVE FLOWN WITH THE DOMESTIC AIRLINE AFTER SUFFERING A SERVICE FAILURE

How often respondents fly with airline	F	%
Never again	10	14.1
Less than before – I try to avoid the domestic airline if I can	30	42.3
The same as before	28	39.4
More than before – I try to fly with the domestic airline whenever I can	0	0.0
All the time	3	4.2
Total	**71**	**100**

Table 7.16 indicates that 56.4% (14.1% + 42.3%) of respondents have flown with the domestic airline less than before or have never flown with the domestic airline again following the airlines' response to the service failure, while 39.4% indicated they have flown the same number of times as before. No respondents indicated that they have flown more than before following the airlines' response to the service failure.

- **Main Finding B10:** More than 56% (56.4%) of respondents indicated they have flown less often or have never flown with the domestic airline again following the domestic airlines' response to the service failure.

7.3.3.10 Results obtained from question 6.10

Question 6.10 of the questionnaire established whether the respondent would recommend the domestic airline to others after experiencing the airlines' response to the service failure. The results are presented in table 7.17.

TABLE 7.17 WHETHER RESPONDENTS WOULD RECOMMEND THE AIRLINE AFTER SUFFERING A SERVICE FAILURE

Recommend airline	F	%
Yes, definitely	18	25.4
Yes, maybe	26	36.6
Probably not	19	26.8
No, never	8	11.3
Total	**71**	**100**

The results presented in table 7.17 indicates that 62.0% (25.4% + 36.6%) of respondents would recommend the domestic airline after suffering a service failure with the domestic airline and experiencing the airlines' response to the service failure.

- **Main Finding B11:** Sixty-two percent of respondents would recommend the domestic airline they fly with the majority of time to others following the domestic airlines' response to the service failure.

7.3.4 RESULTS OBTAINED FROM SECTION C OF THE QUESTIONNAIRE

Section C of the questionnaire (questions 7.1 – 7.26 in Appendix B) aimed to determine which service elements were important to respondents and whether respondents are satisfied with the services provided by the domestic airline they fly with the majority of the time. This section describes the service elements that are important to respondents by means of a frequency table and factor analysis; the service elements that respondents are satisfied with; as well as a comparison of means between the importance and satisfaction levels of respondents regarding the service elements.

7.3.4.1 Importance of service elements to respondents

Respondents were asked to rate the importance of 26 service elements on a labelled five point Likert scale. After conducting the pilot study, it was decided to change the scale to a labelled four point Likert scale (where one is not important at all; two is not important; three is important and four being very important), with the fifth option being "not applicable". The "not applicable" option was included since many respondents had not made use of, or experienced, all the service

elements eliminating the "neutral" option in the pilot study questionnaire (Appendix A).

Table 7.18 presents the results pertaining to the importance of the service elements to the respondents. The results are presented in terms of the frequency and percentage of the service elements using the frequencies obtained from the four point scale. The frequencies presented in table 7.18 present the findings according to the four point Likert scale in terms of "not important at all", "not important", "important" and "very important". Furthermore, table 7.18 indicates the frequencies observed for respondents who indicated "not applicable".

The table also includes the mean and standard deviation. For the purpose of this study, the scales were treated as an interval scale since, as Romano, Kromrey, Coraggio, and Skowronek (2006:6) state, ordinal scales can be treated similar to interval scales for which a mean and standard deviation can be calculated. **All "not applicable" scores were omitted in the calculation of the mean and standard deviation.**

TABLE 7.18 THE IMPORTANCE OF SERVICE ELEMENTS

Q	Service element	Not important at all		Not important		Important		Very important		Not applicable		Mean	Std dev.
		F	%	F	%	F	%	F	%	F	%		
7.1	Quality food and beverages are provided during the flight	43	13.3	56	17.3	116	35.8	104	32.1	5	1.5	2.88	1.016
7.2	The domestic airline has convenient flight schedules	1	0.3	2	0.6	119	36.7	182	56.2	20	6.2	3.58	0.526
7.3	The aircraft has comfortable interiors (e.g. seats)	4	1.2	6	1.9	152	46.9	149	46.0	13	4.0	3.44	0.603
7.4	The airline has comfortable waiting lounges	17	5.2	66	20.4	122	37.7	100	30.9	19	5.9	3.00	0.879
7.5	Employees of the airline appear neat and tidy	3	0.9	8	2.5	150	46.3	155	47.8	8	2.5	3.45	0.597
7.6	The service is performed right the first time	1	0.3	2	0.6	134	41.4	173	53.4	14	4.3	3.54	0.531
7.7	The promises made in advertising campaigns are kept	1	0.3	15	4.6	131	40.4	163	50.3	14	4.3	3.47	0.606
7.8	Employees of the airline have knowledge to answer your questions	2	0.6	13	4.0	127	39.2	166	51.2	16	4.9	3.48	0.612
7.9	Employees of the airline offer you prompt service	1	0.3	1	0.3	145	44.8	168	51.9	9	2.8	3.52	0.525
7.10	Employees of the airline understand your needs	2	0.6	5	1.5	148	45.7	160	49.4	9	2.8	3.48	0.566
7.11	Employees of the airline are never too busy to respond to your request or complaint	2	0.6	0	0.0	149	46.0	160	49.4	13	4.0	3.50	0.538
7.12	Employees of the airline are consistently courteous	2	0.6	2	0.6	141	43.5	170	52.5	9	2.8	3.52	0.549
7.13	Employees of the airline are always willing to help	2	0.6	4	1.2	131	40.4	176	54.3	11	3.4	3.54	0.560
7.14	The flight departs and arrives on time	1	0.3	1	0.3	72	22.2	235	72.5	15	4.6	3.75	0.463
7.15	Consistent ground services	0	0.0	16	4.9	136	42.0	157	48.5	15	4.6	3.46	0.594
7.16	Consistent in-flight services	0	0.0	11	3.4	145	44.8	159	49.1	9	2.8	3.47	0.566
7.17	You feel safe when you fly	1	0.3	1	0.3	46	14.2	257	79.3	19	5.9	3.83	0.408
7.18	The ability to purchase tickets on-line (on the Internet)	1	0.3	24	7.4	73	22.5	209	64.5	17	5.2	3.60	0.647
7.19	The ability to track flights and schedules on-line	5	1.5	28	8.6	82	25.3	192	59.3	17	5.2	3.50	0.731
7.20	The ability to check in on-line	5	1.5	27	8.3	82	25.3	190	58.6	20	6.2	3.50	0.727
7.21	The airline offers additional services (e.g. air/accommodation/car hire packages)	10	3.1	68	21.0	104	32.1	127	39.2	15	4.6	3.13	0.864
7.22	The airline has efficient check-in services	1	0.3	11	3.4	109	33.6	188	58.0	15	4.6	3.56	0.581
7.23	The airline has sufficient (enough) check-in services	1	0.3	18	5.6	110	34.0	183	56.5	12	3.7	3.52	0.621
7.24	The airline has efficient baggage handling services	2	0.6	16	4.9	118	36.4	170	52.5	18	5.6	3.49	0.628
7.25	The airline has sufficient baggage handling services	2	0.6	13	4.0	127	39.2	170	52.5	12	3.7	3.49	0.611
7.26	Low prices of tickets	1	0.3	9	2.8	98	30.2	196	60.5	20	6.2	3.61	0.564

Table 7.18 indicates that the service elements that were least important to respondents, include quality food and beverages provided during the flight (13.3% + 17.3% = 30.6%) with a mean of 2.88; the airline has comfortable waiting lounges (5.2% + 20.4% = 25.6%) with a mean of 3.00; and the airline offers additional services (3.1% + 21.0% = 24.1%) with a mean of 3.13. These three elements also have the highest standard deviation values of 1.016, 0.879, and 0.864 respectively.

- **Main Finding C1:** Service elements pertaining to the domestic airline respondents fly with the majority of the time that are least important include that quality food and beverages are provided during the flight (30.6%), that the airline has comfortable waiting lounges (25.6%) and that the airline offers additional services (24.1%).

Service elements that are important include that employees of the airline offer prompt service (44.8% + 51.9% = 96.7%) with a mean of 3.52; employees of the airline are consistently courteous (43.5% + 52.5% = 96.0%) with a mean of 3.52; employees are never too busy to respond to requests or complaints (46.0% + 49.4% = 95.4%) with a mean of 3.50 and employees of the airline understand respondent needs (45.7% + 49.4% = 95.1%) with a mean of 3.48. Service elements with the highest means, include that respondents feel safe when they fly (3.83); the flight departs and arrives on time (3.75); low prices of tickets (3.61), the ability to purchase tickets on-line (3.60); and the domestic airline has convenient flight schedules (3.58). Although these service elements have higher means, the reason for this could be due to the "not applicable" responses that were not taken into consideration during statistical analysis.

- **Main Finding C2:** Service elements pertaining to the airline respondents fly with the majority of the time that are important to most respondents include that employees of the airline offer prompt service (96.7%); employees of the airline are consistently courteous (96.0%); employees are never too busy to respond to requests or complaints (95.4%) and that employees of the airline understand respondent needs (95.1%).

7.3.4.2 Factor analysis in terms of the importance of service elements to respondents

A factor analysis was performed on the service elements in question 7 to determine whether the elements could be reduced, and also to determine whether a logical configuration in the relationship between the various factors or variables can be identified (Porkess, 2005:94). The various methods of factor analysis were described in Chapter 6 (see section 6.3.6.2), but further descriptions of the methods used in this study will subsequently be discussed.

As Tucker and Maccallum (1997:1) mention, factor analysis can be used in an array of study fields including social sciences and business studies. The authors furthermore state that factor analysis entails finding structure and order within the data. This view is elaborated upon by Garson (2008) who explains that factor analysis is "used to uncover the latent structure (dimensions) of a set of variables" and allows researchers to reduce the data into a smaller set of factors.

The Principal Component analysis extraction method was used when performing the factor analysis on the first part of question 7, namely the importance of service elements to respondents. In this extraction method, the Oblimin with Kaiser Normalisation rotation method was used to explain as much of the variance as possible for a better interpretation (Aaker *et al.*, 2003:570-571).

Principal Component analysis is one method of factor analysis and is mainly used when data need to be reduced (Garson, 2008). Buckingham and Saunders (2004) further indicate that Principal Component analysis is used to detect patterns in the data and is an exploratory technique. As stated above, the Oblimin rotation method was used in this factor analysis. Garson (2008) explains "rotation serves to make the output more understandable and is usually necessary to facilitate the interpretation of factors", and that the rotation that enables the best interpretation of the data needs to be used. Kline (1994:62 & 68) and Blaikie (2004:23) mention that an Oblimin rotation is a form of Oblique rotation where any position in the factor space can be taken up by the factor axes and allows the factors to be correlated.

As part of the factor analysis, each of the items in each factor is assigned a "factor loading" indicating how well the variable correlates with the factor (Bradley,

2007:336). Tucker and Maccallum (1997:14) continue that these factor loadings are used as the basis for interpreting the factors with high loadings, indicating factors that are strongly influenced by the item and low loadings indicating factors that are not strongly influenced by the item. Blaikie (2004:221-222) explains that for a sample size of 300 (as in this study) the minimum factor loading being considered should be 0.3, but this only explains 9% (calculated by squaring the factor loading and multiplying by 100) of an item's variance. Kline (1994:6) adds that factor loadings of 0.6 and above can be considered as high and factor loadings less than 0.3 should be omitted.

Table 7.19 presents the results in terms of the factor loadings obtained from each element of question 7 indicating the importance of elements to respondents. As suggested by Kline (1994:6), factor loadings less than 0.3 were omitted. By identifying which items correlate with each other, four factors could be identified in terms of importance of elements to respondents as indicated in table 7.19.

TABLE 7.19 RESULTS OBTAINED FROM FACTOR ANALYSIS IN TERMS OF THE IMPORTANCE OF SERVICE ELEMENTS TO RESPONDENTS

Service element in questionnaire	Factor loadings			
	Factor 1	Factor 2	Factor 3	Factor 4
Employees of the airline offer you prompt service	.898			
Employees of the airline are consistently courteous	.831			
Employees of the airline are always willing to help	.815			
Employees of the airline have knowledge to answer your questions	.788			
Employees of the airline are never too busy to respond to your request or complaint	.787			
Employees of the airline understand your needs	.736			
The service is performed right the first time	.607			
The promises made in advertising campaign are kept	.555			
Employees of the airline appear neat and tidy	.532			
Consistent in-flight services	.476			
You feel safe when you fly	.467			
The flight departs and arrives on time	.429			
The ability to check in on-line		.938		
The ability to track flights and schedules on-line		.916		
The ability to purchase tickets on-line (on the Internet)		.888		
Low prices of tickets		.328		
The airline has sufficient (enough) check-in services			-1.002	
The airline has efficient baggage-handling services			-.934	
The airline has sufficient baggage-handling services			-.883	
The airline has efficient check-in services			-.620	
Consistent ground services			-.542	
The domestic airline has convenient flight schedules			-.542	
Quality food and beverages are provided during the flight				.737
The airline has comfortable waiting lounges				.620
The aircraft has comfortable interiors (e.g. seats)				.419
The airline offers you additional services (e.g. air/accommodation/car hire packages)				.356

A) Factor 1

From table 7.19 it can be determined that Factor 1 involves elements concerning the services provided by airline employees with seven service elements pointing to the airlines' employees. Further to this, three other elements include a service dimension. Specifically, the elements that pertain to service include employees of the airline are consistently courteous; employees of the airline are always willing

to help; employees of the airline have knowledge to answer respondents' questions; and employees of the airline are never too busy to respond to respondents' requests or complaints. Furthermore, other elements that can also be linked to the services performed by employees include that the service is performed right the first time, and consistent in-flight services. The other three elements include that promises made in advertising campaigns are kept; that respondents feel safe when they fly and that the flight arrives and departs on time. Considering the underlying elements, Factor 1 can be labelled as service offered by airline employees; feeling safe when flying and departing and arriving on time.

- **Main Finding C3:** Factor 1 can be labelled as service offered by airline employees, feeling safe when flying and departing and arriving on time.

B) Factor 2

The elements with high factor loadings on Factor 2 in table 7.19 include on-line services (such as checking in on-line, tracking flights on-line and purchasing tickets on-line). Additionally, low prices of tickets also load this factor – this could possibly be linked to the fact that many airlines offer lower prices on-line. This element, however, only has a factor loading of 0.328 and will therefore not greatly influence the labelling of this factor. Factor 2 can therefore be labelled as on-line services offered by domestic airlines.

- **Main Finding C4:** Factor 2 can be labelled as on-line services offered by domestic airlines.

C) Factor 3

Factor 3 in table 7.19 includes the elements of services provided by the domestic airline such as check-in, baggage handling, ground service, and flight schedules. As indicated in table 7.19, the service element "the airline has sufficient (enough) check-in services" realised a factor loading of -1.002. Although factor loadings should not be more than 1 or -1, Ellis (2007b) suggests that this occurred because the data was omitted "pairwise" and not "listwise" resulting in a singular correlation matrix. This was done so that respondents that omitted a question were omitted only for correlations with that question, but were still included in correlations with other questions that the respondent answered in order to obtain

a dataset that included enough data for a more accurate factor analysis. By considering the elements comprising Factor 3, it appears as though this factor predominantly focuses on the check-in related services offered by the domestic airline. Other elements contributing to Factor 3 include consistent ground services and convenient flight schedules. Considering these elements and the factor loading of each element, Factor 3 can be labelled as check-in related services as well as convenient flight schedules provided by airlines.

- **Main Finding C5:** Factor 3 can be labelled as check-in related services as well as convenient flight schedules provided by domestic airlines.

D) Factor 4

Factor 4 in table 7.19 includes a variety of service elements including quality food and beverages are provided during the flight; the airline has comfortable waiting lounges; the aircraft has comfortable interiors and the airline offers additional services. Two of these elements (waiting lounges and comfortable interiors) highlight the need for comfort. The quality of food and beverages provided during the flight could arguably also indicate comfort as these items could enhance a passenger's comfort during the flight. Likewise, the element "offers additional services" could also contribute to passengers' comfort by making it easier for passengers to acquire related services. It is also apparent that these elements deal with services offered to passengers after they have checked-in their luggage. Considering these elements, Factor 4 can be labelled as comfortable post check-in services as well as supplementary services offered by the airline.

- **Main Finding C6:** Factor 4 can be labelled as comfortable post check-in as well as supplementary services offered by the airline.

E) Eigen values associated with the factor analysis

Apart from factor loadings as indicated in table 7.19, it is also important to identify the overall eigen value of the factors. Cooper and Schindler (2003:636) demonstrate that *eigen values* (which are the sum of the squares of the factor loadings) estimate the total variance that can be explained by the factor. Garson (2008) adds that low eigen values contribute little to the total variance explained. In this study, the four factors explain 78.2% of the total variance. After an oblique

rotation, the percentage variance explained by individual factors cannot be determined (SPSS Inc., 2006).

F) Reliability of factors

Additional to eigen values, the Cronbach Alpha also needs to be calculated. Sapsford and Jupp (2006:111 & 121) explain that the Cronbach Alpha statistic in factor analysis is calculated to determine the correlation between elements in a scale and is used to determine the internal validity of the data. The Cronbach Alpha ranges between 0 and 1, where a Cronbach Alpha of 0.6 is acceptable, but a value of 0.7 is preferred since it indicates a higher level of reliability (Bagozzi, 1994:18). Table 7.20 indicates the Cronbach Alpha obtained for the factors obtained during the factor analysis of the first part of question 7, namely the importance of service elements.

TABLE 7.20 CRONBACH ALPHA VALUES ASSOCIATED WITH THE FACTOR ANALYSIS IN TERMS OF THE IMPORTANCE OF FACTORS TO RESPONDENTS

Factor	Factor name	Cronbach Alpha
1	Service offered by airline employees, feeling safe when flying and departing and arriving on time	0.915203
2	On-line services offered by domestic airlines	0.828595
3	Check-in related services as well as convenient flight schedules provided by domestic airlines	0.941147
4	Comfortable post check-in as well as supplementary services offered by the airline	0.781639

As indicated in table 7.20, the Cronbach Alphas of each factor is > 0.7 that indicates a relatively high level of reliability between elements in the scale.

7.3.4.3 Satisfaction levels of respondents with regards to service elements provided by the domestic airline

The second section of question 7 asked respondents to indicate how satisfied they are with the services provided by the domestic airline. The respondents

were asked to indicate their level of satisfaction with each of the 26 service elements on a four point Likert scale with 1 = not satisfied at all; 2 = not satisfied; 3 = satisfied and 4 = very satisfied. The fifth option of "not applicable" replaced the "neutral" option after the pilot study was conducted. Table 7.21 presents the frequencies for each option in the scale as well as the mean and standard deviation for each question. **All "not applicable" scores were omitted in the calculation of the mean and standard deviation.**

TABLE 7.21 THE SATISFACTION LEVELS OF SERVICE ELEMENTS

Q	Service elements	Not satisfied at all		Not satisfied		Satisfied		Very satisfied		Not applicable		Mean	Std dev.
		F	%	F	%	F	%	F	%	F	%		
7.1	Quality food and beverages are provided during the flight	6	1.9	44	13.6	194	59.9	53	16.4	27	8.3	2.99	0.640
7.2	The domestic airline has convenient flight schedules	0	0.0	52	16.0	189	58.3	80	24.7	3	0.9	3.09	0.637
7.3	The aircraft has comfortable interiors (e.g. seats)	3	0.9	41	12.7	207	63.9	70	21.6	3	0.9	3.07	0.617
7.4	The airline has comfortable waiting lounges	72	22.2	69	21.3	107	33.0	37	11.4	39	12.0	2.38	1.003
7.5	Employees of the airline appear neat and tidy	3	0.9	13	4.0	199	61.4	101	31.2	8	2.5	3.26	0.577
7.6	The service is performed right the first time	2	0.6	31	9.6	213	65.7	72	22.2	6	1.9	3.12	0.582
7.7	The promises made in advertising campaigns are kept	5	1.5	55	17.0	202	62.3	53	16.4	9	2.8	2.96	0.639
7.8	Employees of the airline have knowledge to answer questions	1	0.3	41	12.7	205	63.3	62	19.1	15	4.6	3.06	0.586
7.9	Employees of the airline offer you prompt service	1	0.3	33	10.2	222	68.5	64	19.8	4	1.2	3.09	0.555
7.10	Employees of the airline understand your needs	1	0.3	51	15.7	204	63.0	63	19.4	5	1.5	3.03	0.609
7.11	Employees of the airline are never too busy to respond to your requests or complaint	3	0.9	50	15.4	208	64.2	56	17.3	7	2.2	3.00	0.612
7.12	Employees of the airline are consistently courteous	0	0.0	42	13.0	214	66.0	64	19.8	4	1.2	3.07	0.573
7.13	Employees of the airline are always willing to help	0	0.0	34	10.5	218	67.3	68	21.0	4	1.2	3.11	0.555
7.14	The flight departs and arrives on time	36	11.1	87	26.9	134	41.4	63	19.4	4	1.2	2.70	0.912
7.15	Consistent ground services	4	1.2	44	13.6	213	65.7	54	16.7	9	2.8	3.01	0.603
7.16	Consistent in-flight services	0	0.0	28	8.6	232	71.6	60	18.5	4	1.2	3.10	0.516
7.17	You feel safe when you fly	0	0.0	13	4.0	192	59.3	115	35.5	4	1.2	3.32	0.547
7.18	The ability to purchase tickets on-line (on the Internet)	3	0.9	17	5.2	167	51.5	118	36.4	19	5.9	3.31	0.622
7.19	The ability to track flights and schedules on-line	8	2.5	41	12.7	160	49.4	89	27.5	26	8.0	3.11	0.733
7.20	The ability to check in on-line	13	4.0	42	13.0	161	49.7	78	24.1	30	9.3	3.03	0.767
7.21	The airline offers additional services (e.g. air/accommodation/car hire packages	6	1.9	42	13.0	169	52.2	62	19.1	45	13.9	3.03	0.678
7.22	Airline has efficient check-in services	2	0.6	44	13.6	194	59.9	75	23.1	9	2.8	3.09	0.630
7.23	The airline has sufficient (enough) check-in services	4	1.2	62	19.1	192	59.3	59	18.2	7	2.2	2.97	0.658
7.24	The airline has efficient baggage handling services	6	1.9	45	13.9	208	64.2	56	17.3	9	2.8	3.00	0.631
7.25	The airline has sufficient baggage handling services	2	0.6	55	17.0	211	65.1	50	15.4	6	1.9	2.97	0.597
7.26	Low prices of tickets	15	4.6	88	27.2	176	54.3	41	12.7	4	1.2	2.76	0.731

In table 7.21 it can be observed that the highest percentage (43.5%) of respondents indicated that they are not satisfied with the airlines' comfortable waiting lounges (22.2% + 21.3% = 43.5%) with a mean of 2.38 and a standard deviation of 1.003. Further elements with which most respondents indicated they were dissatisfied include that the flight does not depart and arrive on time (11.1% + 26.9% = 38.0%) with a mean of 2.70, and the prices of tickets (4.6% + 27.2% = 31.8%) with a mean of 2.76.

- **Main Finding C7:** Service elements that respondents are most dissatisfied with include the comfort of the airlines' waiting lounges (43.5%), that the flight does not depart and arrive on time (38.0%) and the prices of tickets (31.8%).

Nearly 95% (59.3% + 35.5% = 94.8%) of respondents indicated they feel safe when they fly (mean of 3.32). Furthermore respondents indicated they were satisfied that employees of the airline appear neat and tidy (61.4% + 31.2% = 92.6%) with a mean of 3.26; and the consistent in-flight services provided by the airline (71.6% + 18.5% = 90.1%) with a mean of 3.10.

- **Main Finding C8:** Service elements that respondents are most satisfied with include that they feel safe when they fly (94.8%); that the employees of the domestic airline appear neat and tidy (92.6%); and the consistent in-flight services provided by the domestic airline (90.1%).

Service elements with the highest means include respondents feel safe when they fly (mean of 3.32), the ability to purchase tickets on-line (mean of 3.31) and the employees of the airline appear neat and tidy (mean of 3.26). Apart from the largest standard deviation of 1.003 in terms of whether the airline has comfortable waiting lounges, other large deviations from the mean occurred in terms of whether the flight departs and arrives on time (standard deviation of 0.912) and the ability to check-in on-line (standard deviation of 0.767).

Further analysis is necessary to determine the influence of respondents' satisfaction on other variables. In order to determine which respondents were satisfied, the average of means of questions 7.1 – 7.26 was calculated per respondent. All "not applicable" responses were coded as missing values that will be ignored during the statistical calculation so that the mean would not be disproportionately skewed toward the higher value and will cause an overstated

mean. All respondents whose means were three and above were deemed to be satisfied, and all respondents with a mean of less than three were deemed to be dissatisfied (since the scale used in question 7 is 1 = not satisfied at all; 2 = not satisfied; 3 = satisfied and 4 = very satisfied). These means were used in further statistical analysis by means of contingency tables and effect sizes to determine whether differences could be observed between satisfied respondents and other questions in the questionnaire. From further analysis, it was determined that 169 of the 324 respondents (52.2%) were satisfied and 155 of the 324 respondents (47.8%) were dissatisfied with the service elements performed by the domestic airline.

For the purpose of this study, it is important to determine if there are significant differences between satisfied respondents and other variables tested in the questionnaire. The following practically significant differences and main findings were identified in terms of respondents' satisfaction with service elements offered by domestic airlines:

- **Main Finding C9** (Satisfied respondents and question 10.2): Large practically significant differences exists between African respondents (who indicated they were more satisfied) and Asian / Indian respondents (d = 0.98). Furthermore, large practically significant differences exists between Asian / Indian (d = 0.84) and White (d = 0.89) respondents (who are more satisfied) and Coloured respondents, while Asian / Indian respondents are more satisfied than White respondents (d = 0.97).
- **Main Finding C10** (Satisfied respondents and question 10.6): Large practically significant differences exist between respondents that travel by themselves (who are more satisfied) and respondents travelling with family (d = 1.00) and colleagues (d = 1.00). Respondents that travel by themselves are less satisfied than respondents travelling with friends (d = 0.85). Respondents flying with friends (d = 0.80) and colleagues (d = 1.00) are more satisfied than respondents travelling with family. Furthermore a large practically significant differences exists between respondents travelling with friends (who are more satisfied) and respondents travelling with colleagues (d = 0.84).
- **Main Finding C11** (Satisfied respondents and question 10.7): A large practically significant difference exists between respondents who travel as a tourist or for a holiday (who are more satisfied) and those flying for business (d = 0.97).

- **Main Finding C12** (Satisfied respondents and question 10.8): Large practically significant differences exist between respondents who make use of travel agents (who are more satisfied) and respondents whose business policy dictates the domestic airline (d = 0.92). Respondents whose business policy dictates the domestic airline to be travelled with are more satisfied than respondents who make their own decisions (d = 0.92).

7.3.4.4 Comparison between importance and satisfaction with service elements

Section 7.3.4.1 and 7.3.4.3 presented the findings in terms of the importance of service elements provided by the domestic airline to respondents and the satisfaction levels of respondents pertaining to service elements. The following discussion determines whether a practically significant difference exists between the levels of importance and satisfaction of respondents on individual items. Table 7.22 presents the mean difference that represents the average difference between level of importance of service elements and the level of satisfaction of respondents pertaining to these service elements, where both are measured on a four point Likert scale; the standard deviation of this difference; and the effect size (d-value) for each service element.

TABLE 7.22 EFFECT SIZES BETWEEN MEANS OF THE IMPORTANCE AND SATISFACTION LEVELS OF RESPONDENTS PERTAINING TO SERVICE ELEMENTS

Q	Service element	Mean Difference	Std. Dev. of difference	*d*-value
7.1	Quality food and beverages are provided during the flight	0.00	1.06	0.00
7.2	The domestic airline has convenient flight schedules	0.53	0.73	0.72
7.3	The aircraft has comfortable interiors (e.g. seats)	0.37	0.81	0.46
7.4	The airline has comfortable waiting lounges	0.73	1.19	0.62
7.5	Employees of the airline appear neat and tidy	0.19	0.75	0.25
7.6	The service is performed right the first time	0.44	0.77	0.58
7.7	The promises made in advertising campaigns are kept	0.50	0.81	0.62
7.8	Employees of the airline have knowledge to answer your questions	0.43	0.75	0.57
7.9	Employees of the airline offer you prompt service	0.43	0.62	0.69
7.10	Employees of the airline understand your needs	0.44	0.72	0.61
7.11	Employees of the airline are never too busy to respond to your request or complaints	0.49	0.76	0.64
7.12	Employees of the airline are consistently courteous	0.44	0.74	0.60
7.13	Employees of the airline are always willing to help	0.43	0.69	0.63
7.14	The flight departs and arrives on time	1.07	1.00	1.07
7.15	Consistent ground services	0.46	0.76	0.60
7.16	Consistent in-flight services	0.37	0.64	0.58
7.17	You feel safe when you fly	0.52	0.63	0.82
7.18	The ability to purchase tickets on-line (on the Internet)	0.30	0.74	0.41
7.19	The ability to track flights and schedules on-line	0.40	0.79	0.51
7.20	The ability to check in on-line	0.49	0.89	0.55
7.21	The airline offers you additional services (e.g. air/accommodation/car hire packages)	0.22	0.78	0.28
7.22	The airline has efficient check-in services	0.49	0.81	0.61
7.23	The airline has sufficient (enough) check-in services	0.55	0.84	0.66
7.24	The airline has efficient baggage-handling services	0.48	0.82	0.59
7.25	The airline has sufficient baggage-handling services	0.52	0.78	0.67
7.26	Low prices of tickets	0.86	0.91	0.94

The effect sizes between mean differences presented in table 7.22 indicates that the largest effect sizes between mean differences can be observed in terms of the flight departure and arrival on time (*d*-value of 1.07 with a standard deviation of 1.00); low prices of tickets (*d*-value of 0.94 with a standard deviation of 0.91); and you feel safe when you fly (*d*-value of 0.82 with a standard deviation of 0.63). These effect sizes presented indicate a practically significant difference between the levels of importance and satisfaction of these variables. From tables 7.18 and 7.21, it can be determined that respondents are not as satisfied with these elements in relation to the level of importance of these elements. The service elements with the highest standard deviation - indicating a large variation in the responses - include the airline has comfortable waiting lounges (standard deviation of 1.19); quality food and beverages are provided during the flight (standard deviation of 1.06) and the flight departs and arrives on time with a standard deviation of 1.00.

- **Main Finding C13:** A large practically significant difference exists between the level of importance and the level of respondent satisfaction of the service elements pertaining to the flight departs and arrives on time (d = 1.07), low prices of tickets (d = 0.94) and respondents feel safe when they fly (d = 0.82).

The rest of the service elements have a medium to large effect size between means (indicating visible differences) except for quality food and beverages are provided during the flight (d = 0.00); employees appear neat and tidy (d = 0.25); the airline offers additional services (d = 0.28); and the ability to purchase tickets on-line (d = 0.41) which have no to small effects and can be assumed to be on equal levels of importance and satisfaction according to respondents.

- **Main Finding C14:** With the exception of the service elements where large practical significant differences were observed and for service elements where no practically significant differences were found, respondents were dissatisfied with all other (19) service elements provided.

7.3.5 RESULTS OBTAINED FROM SECTION D OF THE QUESTIONNAIRE

Questions 8.1 – 8.15 aimed to determine the extent of the respondents' relationship and loyalty toward the domestic airline they fly with the majority of time. Respondents were asked to rate the extent to which they agree or disagree

with the statement on a labelled four point Likert scale (1 = totally agree; 2 = agree; 3 = disagree; 4 = totally disagree) where option five on the scale referred to "not applicable". The frequencies, percentages, mean and standard deviations relating to these elements are described in table 7.23. **All "not applicable" values were omitted in the calculation of the mean and standard deviation.**

TABLE 7.23 EXTENT OF THE RELATIONSHIP AND LOYALTY TOWARDS THE DOMESTIC AIRLINE FLOWN WITH THE MAJORITY OF THE TIME

Q	Statements	Totally agree		Agree		Disagree		Totally disagree		Not applicable		Mean	Std dev.
		F	%	F	%	F	%	F	%	F	%		
8.1	I want to form a relationship with the airline	41	12.7	158	48.8	51	15.7	43	13.3	31	9.6	2.33	0.893
8.2	The airline focuses on building long-term relationships with passengers	29	9.0	155	47.8	72	22.2	52	16.0	16	4.9	2.48	0.882
8.3	I will stay loyal to the airline even if other airlines offer slightly lower prices (less than 10% difference in price)	22	6.8	97	29.9	109	33.6	78	24.1	18	5.6	2.79	0.905
8.4	I will stay loyal to the airline even if other airlines offer significant lower prices (more than 10% difference in price)	13	4.0	44	13.6	147	45.4	102	31.5	18	5.6	3.10	0.799
8.5	I will stay loyal to the airline even if other airlines offer better service	6	1.9	40	12.3	151	46.6	122	37.7	5	1.5	3.21	0.742
8.6	I will stay loyal to the airline even if other airlines offer better loyalty programmes	9	2.8	39	12.0	153	47.2	113	34.9	10	3.1	3.18	0.754
8.7	I will become more loyal if the airline offers individual attention and special treatment	57	17.6	163	50.3	63	19.4	31	9.6	10	3.1	2.22	0.856
8.8	The airline communicates special offers to me through e-mail or newsletters	31	9.6	83	25.6	96	29.6	88	27.2	26	8.0	2.81	0.978
8.9	The more frequently I fly with the airline, the more services are offered	46	14.2	113	34.9	103	31.8	47	14.5	15	4.6	2.49	0.924
8.10	I will fly with the airline more frequently if I was offered upgrades or discounts	146	45.1	138	42.6	20	6.2	14	4.3	6	1.9	1.69	0.778
8.11	The frequent flier mile programme will cause me to form a relationship with the airline	86	26.5	162	50.0	53	16.4	12	3.7	11	3.4	1.97	0.776
8.12	The airline responds to my queries	27	8.3	113	34.9	123	38.0	48	14.8	13	4.0	2.61	0.849
8.13	The airline offers satisfactory answers to my queries or problems	32	9.9	118	36.4	119	36.7	41	12.7	14	4.3	2.54	0.849
8.14	The airline rewards me for my business	51	15.7	98	30.2	91	28.1	61	18.8	23	7.1	2.53	0.998
8.15	Employees of the airline are trained to deal with my problems or queries	42	13.0	141	43.5	98	30.2	31	9.6	12	3.7	2.38	0.840

The results presented in table 7.23 indicate that the largest percentage of respondents agree with the statements that they will fly with the domestic airline more frequently if they were offered upgrades or discounts (45.1% + 42.6% = 87.7%) with a mean of 1.69 and a standard deviation of 0.778; that the frequent flier mile programme will cause the respondent to form a relationship with the domestic airline (26.5% + 50.0% = 76.5%) with a mean of 1.97 and a standard deviation of 0.776; and that respondents will become more loyal to the domestic airline if they were offered individual attention and special treatment (17.6% + 50.3% = 67.9%) with a mean of 2.22 and a standard deviation of 0.856.

- **Main Finding D1:** Most respondents agreed with the statements that they will fly more with the domestic airline if they were offered upgrades or discounts (87.7%); that the frequent flier programme will cause them to form a relationship with the domestic airline (76.5%) and they will become more loyal if they were offered individual attention and special treatment (67.9%).

Table 7.23 furthermore indicates that the statements which the largest percentage of respondents disagree with include that respondents will stay loyal to the domestic airline even if other airlines offer better service (46.6% + 37.7% = 84.3%) with a mean of 3.21 and a standard deviation of 0.742; that respondents will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (47.2% + 34.9% = 82.1%) with a mean of 3.18 and a standard deviation of 0.754; and that the respondent will stay loyal to the domestic airline even if other airlines offer significantly lower prices (45.4% + 31.5% = 76.9%) with a mean of 3.10 and a standard deviation of 0.799.

- **Main Finding D2:** The largest percentage of respondents indicated they would not remain loyal to the domestic airline if other airlines offer better service (84.3%), offer better loyalty programmes (82.1%) or if other domestic airlines offer significantly lower prices (76.9%).

Table 7.23 includes statements pertaining to **customer relationship management**. These statements include elements which domestic airlines can use as part of their CRM strategy (including loyalty programmes). The following discussion presents the descriptive results obtained with regards to the statements dealing with CRM.

Question 8.2 aimed to determine whether respondents felt that the domestic airline focuses on building long-term relationships with passengers. The majority of respondents (56.8%) agreed with the statement that the domestic airline focuses on building long-term relationships with them. In terms of **question 8.6**, 82.1% of respondents indicated they would not stay loyal to the domestic airline even if other airlines offer better loyalty programmes. The majority of respondents (67.9%) agreed with the statement that they will become more loyal if the domestic airline offers individual attention and special treatment (**question 8.7**). As indicated in **question 8.8**, 56.8% of respondents disagreed with the statement that the domestic airline communicates special offers to them through e-mail or newsletters. The largest percentage of respondents (49.1%) agreed with the statement that the more frequently they fly with the domestic airline, the more services are offered as observed in **question 8.9**. Furthermore, the results obtained from **question 8.11** indicated that 76.5% of respondents agreed with the statement that the frequent flier mile programme will cause them to form a relationship with the domestic airline. The largest percentage of respondents (46.9%) disagreed with the statement that the airline rewards them for their business as observed in **question 8.14**.

- **Main Finding D3:** In terms of the statements pertaining to the CRM strategy of the domestic airline that respondents agreed with include that the airline focuses on building long-term relationships with them (56.8%); respondents will become more loyal if the airline offers individual attention and special treatment (67.9%); the more frequently respondents fly with the domestic airline, the more services are offered (49.1%); and the frequent flier mile programme will cause respondents to form a relationship with the domestic airline (76.5%).
- **Main Finding D4:** In terms of the statements pertaining to the CRM strategy of the domestic airline that respondents disagreed with include that respondents will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (82.1%); the domestic airline communicates special offers to respondents through e-mail or newsletters (56.8%); and the domestic airline rewards respondents for their business (46.9%).

Further analysis to determine whether any significant associations could be observed was performed on the questions pertaining to CRM and satisfied respondents (as discussed in section 7.3.4.3) by means of cross-tabulations and

Chi-square tests. The following statistically and practically significant associations were observed:

- The airline focuses of building long-term relationships with passengers (question 8.2): The majority of satisfied respondents (68.6%) agreed with the statement that the airline focuses on building long-term relationships with passengers, while 54.8% of dissatisfied respondents disagreed with the statement. Furthermore, a statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.37$) association exists between these variables.
- Respondent will stay loyal to the airline even if other airlines offer better loyalty programmes (question 8.6): The majority of satisfied respondents (74.0%) indicated that they disagreed with the statement indicating they will not remain loyal to the domestic airline even if other airlines offer better loyalty programmes, while 91.0% of dissatisfied respondents disagreed with the statement. Furthermore, a statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.25$) association exists between these variables.
- The more frequently the respondent flies with the airline, the more services are offered (question 8.9): The majority of satisfied respondents (52.1%) agreed with the statement that the more frequently they fly with the domestic airline, the more services are offered, while 54.2% of dissatisfied respondents disagreed with the statement. Furthermore, a statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.26$) association exists between these variables.
- The frequent flier mile programme will cause the respondent to form a relationship with the airline (question 8.11): The majority of satisfied respondents (76.9%) agreed with the statement that the frequent flier mile programme will cause them to form a relationship with the domestic airline, while 76.1% of dissatisfied respondents also agreed with the statement. Furthermore, a statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.25$) association exists between variables.
- The airline rewards respondents for their business (question 8.14): The majority of satisfied respondents (52.7%) agreed with the statement that the domestic airline rewards them for their business, while 58.7% of dissatisfied respondents disagreed with the statement. Furthermore, a statistically

significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.26$) association exists between variables.

From the above, the following main findings can be observed:

- **Main Finding D5:** The majority of satisfied respondents agreed with the statements that the domestic airline focuses on building long-term relationships with them (68.6%); the more frequently they fly with the domestic airline, the more services are offered (52.1%); the frequent flier mile programme will cause respondents to form a relationship with the domestic airline (76.9%); and the domestic airline rewards respondents for their business (52.7%). The majority of satisfied respondents disagreed with the statement that they will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (74.0%).
- **Main Finding D6:** Statistically significant and medium practically significant associations exist between satisfied respondents and whether the domestic airline focuses on building long-term relationships with them ($w = 0.37$); respondents will stay loyal to the domestic airline even if other airlines offer better loyalty programmes ($w = 0.25$); the more frequently respondents fly with the domestic airline, the more services are offered ($w = 0.26$); the frequent flier mile programme will cause the respondent to form a relationship with the domestic airline ($w = 0.25$); and the domestic airline rewards respondents for their business ($w = 0.26$).

The statements in section D of the questionnaire that are applicable to the constructs studied in section E are described in the following section. Only the statements in section D that are relevant to the propositions of the study will be discussed.

7.3.6 RESULTS OBTAINED FROM SECTION E OF THE QUESTIONNAIRE

The purpose of Section E of the questionnaire (questions 9.1 – 9.6 in Appendix B) was to gather more data on the relationship the respondent has with the domestic airline, as well as the respondents' loyalty toward the airline.

7.3.6.1 Results obtained from question 9.1

Question 9.1 aimed to determine whether the respondent had formed a long-term relationship with the domestic airline. The results obtained from this question was analysed further to determine whether significant associations exist with other important questions in the questionnaire. Table 7.24 indicates the frequencies obtained from question 9.1 (whether respondents have formed a long-term relationship with the domestic airline).

TABLE 7.24 WHETHER RESPONDENTS HAVE FORMED A LONG-TERM RELATIONSHIP WITH THE DOMESTIC AIRLINE

Had formed a relationship	F	%
Yes, definitely	21	6.5
Yes	121	37.3
No	125	38.6
Not al all	57	17.6
Total	**324**	**100**

From table 7.24 it can be observed that 43.8% (6.5% + 37.3%) of respondents have formed a relationship with the domestic airline.

- **Main Finding E1:** Nearly 44% (43.8%) of respondents have formed a long-term relationship with the domestic airline.

From further analysis of the data and determining (by means of a Chi-square test) whether significant associations between respondents who have formed a relationship with the domestic airline and other variables tested in the questionnaire exist, the following noteworthy deductions could be made:

- Domestic airline (question 1a): The largest percentage of respondents flying with South African Airways (46.4%) and South African Express (80.0%) has formed a relationship with the domestic airline. A statistically significant (exceedence probability of $p < 0.00001$) and a large practically significant ($w = 0.52$) association was observed between the domestic airline flown with, and whether respondents have formed a long-term relationship with the domestic airline.

- Travel with (question 10.6): The largest percentage of respondents who travel with colleagues (63.5%) and who travel alone (46.9%) have formed a long-term relationship with the domestic airline. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.40$) association was observed between whether respondents have formed a long-term relationship with the domestic airline and with whom the respondent travels.
- Decision-maker (question 10.8): The largest percentage of respondents whose business policy dictates the domestic airline they travel with (66.25%) have formed a long-term relationship with the domestic airline. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.42$) association was observed between whether respondents have formed a long-term relationship with the domestic airline and the decision-maker as to with which domestic airline the respondent travels.

From the above, the following main finding can be reported:

- **Main Finding E2:** Statistically significant and medium to large practically significant associations exist between whether respondents have formed a long-term relationship with the domestic airline and the domestic airline they fly with ($w = 0.52$); with whom the respondent travels ($w = 0.40$); and the decision-maker as to with which domestic airline the respondent travels ($w = 0.42$).

A) Question 9.1 and respondents' satisfaction

Question 9.1 was also analysed to determine if there is an association between respondents' satisfaction and whether they have formed a long-term relationship.

Nearly half of satisfied respondents (49.7%) have formed a long-term relationship with the domestic airline. However, the largest percentage of respondents who are dissatisfied have not formed a long-term relationship (62.3%). In order to determine whether there is an association between the levels of satisfaction and whether respondents have formed a long-term relationship with the domestic airline, a Chi-square test was conducted. The test realised an exceedence probability of $p = 0.00004$ indicating that there is a statistically significant

association between the two variables. An effect size of 0.20, indicating a small practically significant association between variables was observed.

- **Main Finding E3:** Nearly half of the respondents who are satisfied (49.7%) have formed a long-term relationship with the domestic airline.
- **Main Finding E4:** More than 60% (62.3%) of dissatisfied respondents have not formed a long-term relationship with the domestic airline.

Further statistical analysis of satisfied respondents and whether they have formed a long-term relationship with the domestic airline presented a large effect between means (d = 0.86) indicating a large practically significant difference between variables.

- **Main Finding E5:** A large practically significant difference (d = 0.86) exists between respondents' satisfaction level and whether they have formed a long-term relationship with the domestic airline.

Further analysis on the data was done to determine associations with satisfied respondent and whether or not they have formed a long-term relationship. The following result can be noted:

- Domestic airline with which the respondent flies the majority of the time (question 1a): Eighty percent (80%) of respondents travelling with South African Express indicated they are satisfied and have formed a long-term relationship with the domestic airline, followed by 46.4% of respondents flying with South African Airways and 21.4% of respondents flying with 1-Time.

B) Other questions pertaining to forming a relationship

Considering the propositions, it is also important to consider other questions relating to respondents forming a long-term relationship with the domestic airline. Two other questions also pertained to relationship with the airline, namely question 8.1 and 8.11.

In analysing **question 8.1** (I want to form a relationship with the airline) and the domestic airline (question 1a) it was determined that the largest percentage of respondents flying with 1-Time (57.1%), Kulula.com (38.8%), Nationwide (47.2%),

South African Airways (58.6%) and South African Express (46.7%) agree that they want to form a relationship with the domestic airline. On the other hand, the largest percentage of respondents flying with Mango (54.6%) do not want to form a relationship with the domestic airline. In order to determine whether there is an association between the respondents' willingness to form a relationship with the domestic airline and the domestic airline that respondents fly with the majority of the time, a Chi-square test was conducted. The test realised an exceedence probability of $p < 0.00001$ indicating there is a statistically significant association between the two variables. An effect size of 0.57, indicating a large practically significant association between the variables was observed.

- **Main Finding E6:** A large practical association exists between the respondents' willingness to form a relationship and the domestic airline the respondents fly with the majority of the time ($w = 0.57$).

Table 7.25 indicates a cross-tabulation in terms of the satisfaction levels of respondents (question 7.1 – 7.26) and respondents' willingness to form a relationship with the domestic airline.

TABLE 7.25 CONTINGENCY TABLE INDICATING RESPONDENTS' SATISFACTION LEVELS AND THEIR WILLINGNESS TO FORM A RELATIONSHIP WITH THE DOMESTIC AIRLINE

Satisfaction level / Want to form a relationship	Satisfied		Dissatisfied	
	F	%	F	%
Totally agree	30	73.2	11	26.8
Agree	73	46.2	85	53.8
Disagree	26	51.0	25	49.0
Totally disagree	13	30.2	30	69.8
Not applicable	27	87.1	4	12.9
Total	**169**	**52.2**	**155**	**47.8**

From table 7.25 it can be determined that 73.2% of satisfied respondents indicated that they totally agreed with the statement that they want to form a relationship with the domestic airline, while only 26.8% of dissatisfied respondents totally agreed with the statement. Furthermore, only 30.2% of satisfied respondents indicated they totally disagreed with the statement that they want to form a relationship with the domestic airline, while 69.8% of dissatisfied

respondents indicated they totally disagreed with the statement. To determine whether an association exists between the respondents' willingness to form a relationship with the domestic airline and respondents' level of satisfaction, a Chi-square test was conducted. The test realised an exceedence probability of $p < 0.00001$ indicating a statistically significant association. An effect size of 0.32 indicating a medium practically significant association between variables was observed.

- **Main Finding E7:** A statistically significant and a medium practically significant association ($w = 0.32$) exists between respondents' willingness to form a relationship and their level of satisfaction with the domestic airline they fly with the majority of the time.

The data from question 8.1 (I want to form a relationship with the airline) was also analysed with other variables measured in the questionnaire by means of cross-tabulations and Chi-square tests to determine whether any significant associations exist. From this analysis, the following noteworthy deductions could be made.

- Age (question 10.3): The largest percentage of respondents in all age groups agreed with the question that they want to form a relationship with the domestic airline. A statistically significant (exceedence probability of $p < 0.00001$) and medium practically significant ($w = 0.41$) association exists between respondents' willingness to form a relationship and their age.
- Reason for travel (question 10.7): The largest percentage of respondents that travel for business (71.8%) and as tourists or for a holiday (54.2%) want to form a relationship with the domestic airline. A statistically significant (exceedence probability of $p < 0.00001$) and medium practically significant ($w = 0.37$) association exists between respondents' willingness to form a relationship and their reason for travel.
- Decision-maker (question 10.8): Of the respondents who want to form a relationship with the domestic airline, 82.5% chose the airline due to business policy, 60.0% chose the airline themselves, and 52.8% was chosen by a travel agent. A statistically significant (exceedence probability of $p < 0.00001$) and medium practically significant ($w = 0.41$) association exists between respondents' willingness to form a relationship and the decision-maker as to with which domestic airline they travel.

- **Main Finding E8:** Statistically significant and medium practically significant associations exist between the respondents' willingness to form a relationship with the domestic airline and their age ($w = 0.41$); reason for travel ($w = 0.37$) and the decision-maker as to with which domestic airline the respondent will fly ($w = 0.41$).

Apart from only determining whether respondents want to, or have formed a long-term relationship with the domestic airline, it needs to be determined whether any associations can be observed between respondents that have formed a long-term relationship (question 9.1) and other variables measured in the questionnaire that can influence the domestic airlines' **CRM strategy** (see questions 8.2, 8.6, 8.7, 8.8, 8.9, 8.11 and 8.14 in Appendix B). These associations were determined by means of cross-tabulations and Chi-square tests. The following results were observed:

- The airline focuses on building long-term relationship with passengers (**question 8.2**): The majority of respondents who have formed a long-term relationship with the domestic airline agreed with the statement that the domestic airline focuses on building long-term relationships with them (78.2%), while 53.9% of respondents that have not formed a relationship with the airline disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a large practically significant ($w = 0.45$) association was observed between these variables.
- The respondent will stay loyal to the airline even if other airlines offer better loyalty programmes (**question 8.6**): The majority of respondents that have formed a long-term relationship with the domestic airline disagreed with the statement that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (76.8%), while 86.3% of respondents that have not formed a relationship also disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant ($w = 0.38$) association was observed between these variables.
- The respondent will become more loyal if the airline offers individual attention and special treatment (**question 8.7**): The majority of respondents who have formed a long-term relationship with the domestic airline agreed with the statement that they will become more loyal if the domestic airline offers individual attention and special treatment (83.1%), while 56.0% of

respondents that have not formed a relationship also agreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and *a medium practically significant ($w = 0.32$) association was observed between* these variables.

- The airline communicates special offers to respondents through e-mail or newsletters (**question 8.8**): The majority of respondents that have formed a long-term relationship with the domestic airline disagreed with the statement that the airline communicates special offers to them through e-mail or newsletters (54.2%), while 58.8% of respondents that have not formed a relationship also disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant ($w = 0.35$) association was observed between these variables.
- The more frequently respondents fly with the airline, the more services are offered (**question 8.9**): The majority of respondents that have formed a long-term relationship with the domestic airline agreed with the statement that the more frequently they fly, the more services are offered by the domestic airline (71.1%), while 62.1% of respondents that have not formed a relationship disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a large practically significant ($w = 0.46$) association was observed between these variables.
- The frequent flier mile programme will cause respondents to form a relationship with the airline (**question 8.11**): The majority of respondents that have formed a long-term relationship with the domestic airline agreed with the statement that the frequent flier mile programme will cause them to form a relationship with the domestic airline (88.7%), while 67.0% of respondents that have not formed a relationship also agreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant ($w = 0.35$) association was observed between these variables.
- The airline rewards respondents for their business (**question 8.14**): The majority of respondents that have formed a long-term relationship with the domestic airline agreed with the statement that the domestic airline rewards them for their business (72.5%), while 64.3% of respondents that have not formed a relationship disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a large practically significant ($w = 0.49$) association was observed between these variables.

Taking the above results into consideration the following main findings can be observed:

- **Main Finding E9**: The majority of respondents who have formed a long-term relationship with the domestic airline agreed with the statements that the domestic airline focuses on building long-term relationships with them (78.2%); they will become more loyal if the domestic airline offers individual attention and special treatment (83.1%); the more frequently they fly, the more services are offered by the domestic airline (71.1%); the frequent flier mile programme will cause them to form a relationship with the domestic airline (88.7%); and the domestic airline rewards them for their business (72.5%). Furthermore, the majority of respondents who have formed a long-term relationship with the domestic airline disagreed with the statements that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (76.8%); and the airline communicates special offers to them through e-mail or newsletters (54.2%).
- **Main Finding E10**: Statistically significant and medium to large practically significant associations exist between respondents that have formed a long-term relationship with the domestic airline and that the domestic airline focuses on building long-term relationship with them (w = 0.45); they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (w = 0.38); they will become more loyal if the domestic airline offers individual attention and special treatment (w = 0.32); the airline communicates special offers to them through e-mail or newsletters (w = 0.35); the more frequently they fly, the more services are offered by the domestic airline (w = 0.46); the frequent flier mile programme will cause them to form a relationship with the domestic airline (w = 0.35); and the domestic airline rewards them for their business (w = 0.49).

7.3.6.2 Results obtained from question 9.2

Question 9.2 asked respondents that indicated they had formed a long-term relationship in question 9.1 (142 respondents) to explain why they had formed this relationship (table 7.26) by means of an open-ended question.

TABLE 7.26 REASON FOR FORMING A LONG-TERM RELATIONSHIP WITH THE DOMESTIC AIRLINE

Reason for forming a long-term relationship	F	%
Service	56	39.4
Loyalty programme	36	25.4
Prices offered by airline	16	11.3
Airline provides the best package	15	10.6
Availability of flights	12	8.5
Airline is a trusted brand	5	3.5
Respondent feels safe when flying	3	2.1

Table 7.26 records that the main reasons why respondents had formed a relationship were due to the service they receive from the airline (39.4%) as well as the loyalty programme offered by the airline (25.4%).

- **Main Finding E11:** Respondents who have formed a long-term relationship with the domestic airline have formed the relationship largely due to the service received (39.4%) and the loyalty programme (25.4%) offered.

7.3.6.3 Results obtained from question 9.3

Respondents who indicated they had not formed a long-term relationship with the domestic airline in question 9.1 (182 respondents) were asked to provide the reason for not forming a relationship. These responses are listed in table 7.27.

TABLE 7.27 REASONS FOR NOT FORMING A LONG-TERM RELATIONSHIP WITH THE DOMESTIC AIRLINE

Reason for not forming a long-term relationship	F	%
Respondent does not want to form a relationship	55	30.2
Respondent does not feel important enough to airline	39	21.4
High price of tickets charged by the airline	35	19.2
Poor service	20	11.0
Lack of available flights	14	7.7
Fly airline due to business policy (have no choice)	10	5.5
No real difference between airlines	5	2.8

The main reasons why respondents had not formed a long-term relationship with the domestic airline as indicated in table 7.27 include that the respondent does not want to form a relationship (30.2%); they do not feel that they are important enough to the domestic airline to form a long-term relationship (21.4%); and the high price of tickets (19.2%).

- **Main Finding E12:** Respondents that had not formed a long-term relationship with the domestic airline had not done so because they do not want to form a relationship (30.2%) or they feel they are not important enough to the airline to form a long-term relationship (21.4%).

7.3.6.4 Results obtained from question 9.4

Question 9.4 was a closed-ended question that asked respondents to state how loyal they are to the domestic airline. The results pertaining to this question are described in terms of a frequency analysis, as well as the associations between this question and other variables measured in the questionnaire (see Appendix B questions 1 – 10).

A) Loyalty

The frequency table pertaining to the loyalty levels of respondents is presented in table 7.28.

TABLE 7.28 RESPONDENTS' LOYALTY LEVEL TOWARDS THE DOMESTIC AIRLINE

Loyalty level	F	%
Very loyal	18	5.6
Loyal	141	43.5
Not loyal	127	39.2
Not loyal at all	38	11.7
Total	**324**	**100**

Table 7.28 indicates a relatively even spread between respondents who are loyal (5.6% + 43.5% = 49.1%) and those who are not loyal (39.2% + 11.7% = 50.9%) to the airline.

- **Main Finding E13:** Almost half (49.1%) of the respondents indicated they are loyal to the domestic airline.

Question 9.4 was analysed in terms of the domestic airline which respondents use. Respondents are loyal to South African Express (80.0%), South African Airways (62.9%), and 1-Time (57.1%). In order to determine whether there is an association between the respondents' loyalty level and the domestic airline, a Chi-square test was conducted. The test realised an exceedence probability of p = 0.00003 indicating that there is a statistically significant association between the two variables. An effect size of 0.40, indicating a medium practically significant association between the variables was observed.

- **Main Finding E14:** A statistically significant and a medium practically significant association (w = 0.40) exists between the respondents' loyalty level and the domestic airline they fly with.

B) Loyalty and other loyalty constructs tested in the questionnaire

Further analysis on the data obtained from question 9.4 realised the following results in terms of other loyalty constructs tested in the questionnaire:

Question 8.3 aimed to determine whether respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices (less than 10% difference in price).

In the association between question 8.3 and the domestic airline (question 1a), only respondents flying with South African Airlink (50.0%), South African Airways (54.3%) and South African Express (80.0%) will remain loyal to the domestic airline if other domestic airlines offer slightly lower prices. In order to determine whether an association between these variables can be observed, a Chi-square test was conducted. The test realised an exceedence probability of p = 0.00000 indicating a statistically significant association between the two variables. Furthermore an effect size of w = 0.54 indicating a large practically significant association between the variables was observed.

- **Main Finding E15:** A statistically significant and a large practically significant (w = 0.54) association exists between the domestic airline and whether or not

respondents would remain loyal to the domestic airline if other domestic airlines offer slightly lower prices.

The data in terms of whether the respondent would remain loyal to the domestic airline even if other airlines offer slightly lower prices were furthermore compared by means of cross-tabulations and associations with the other variables measured in the questionnaire. The following observations were made concerning whether respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices:

- Age (question 10.3): The largest percentage of respondents older than 51 indicated they would remain loyal to the domestic airline if other airlines offer slightly lower prices (42.3%), a further 23.1% of this age group indicated that the statement was "not applicable". The majority of respondents from other age groups indicated they would not remain loyal to the domestic airline if other airlines offer slightly lower prices. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.43$) association exists between respondent age groups and whether respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices.
- Reason for travel (question 10.7): The only group of respondents that indicated they would remain loyal to the domestic airline they fly with the majority of the time if other airlines offer slightly lower prices, are respondents flying for business (50.0%). A statistically significant (exceedence probability of $p < 0.00001$) and a large practically significant ($w = 0.43$) association exists between respondents' reason for travel and whether respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices.
- Decision-maker (question 10.8): 58.75% of respondents who fly with a domestic airline indicated that the selection of the airline was determined by their business policy, and 50% of respondents whose decision as to with which airline to travel with made by a travel agent indicated they would remain loyal to the domestic airline, even if other airlines offer slightly lower prices. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.39$) association was observed between the decision-maker as to with which domestic airline the respondent will travel

and whether respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices.

From the above discussion, the following main findings can be presented:

- **Main Finding E16:** Statistically significant and medium to large practically significant associations exist between whether or not respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices and respondents' age (w = 0.43); respondents' reason for travel (w = 0.45) and the decision-maker as to with which domestic airline the respondent will travel (w = 0.39).

When **question 8.4** (the respondent will remain loyal to the domestic airline even if other airlines offer significantly lower prices – more than 10% difference in price) was compared with other variables measured in the questionnaire, the following main results were realised.

In terms of the domestic airline respondents fly with, all respondents flying with Mango, 90.3% of respondents flying with Kulula.com, 83.34% flying with Nationwide, 78.57% flying with 1-Time, 66.43% flying with South African Airways, and 60.0% flying with South African Express indicated they would not remain loyal to the domestic airline if other airlines offer significantly lower prices. In order to determine whether there is an association between whether respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices and the domestic airline they fly with the majority of the time, a Chi-square test was conducted. The test realised an exceedence probability of $p < 0.00001$ indicating there is a statistically significant association between the two variables. An effect size of 0.46, indicating a large practically significant association was observed between these variables.

- **Main Finding E17:** A statistically significant and large practically significant association exists between the domestic airlines which respondents fly with, and whether they would remain loyal to the domestic airline, even if other airlines offer significantly lower prices.

For the purpose of the study it is, however, important to determine if there are any other noteworthy deductions and significant associations between whether

respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices and other variables measured in the questionnaire. The following deductions can be made regarding the data obtained from question 8.4:

- Age (question 10.3): The majority of respondents from all age groups indicated they would not remain loyal to the domestic airline if other airlines offer significantly (more than 10% difference in price) lower prices. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.43$) association was observed between respondents of different age groups and whether respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices.
- Reason for travel (question 10.7): Twenty-six (26) percent of respondents travelling for business, 6.3% of respondents travelling for a holiday and 10.6% of respondents travelling to visit friends or family would remain loyal to the domestic airline if other airlines offer significantly lower prices. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.39$) association was observed between respondents' reason for travel and whether respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices.
- Decision-maker (question 10.8): The largest percentage of respondents who would remain loyal to the domestic airline even if other airlines offer significantly lower prices are those respondents whose business policy dictate which domestic airline they fly with (36.3%), followed by 16.7% of respondents whose decision was made by a travel agent. A statistically significant (exceedence probability of $p < 0.00001$) and a medium practically significant ($w = 0.39$) association was observed between the decision-maker as to with which domestic airline the respondent will fly and whether respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices.

From the above discussion, the following main findings can be reported:

- **Main Finding E18:** Statistically significant and medium practically significant associations were observed between whether respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices and respondents' age ($w = 0.43$); respondents' reason for travel ($w = 0.39$) and the

decision-maker as to with which domestic airline the respondent will travel (w = 0.39).

Question 8.5 in the questionnaire aimed to determine whether respondents would remain loyal to the domestic airline even if other airlines offer better service.

When this question was analysed with other questions in the questionnaire, the only significant result was realised in terms of population group (question 10.2). The majority of respondents from all population groups indicated they would not remain loyal to the domestic airline if other airlines offer better service. The largest percentage of respondents that would remain loyal is Asian / Indian respondents (31.3%), followed by African respondents (19.4%). In order to determine whether or not there is an association between respondents remaining loyal to the domestic airline they fly with even if other airlines offer better service and the respondents' population group, a Chi-square test was conducted. The test realised an exceedence probability of $p < 0.00001$ indicating a statistically significant association between the two variables. An effect size of 0.38, indicating a medium practically significant association between the variables was observed.

- **Main Finding E19:** A statistical significant and medium practical significant (w = 0.38) association exists between respondents' population group and whether they would remain loyal to the domestic airline even if other airlines offer better service.

Question 8.6: Here, the questionnaire aimed to determine whether the respondent would remain loyal to the domestic airline even if other airlines offer better loyalty programmes. Although this question could be used to determine results pertaining to the proposition dealing with loyalty, no statistically or practically significant associations were obtained in terms of question 8.6 and other questions in the questionnaire.

Question 8.7 (respondents will become loyal if the airline offers them individual attention and special treatment) only realised a statistically and practically significant association when analysed in terms of respondents' population group.

The majority of respondents from all population groups, namely Asians / Indians (81.3%), Africans (77.4%), Whites (66.5%) and Coloureds (53.3%) all indicated that they would remain loyal to the domestic airline if they were offered individual attention and special treatment. A Chi-square test (to determine whether associations exist between variables) realised an exceedence probability of $p < 0.00001$ indicating there is a statistically significant association between the two variables. An effect size of 0.38 indicates a medium practically significant association between variables.

- **Main Finding E20:** A statistically significant and a medium practically significant ($w = 0.38$) association exists between the population group and whether respondents would remain loyal to the domestic airline if they were offered individual attention and special treatment.

C) Loyalty and satisfaction

Two important constructs examined in this study include loyalty and satisfaction. For this reason, it is important to determine whether a significant association exists between satisfied respondents and loyal respondents.

Table 7.29 presents data pertaining to respondents' satisfaction and loyalty levels.

TABLE 7.29 RESPONDENTS' SATISFACTION AND LOYALTY TOWARDS THE DOMESTIC AIRLINE

Satisfaction levels / Loyalty levels	Satisfied		Dissatisfied	
	F	%	F	%
Loyal	97	61.0	62	39.0
Disloyal	72	43.6	93	56.4
Total	169	52.2	155	47.8

The results presented in table 7.29 indicate that 61.0% of loyal respondents are satisfied, while 56.4% of disloyal respondents are dissatisfied with the domestic airline. In order to determine whether there is an association between the respondent's loyalty and satisfaction levels, a Chi-square test was conducted. The test realised an exceedence probability of $p = 0.00002$ indicating a statistically significant association between these variables. An effect size of

0.17, indicating a small practically significant association between the variables was observed.

- **Main Finding E21:** Sixty-one (61) percent of loyal respondents indicated they were satisfied, while 56.4% of disloyal respondents indicated they are dissatisfied with the domestic airline. A statistically significant but small practically significant association was observed between the variables (w = 0.17).

In order to further test respondents' satisfaction and loyalty levels (whether respondents were very loyal or loyal), an effect size for the difference in means was determined. A large practically significant difference (d = 0.96) was observed between "very loyal" and "loyal" respondents and their satisfaction level toward the domestic airline.

- **Main Finding E22** (satisfied respondents who are loyal): A large practically significant difference (d = 0.96) exists between the respondents who indicated they are very loyal and respondents who indicated they are loyal and satisfaction. Respondents who indicated they are very loyal stated that they are more satisfied than respondents that indicated they were loyal.

D) Loyalty and relationships

Respondent loyalty and whether of not respondents have formed a long-term relationship with the domestic airline are also two important constructs in terms of this study. For this reason, it is important to determine whether significant associations exist between these two constructs.

In terms of the loyalty levels of respondents (question 9.4) and whether respondents have formed a long-term relationship with the domestic airline (question 9.1), it could be determined that 76.1% of respondents that indicated that they have formed a long-term relationship are loyal toward the domestic airline. In order to determine whether there is an association between respondents' loyalty level and whether respondents have formed a long-term relationship with the domestic airline, a Chi-square test was conducted. The test realised an exceedence probability of $p < 0.00001$, indicating that there is a statistically significant association between the two variables. An effect size of w

= 0.95, indicating a large practically significant association between variables, was observed.

- **Main Finding E23:** A statistically significant and a large practically significant (w = 0.95) association exists between whether respondents have formed a long-term relationship with the domestic airline and the respondents' loyalty level.

In this study it needs to be determined whether loyalty impacts on the elements that domestic airlines can use as part of their CRM strategy (see questions 8.2, 8.6, 8.7, 8.8, 8.9, 8.11 and 8.14 in the questionnaire – Appendix B). The following statistically and practically significant associations (determined by means of a Chi-square test) were observed in terms of respondents that indicated they were loyal and the questions pertaining to an airlines' CRM strategy:

- The airline focuses on building a long-term relationship with passengers (**question 8.2**): The majority of respondents who are loyal agreed with the statement that the domestic airline focuses on building long-term relationships with them (74.2%), while 53.9% of respondents who are not loyal disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant (w = 0.41) association was observed between these variables.
- The respondent will stay loyal to the airline even if other airlines offer better loyalty programmes (**question 8.6**): The majority of respondents that are loyal disagreed with the statement that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (78.6%), while 85.5% of respondents who are not loyal also disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant (w = 0.32) association was observed between these variables.
- The respondent will become more loyal if the airline offers individual attention and special treatment (**question 8.7**): The majority of respondents who are loyal agreed with the statement that they will become more loyal if the domestic airline offers individual attention and special treatment (79.3%), while 57.0% of respondents that are not loyal also agreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium

practically significant (w = 0.26) association was observed between these variables.

- The airline communicates special offers to respondents through e-mail or newsletters (**question 8.8**): The majority of respondents who are loyal disagreed with the statement that the airline communicates special offers to them through e-mail or newsletters (53.6%), while 60.0% of respondents who are not loyal also disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant (w = 0.26) association was observed between these variables.
- The more frequently respondents fly with the airline, the more services are offered (**question 8.9**): The majority of respondents who are loyal agreed with the statement that the more frequently they fly, the more services are offered by the domestic airline (64.8%), while 63.6% of respondents who are not loyal disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant (w = 0.41) association was observed between these variables.
- The frequent flier mile programme will cause respondents to form a relationship with the airline (**question 8.11**): The majority of respondents who are loyal agreed with the statement that the frequent flier mile programme will cause them to form a relationship with the domestic airline (83.0%), while 70.3% of respondents who are not loyal also agreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant (w = 0.34) association was observed between these variables.
- The airline rewards respondents for their business (**question 8.14**): The majority of respondents who are loyal agreed with the statement that the domestic airline rewards them for their business (61.0%), while 61.8% of respondents who are not loyal disagreed with the statement. A statistically significant (exceedence probability $p < 0.00001$) and a medium practically significant (w = 0.34) association was observed between these variables.

Taking the above results into consideration the following main findings can be observed:

- **Main Finding E24**: The majority of respondents who are loyal to the domestic airline agreed with the statements that the domestic airline focuses on building long-term relationships with them (74.2%); they will become more

loyal if the domestic airline offers individual attention and special treatment (79.3%); the more frequently they fly, the more services are offered by the domestic airline (64.8%); the frequent flier mile programme will cause them to form a relationship with the domestic airline (83.0%); and the domestic airline rewards them for their business (61.0%). Furthermore, the majority of respondents who are loyal to the domestic airline disagreed with the statements that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (78.6%); and the airline communicates special offers to them through e-mail or newsletters (53.6%).

- **Main Finding E25**: Statistically significant and medium to large practically significant associations exist between respondents that are loyal toward the domestic airline and that the domestic airline focuses on building long-term relationship with them (w = 0.41); they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (w = 0.32); they will become more loyal if the domestic airline offers individual attention and special treatment (w = 0.26); the airline communicates special offers to them through e-mail or newsletters (w = 0.26); the more frequently they fly, the more services are offered by the domestic airline (w = 0.41); the frequent flier mile programme will cause them to form a relationship with the domestic airline (w = 0.34); and the domestic airline rewards them for their business (w = 0.34).

7.3.6.5 Results obtained from question 9.5

Respondents were asked in an open-ended question (question 9.5) to explain why they are loyal to the domestic airline. Only respondents who stated they were "loyal" or "very loyal' in question 9.4 (159 respondents) answered this question. Table 7.30 provides these results.

TABLE 7.30 REASONS FOR RESPONDENTS BEING LOYAL TO THE DOMESTIC AIRLINE

Reason	F	%
Service received	57	35.8
Loyalty programme offered by airline	43	27.0
Offers value for money	25	15.7
Loyal due to business policy	16	10.1
Convenient flight schedules	8	5.0
Humour on flights	4	2.5
Loyal to largest airline	3	1.9
Professional and helpful staff	3	1.9

The results presented in table 7.30 indicate that the main reasons why respondents are loyal to the domestic airline include the service received (35.8%) and the loyalty programme offered by the airline (27.0%). These responses correspond to the reasons why respondents have formed a long-term relationship with the domestic airline as reflected in table 7.28.

- **Main Finding E26:** The largest percentage of respondents is loyal towards the domestic airline because of the services received (35.8%) and the loyalty programme offered by the airline (27.0%).

7.3.6.6 Results obtained from question 9.6

Respondents who stated they were "not very loyal' or "not loyal at all" in question 9.4 (165 respondents) were asked to explain the reason for their disloyalty to the domestic airline by means of an open-ended question. These responses are listed in table 7.31.

TABLE 7.31 REASONS WHY RESPONDENTS ARE DISLOYAL TO THE DOMESTIC AIRLINE

Reason	F	%
Airline is too expensive	64	38.8
Bad service	44	26.7
Lack of available flights	18	10.9
Not rewarded by the airline	17	10.3
Not part of the loyalty programme	9	5.5
Business policy (have no choice with which airline to fly)	8	4.8
All airlines are the same	5	3.0

Table 7.31 indicates that respondents are not loyal to the domestic airline because the airlines' ticket prices are too high (38.8%) and due to bad service (26.7%).

- **Main Finding E27:** The largest percentage of respondents is disloyal toward the domestic airline because of high ticket prices (38.8%) and bad service (26.7%).

7.4 SUMMARY OF MAIN EMPIRICAL RESEARCH FINDINGS

Sections 7.2 and 7.3 presented the empirical research results obtained from each section of the questionnaire. The main findings observed and discussed in section 7.3 are summarised in this section.

Section A of the questionnaire (discussed in section 7.3.2) aimed to gather information regarding which domestic airline respondents fly with, how often they fly with the airline as well as determining what respondents look for when selecting a domestic airline. Section A of the questionnaire consisted of questions one, two, three, four, and five of the questionnaire. The following main findings were observed from section A.

- **Main Finding A1:** Most respondents fly with South African Airways the majority of the time, on the day of the survey and prefer flying with this domestic airline.
- **Main Finding A2:** A statistically and practically significant association can be observed between the domestic airline respondents fly with the majority of the time and prefer flying.
- **Main Finding A3:** There is a statistically and medium to large practically significant association between the domestic passenger airline respondents fly with the majority of the time and respondents' population group (w = 0.43); age (w = 0.51); employment (w = 0.62); reason for travel (w = 0.57) and the decision-maker as to with which domestic airline the respondent will travel with (w = 0.52).
- **Main Finding A4:** Just over 91% (91.1%) of respondents have flown with two or less domestic airlines in the twelve month period leading up to the survey apart from the domestic airline they fly with the majority of the time.

- **Main Finding A5:** Price is the main consideration for travelling with another domestic airline than the airline respondents fly with the majority of the time (46.6%).
- **Main Finding A6:** The main reasons for selecting a specific domestic airline are price (53.7%), followed by the availability of flights (34.0%).
- **Main Finding A7:** Statistically significant and medium to large practically significant associations exist between the domestic airline respondents selects and business policy (w = 0.40), price (w = 0.55) and service quality (w = 0.33).
- **Main Finding A8:** The majority of respondents (81.5%) have flown with the domestic airline six or less times in the preceding year.

Section B (questions 6.1 – 6.10 in the questionnaire discussed in section 7.3.3) specifically aimed to determine whether respondents had suffered a service failure with the domestic airline and whether or not respondents are satisfied with the airlines' response to the service failure. The following main findings were observed from section B:

- **Main Finding B1:** Almost 22% (21.9%) of respondents have suffered a service failure with the domestic airline.
- **Main Finding B2:** The service failures experienced by most respondents with the domestic airline were delayed flights (61.4%) followed by poor service (17.2%).
- **Main Finding B3:** Just under half (49.3%) of respondents who had suffered a service failure indicated that the service failure was "less than major" to "major" to them.
- **Main Finding B4:** The majority of respondents (56.7%) indicated that the domestic airline did nothing to solve the problem or to rectify the service failure experienced.
- **Main Finding B5:** Following the airlines' response to respondents' service failure, 52.1% of respondents were dissatisfied and 15.5% totally dissatisfied with the airlines' response to their service failure.
- **Main Finding B6:** A statistically and large practically significant association exists between whether or not respondents were satisfied with the domestic airline's response to the service failure and the decision-maker regarding with as to with which domestic airline the respondent will fly.

- **Main Finding B7:** Most of the respondents who indicated they were satisfied with the domestic airlines' response to the service failure were satisfied because the domestic airline kept them informed and gave explanations for the service failure (47.7%).
- **Main Finding B8:** More than half of respondents (51.1%) who were dissatisfied with the airline's response to the service failure stated the domestic airline should have kept them informed and apologised.
- **Main Finding B9:** Just over 52% (52.1%) of respondents indicated their relationship with the domestic airline was weakened, while 14.1% of respondents indicated their relationship was broken following the airlines' response to the service failure.
- **Main Finding B10:** Just over 56% (56.4%) of respondents indicated they have flown less often or have never flown with the domestic airline again following the domestic airlines' response to the service failure.
- **Main Finding B11:** Sixty-two percent of respondents would recommend the domestic airline they fly with the majority of time to others following the domestic airlines' response to the service failure.

Section C (questions 7.1 – 7.26 discussed in section 7.3.4) in the questionnaire aimed to determine which service elements were important to respondents and whether or not respondents are satisfied with the services provided by the domestic airline. The following main findings were observed from section C:

- **Main Finding C1:** Service elements pertaining to the domestic airline respondents fly with the majority of the time that are least important include that quality food and beverages are provided during the flight (30.6%), that the airline has comfortable waiting lounges (25.6%) and that the airline offers additional services (24.1%).
- **Main Finding C2:** Service elements pertaining to the airline respondents fly with the majority of the time that are important to most respondents include that employees of the airline offer prompt service (96.7%); employees of the airline are consistently courteous (96.0%); employees are never too busy to respond to requests or complaints (95.4%) and that employees of the airline understand respondent needs (95.1%).
- **Main Finding C3:** Factor 1 can be labelled as service offered by airline employees, feeling safe when flying and departing, and arriving on time.

- **Main Finding C4:** Factor 2 can be labelled as on-line services offered by domestic airlines.
- **Main Finding C5:** Factor 3 can be labelled as check-in related services as well as convenient flight schedules provided by domestic airlines.
- **Main Finding C6:** Factor 4 can be labelled as comfortable post check-in as well as supplementary services offered by the airline.
- **Main Finding C7:** Service elements that respondents are most dissatisfied with include the comfort of the airlines' waiting lounges (43.5%), that the flight does not depart and arrive on time (38.0%) and the low prices of tickets (31.8%).
- **Main Finding C8:** Service elements that respondents are most satisfied with include that they feel safe when they fly (94.8%); that the employees of the domestic airline appear neat and tidy (92.6%); and the consistent in-flight services provided by the domestic airline (90.1%).
- **Main Finding C9** (Satisfied respondents and question 10.2): Large practically significant differences exists between African respondents (who indicated they were more satisfied) and Asian / Indian respondents (d = 0.98). Furthermore, large practically significant differences exists between Asian / Indian (d = 0.84) and White (d = 0.89) respondents (who are more satisfied) and Coloured respondents, while Asian / Indian respondents are more satisfied than White respondents (d = 0.97).
- **Main Finding C10** (Satisfied respondents and question 10.6): Large practically significant differences exist between respondents that travel by themselves (who are more satisfied) and respondents travelling with family (d = 1.00) and colleagues (d = 1.00). Respondents that travel by themselves are less satisfied than respondents travelling with friends (d = 0.85). Respondents flying with friends (d = 0.80) and colleagues (d = 1.00) are more satisfied than respondents travelling with family. Furthermore a large practically significant differences exists between respondents travelling with friends (who are more satisfied) and respondents travelling with colleagues (d = 0.84).
- **Main Finding C11** (Satisfied respondents and question 10.7): A large practically significant difference exists between respondents who travel as a tourist or for a holiday (who are more satisfied) and those flying for business (d = 0.97).

- **Main Finding C12** (Satisfied respondents and question 10.8): Large practically significant differences exist between respondents who make use of travel agents (who are more satisfied) and respondents whose business policy dictates the domestic airline (d = 0.92). Respondents whose business policy dictates the domestic airline to be travelled with are more satisfied than respondents who make their own decisions (d = 0.92).
- **Main Finding C13:** A large practically significant difference exists between the level of importance and the level of respondent satisfaction of the service elements pertaining to the flight departs and arrives on time (d = 1.07), low prices of tickets (d = 0.94) and respondents feel safe when they fly (d = 0.82).
- **Main Finding C14:** With the exception of the service elements where large practical significant differences were observed and for service elements where no practically significant differences were found, respondents were dissatisfied with all other (19) service elements provided.

Questions 8.1 – 8.15 (section D of the questionnaire discussed in section 7.3.5) aimed to determine the extent of respondents' relationship and loyalty toward the domestic airline. The following main findings were observed pertaining to this section of the questionnaire.

- **Main Finding D1:** Most respondents agreed with the statements that they will fly more with the domestic airline if they were offered upgrades or discounts (87.7%); that the frequent flier programme will cause them to form a relationship with the domestic airline (76.5%) and they will become more loyal if they were offered individual attention and special treatment (67.9%).
- **Main Finding D2:** The largest percentage of respondents indicated they would not remain loyal to the domestic airline if other airlines offer better service (84.3%), offer better loyalty programmes (82.1%) or if other domestic airlines offer significantly lower prices (76.9%).
- **Main Finding D3:** In terms of the statements pertaining to the CRM strategy of the domestic airline that respondents agreed with include that the airline focuses on building long-term relationships with them (56.8%); respondents will become more loyal if the airline offers individual attention and special treatment (67.9%); the more frequently respondents fly with the domestic airline, the more services are offered (49.1%); and the frequent flier mile programme will cause respondents to form a relationship with the domestic airline (76.5%).

- **Main Finding D4:** In terms of the statements pertaining to the CRM strategy of the domestic airline that respondents disagreed with include that respondents will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (82.1%); the domestic airline communicates special offers to respondents through e-mail or newsletters (56.8%); and the domestic airline rewards respondents for their business (46.9%).
- **Main Finding D5:** The majority of satisfied respondents agreed with the statements that the domestic airline focuses on building long-term relationships with them (68.6%); the more frequently they fly with the domestic airline, the more services are offered (52.1%); the frequent flier mile programme will cause respondents to form a relationship with the domestic airline (76.9%); and the domestic airline rewards respondents for their business (52.7%). The majority of satisfied respondents disagreed with the statement that they will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (74.0%).
- **Main Finding D6:** Statistically significant and medium practically significant associations exist between satisfied respondents and whether the domestic airline focuses on building long-term relationships with them (w = 0.37); respondents will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (w = 0.25); the more frequently respondents fly with the domestic airline, the more services are offered (w = 0.26); the frequent flier mile programme will cause the respondent to form a relationship with the domestic airline (w = 0.25); and the domestic airline rewards respondents for their business (w = 0.26).

The purpose of Section E of the questionnaire (questions 9.1 – 9.6 discussed in section 7.3.6) was to gather more data on the relationship the respondent has with the domestic airline as well as the respondents' loyalty toward the airline. The following main findings from section E were observed:

- **Main Finding E1:** Nearly 44% (43.8%) of respondents have formed a long-term relationship with the domestic airline.
- **Main Finding E2:** Statistically significant and medium to large practically significant associations exist between whether respondents have formed a long-term relationship with the domestic airline and the domestic airline they fly with (w = 0.52); with whom the respondent travels (w = 0.40); and the

decision-maker as to with which domestic airline the respondent travels (w = 0.42).

- **Main Finding E3:** Nearly half of the respondents who are satisfied (49.7%) have formed a long-term relationship with the domestic airline.
- **Main Finding E4:** More than 60% (62.3%) of dissatisfied respondents have not formed a long-term relationship with the domestic airline.
- **Main Finding E5:** A large practically significant difference (d = 0.86) exists between respondent satisfaction level and whether they have formed a long-term relationship with the domestic airline.
- **Main Finding E6:** A large practical association exists between the respondents' willingness to form a relationship and the domestic airline the respondents fly with the majority of the time (w = 0.57).
- **Main Finding E7:** A statistically significant and a medium practically significant association (w = 0.32) exists between respondents' willingness to form a relationship and their level of satisfaction with the domestic airline they fly with the majority of the time.
- **Main Finding E8:** Statistically significant and medium practically significant associations exist between the respondents' willingness to form a relationship with the domestic airline and their age (w = 0.41); reason for travel (w = 0.37) and the decision-maker as to with which domestic airline the respondent will fly (w = 0.41).
- **Main Finding E9**: The majority of respondents who have formed a long-term relationship with the domestic airline agreed with the statements that the domestic airline focuses on building long-term relationships with them (78.2%); they will become more loyal if the domestic airline offers individual attention and special treatment (83.1%); the more frequently they fly, the more services are offered by the domestic airline (71.1%); the frequent flier mile programme will cause them to form a relationship with the domestic airline (88.7%); and the domestic airline rewards them for their business (72.5%). Furthermore, the majority of respondents who have formed a long-term relationship with the domestic airline disagreed with the statements that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (76.8%); and the airline communicates special offers to them through e-mail or newsletters (54.2%).
- **Main Finding E10**: Statistically significant and medium to large practically significant associations exist between respondents that have formed a long-

term relationship with the domestic airline and that the domestic airline focuses on building long-term relationship with them (w = 0.45); they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (w = 0.38); they will become more loyal if the domestic airline offers individual attention and special treatment (w = 0.32); the airline communicates special offers to them through e-mail or newsletters (w = 0.35); the more frequently they fly, the more services are offered by the domestic airline (w = 0.46); the frequent flier mile programme will cause them to form a relationship with the domestic airline (w = 0.35); and the domestic airline rewards them for their business (w = 0.49).

- **Main Finding E11:** Respondents who have formed a long-term relationship with the domestic airline have formed the relationship largely due to the service received (39.4%) and the loyalty programme (25.4%) offered.
- **Main Finding E12:** Respondents that had not formed a long-term relationship with the domestic airline had not done so because they do not want to form a relationship (30.2%) or they feel they are not important enough to the airline to form a long-term relationship (21.4%).
- **Main Finding E13:** Almost half (49.1%) of the respondents indicated they are loyal to the domestic airline.
- **Main Finding E14:** A statistically significant and a medium practically significant association (w = 0.40) exists between the respondents' loyalty level and the domestic airline they fly with.
- **Main Finding E15:** A statistically significant and a large practically significant (w = 0.54) association exists between the domestic airline and whether or not respondents would remain loyal to the domestic airline if other domestic airlines offer slightly lower prices.
- **Main Finding E16:** Statistically significant and medium to large practically significant associations exist between whether or not respondents would remain loyal to the domestic airline even if other airlines offer slightly lower prices and respondents' age (w = 0.43); respondents' reason for travel (w = 0.45) and the decision-maker as to with which domestic airline the respondent will travel (w = 0.39).
- **Main Finding E17:** A statistically significant and large practically significant association exists between the domestic airlines respondents fly with and if they would remain loyal to the domestic airline, even if other airlines offer significantly lower prices.

- **Main Finding E18:** Statistically significant and medium practically significant associations were observed between whether respondents would remain loyal to the domestic airline even if other airlines offer significantly lower prices and respondents' age (w = 0.43); respondents' reason for travel (w = 0.39) and the decision-maker as to with which domestic airline the respondent will travel (w = 0.39).
- **Main Finding E19:** A statistical significant and medium practical significant (w = 0.38) association exists between respondents' population group and whether they would remain loyal to the domestic airline even if other airlines offer better service.
- **Main Finding E20:** A statistically significant and a medium practically significant (w = 0.38) association exists between the population group and whether respondents would remain loyal to the domestic airline if they were offered individual attention and special treatment.
- **Main Finding E21:** Sixty-one (61) percent of loyal respondents indicated they were satisfied, while 56.4% of disloyal respondents indicated they are dissatisfied with the domestic airline. A statistically significant but small practically significant association was observed between the variables (w = 0.17).
- **Main Finding E22** (satisfied respondents who are loyal): A large practically significant difference (d = 0.96) exists between the respondents who indicated they are very loyal and respondents who indicated they are loyal and satisfaction. Respondents who indicated they are very loyal stated that they are more satisfied than respondents that indicated they were loyal.
- **Main Finding E23:** A statistically significant and a large practically significant (w = 0.95) association exists between whether respondents have formed a long-term relationship with the domestic airline and the respondents' loyalty level.
- **Main Finding E24**: The majority of respondents who are loyal to the domestic airline agreed with the statements that the domestic airline focuses on building long-term relationships with them (74.2%); they will become more loyal if the domestic airline offers individual attention and special treatment (79.3%); the more frequently they fly, the more services are offered by the domestic airline (64.8%); the frequent flier mile programme will cause them to form a relationship with the domestic airline (83.0%); and the domestic airline rewards them for their business (61.0%). Furthermore, the majority of

respondents who are loyal to the domestic airline disagreed with the statements that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (78.6%); and the airline communicates special offers to them through e-mail or newsletters (53.6%).

- **Main Finding E25**: Statistically significant and medium to large practically significant associations exist between respondents that are loyal toward the domestic airline that the domestic airline focuses on building long-term relationship with them (w = 0.41); they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (w = 0.32); they will become more loyal if the domestic airline offers individual attention and special treatment (w = 0.26); the airline communicates special offers to them through e-mail or newsletters (w = 0.26); the more frequently they fly, the more services are offered by the domestic airline (w = 0.41); the frequent flier mile programme will cause them to form a relationship with the domestic airline (w = 0.34); and the domestic airline rewards them for their business (w = 0.34).
- **Main Finding E26:** The largest percentage of respondents is loyal towards the domestic airline because of the services received (35.8%) and the loyalty programme offered by the airline (27.0%).
- **Main Finding E27:** The largest percentage of respondents is disloyal toward the domestic airline because of high ticket prices (38.8%) and bad service (26.7%).

7.5 MAIN FINDINGS PERTAINING TO RESEARCH PROPOSITIONS

Although all the main findings of the study were presented in section 7.4, it is necessary to present the main findings relevant to each research proposition stated for the study.

7.5.1 RESEARCH PROPOSITION 1

The first research proposition states that **different customer segments view the importance of service elements differently.**

Section C of the questionnaire (questions 7.1 – 7.26) presented the results relative to this research proposition. The first part of section C asked respondents to rate the importance of 26 service elements. Most respondents

indicated that service elements that are least important (**main finding C1, p. 271**) to them include that quality food and beverages are provided during the flight (30.6%), and further that the airline has comfortable waiting lounges (25.6%), and that the airline offers additional services (24.1%). The service elements which most respondents deem important (**main finding C2, p. 271**) include that the employees of the airline offer prompt service (96.7%); that the employees of the airline are consistently courteous (96.0%); that the employees are never too busy to respond to requests or complaints (95.4%) and that employees of the airline understand respondent needs (95.1%).

Apart from determining which service elements respondents regarded as important, it was also necessary, in terms of proposition 1, to determine whether service elements could be reduced into more concise groupings. In order to determine this, a factor analysis was conducted on all 26 service elements in section C. Four factors were identified as having importance to respondents.

The first factor that respondents deem important in terms of service elements can be labelled as service offered by airline employees, feeling safe when flying, and departing and arriving on time (**main finding C3, p. 275**). The second factor respondents deem important in terms of service elements can be labelled as on-line services offered by domestic airlines (**main finding C4, p. 275**). The third factor identified pertains to service elements and can be labelled as check-in related services, as well as convenient flight schedules provided by domestic airlines (**main finding C5, p. 276**). The final factor identified as important by respondents in terms of service elements can be labelled as comfortable post check-in, and supplementary services offered (**main finding C6, p. 276**).

Taking the above into consideration, it can be concluded that different service elements have various levels of importance to respondents indicating that **proposition one can be supported**.

7.5.2 RESEARCH PROPOSITION 2

The second research proposition states that **satisfied customers will form a relationship with the domestic airline.**

The results pertaining to this proposition was obtained by determining which respondents were satisfied and by analysing this information in terms of question

9.1 (whether or not respondents have formed a long-term relationship with the domestic airline) of the questionnaire.

Before it could be established whether satisfied respondents have formed a long-term relationship with the domestic airline, it was necessary to determine whether respondents are satisfied with the service elements provided by the domestic airline. **Main finding C7 (p. 280)** indicated that the service elements most respondents were dissatisfied with included the comfort of the airlines' waiting lounges (43.5%), that the flight does not depart and arrive on time (38.0%) and the prices of tickets (31.8%). **Main finding C8 (p. 280)** indicated that the service elements provided by the domestic airline which respondents were satisfied with included that respondents feel safe when they fly (94.8%) and are furthermore satisfied that the employees of the domestic airline appear neat and tidy (92.6%) and the consistent in-flight services provided by the domestic airline (90.1%).

Before it could be determined whether satisfied respondents have formed a long-term relationship with the domestic airline, it was necessary to establish whether respondents have formed a long-term relationship. Nearly 44% (43.8%) of respondents indicated they have formed a long-term relationship with the domestic airline (**main finding E1, p. 291**).

In order to determine which respondents were satisfied, the average means of Q7.1 – Q7.26 was calculated per respondent. All "not applicable" responses were coded as missing values that were ignored during the statistical calculation so that the mean would not be disproportionately skewed toward the higher end, which will cause an overstated mean. All respondents whose means were three and above were deemed satisfied (since the scale used in question 7 is 1 = not satisfied at all, 2 = not satisfied, 3 = satisfied and 4 = very satisfied). After determining which respondents were satisfied, it was shown that nearly half of the respondents who are satisfied (49.7%) have formed a long-term relationship with the domestic airline (**main finding E3, p. 293**) while 62.3% of dissatisfied respondents have not formed a relationship (**main finding E4, p. 293**). Furthermore, it was determined that a large practical significant difference (d = 0.86) exists between respondent satisfaction level and whether they have formed a long-term relationship with the domestic airline (**main finding E5, p. 293**).

It can be concluded that satisfied respondents have formed a long-term relationship with the domestic, indicating that **proposition 2 can be supported**.

7.5.3 RESEARCH PROPOSITION 3

This research proposition builds on the second proposition and states that **customers who have formed a relationship with the domestic airline will remain loyal.**

The questions in the survey which was used included questions 9.1, 9.4, 8.3, 8.4, 8.5, 8.6, and 8.7. These questions in the questionnaire relate directly with respondents' relationship with, and loyalty levels toward, the domestic airline.

In order to determine whether respondents that have formed a long-term relationship with the domestic airline will be loyal, it needs to be determined whether respondents have formed a long-term relationship as well as whether respondents are loyal. Nearly 44% (43.8%) of respondents indicated they have formed a long-term relationship with the domestic airline (**main finding E1, p. 291**) and almost half (49.1%) of the respondents indicated they are loyal to the domestic airline (**main finding E13, p. 301**).

Finally, it is important to note that a large practical significant association (w = 0.95) exists between the respondents' loyalty level and whether respondents have formed a long-term relationship with the domestic airline (**main finding E23, p. 308**), indicating that **proposition 3 can be supported**.

7.5.4 RESEARCH PROPOSITION 4

The final research proposition deals with the customer relationship efforts of domestic airlines and states that **the effectiveness of domestic airlines' CRM efforts to create customer loyalty and retention is influenced by customers' satisfaction, relationship with domestic airline and loyalty towards the domestic airline.**

The questions in the questionnaire that deal with this proposition include questions 7.1 – 7.26 (satisfaction), question 9.1 (whether respondents have formed a long-term relationship), questions 9.4 (whether respondents are loyal

toward the domestic airline), and the questions dealing with the domestic airlines' CRM strategy namely questions 8.2, 8.6, 8.7, 8.8, 8.9, 8.11 and 8.14.

The opinion of respondents of domestic airlines' CRM efforts had to first be established. Respondents agreed with the fact that the domestic airline focuses on building long-term relationships with respondents (56.8%) as well as with the statements that they will become more loyal if the airline offers individual attention and special treatment (67.9%); the more frequently they fly with the domestic airline, the more services are offered (49.1%) and that the frequent flier mile programme will cause respondents to form a relationship with the domestic airline (76.5%) as documented in **main finding D3 (p. 288)**. **Main finding D4 (p. 288)** indicated that the statements that respondents disagree with in terms of the domestic airlines' CRM efforts include that respondents will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (82.1%); the domestic airline communicates special offers to respondents through e-mail or newsletters (56.8%); and the domestic airline rewards respondents for their business (46.9%).

In terms of this proposition it is important to determine whether the CRM efforts of the domestic airline are influenced by respondents' satisfaction levels. **Main finding D5 (pg. 290)** indicated that the majority of satisfied respondents agreed with the statements that the domestic airline focuses on building long-term relationships with them (68.6%); the more frequently they fly with the domestic airline, the more services are offered (52.1%); the frequent flier mile programme will cause respondents to form a relationship with the domestic airline (76.9%); and the domestic airline rewards respondents for their business (52.7%). Yet, satisfied respondents disagreed with the statement that they will stay loyal to the domestic airline even if other airlines offer better loyalty programmes (74.0%).

In terms of whether the domestic airlines' CRM efforts are influenced by whether respondents have formed a long-term relationship with the domestic airline, **main finding E9 (pg. 298)** indicated that the majority of respondents who have formed a long-term relationship with the domestic airline agreed with the statements that the domestic airline focuses on building long-term relationships with them (78.2%); they will become more loyal if the domestic airline offers individual attention and special treatment (83.1%); the more frequently they fly, the more services are offered by the domestic airline (71.1%); the frequent flier mile

programme will cause them to form a relationship with the domestic airline (88.7%); and the domestic airline rewards them for their business (72.5%). Furthermore, the majority of respondents who have formed a long-term relationship with the domestic airline disagreed with the statements that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (76.8%) and the airline communicates special offers to them through e-mail or newsletters (54.2%).

With regards to whether the domestic airlines' CRM efforts are influenced by respondents' loyalty levels, **main finding E24 (pg. 309)** indicated that the majority of loyal respondents agreed with the statements that the domestic airline focuses on building long-term relationships with them (74.2%); they will become more loyal if the domestic airline offers individual attention and special treatment (79.3%); the more frequently they fly, the more services are offered by the domestic airline (64.8%); the frequent flier mile programme will cause them to form a relationship with the domestic airline (83.0%); and the domestic airline rewards them for their business (61.0%). Furthermore, the majority of loyal respondents disagreed with the statements that they will remain loyal to the domestic airline even if other airlines offer better loyalty programmes (78.6%); and the airline communicates special offers to them through e-mail or newsletters (53.6%).

From the above, it can be concluded that the CRM efforts are influenced by respondents' satisfaction, relationship and loyalty. The only statement where respondents that have formed a long-term relationship as well as respondents that are loyal, disagreed with was in terms of the airlines communicating special offers to them through e-mail or newsletters. The one statement that satisfied respondents (that have formed a long-term relationship as well as loyal respondents) disagreed with in terms of the airlines' CRM efforts was that they will remain loyal even if other airlines offer better loyalty programmes. Taking the above into consideration, **proposition 4 can therefore be supported.**

Taking these results into consideration, the following can be concluded: **Effective customer service can lead to customer satisfaction which contributes to the effectiveness of customer relationship management that in turn aids in creating loyal customers which can be retained.**

7.6 CONCLUSION

This chapter provided the main research findings pertaining to the study. The realisation rate for the study, as well as the main findings obtained from each section of the questionnaire was described. The data in the questionnaire were analysed by means of frequency analysis, cross-tabulations, and effect sizes for the relationship in a contingency table, as well as for the difference in means (which are used to determine statistical and practical significance). A factor analysis was conducted to determine which factors respondents deem important in terms of service elements. A summary of the main findings was presented, and finally the main findings pertaining to each research proposition was discussed. From the results it could be determined that all research propositions could be supported.

The next chapter concludes the study by presenting a summary with specific emphasis on the conclusions, implications and recommendations that can be made pertaining to the study.

Chapter 8
CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS

8.1 INTRODUCTION

This chapter presents the conclusions, implications, and recommendations of the study by:

- Discussing the major findings and implications on the basis of the secondary objectives set for the study and making recommendations based on the major findings;
- Proposing a framework as a final recommendation for creating customer retention in the South African domestic passenger airline industry;
- Discussing the limitations of the study, and
- Making recommendations for future research.

8.2 MAJOR FINDINGS, CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS BASED ON THE MAIN FINDINGS

This section presents the major findings observed in the study. These findings and conclusions are based on the main findings presented in Chapter 7. Furthermore, the implications of each of these major findings and recommendations will be discussed.

8.2.1 MAJOR FINDING 1

Domestic passenger airlines' lack of providing the desired service recovery to service failures negatively influences its relationships with respondents.

It was observed that 71 respondents (21.9%) had suffered a service failure with the domestic airline (**main finding B1 p. 261**). This service failure was due mainly to delayed flights and poor service (**main finding B2 p. 262**). Respondents also indicated that the domestic airline did nothing to try to solve the

problem or rectify the mistake (**main finding B4 p. 263**), and this in turn led to the majority of respondents being dissatisfied with the domestic airlines' attempts at service recovery (**main finding B5 p. 264**). Following the service failure, the majority of respondents (52.1%) indicated that their relationship with the domestic airline had been weakened, and a further 14.1% indicating that their relationship had been broken (**main finding B9 p. 266**). In addition, 56.4% of respondents indicated that they had thereafter flown less frequently or had never flown with the domestic airline again after the domestic airlines' response to the service failure (**main finding B10 p. 267**).

- **Main conclusion:** Once a respondent has suffered a service failure at the hands of a domestic airline, the relationship respondents have with the domestic airline will be weakened provided that the domestic airline makes no attempt to recover the desired service recovery, try to solve the situation or rectify the mistake.

- **Implication:** Domestic airlines should consider the impact that a service failure has on their relationship with passengers since these failures lead to defections and bad publicity.

- **Recommendation:** Since a service failure influences the passengers' relationship with the domestic passenger airline, airlines need to develop and implement an effective service recovery strategy to improve passenger satisfaction levels in an attempt to retain passengers.

8.2.2 MAJOR FINDING 2

Different levels of importance exist for the various services offered by domestic passenger airlines.

Service elements offered by domestic passenger airlines that respondents deem unimportant include the quality of food and beverages provided during the flight, that the airline provides comfortable waiting lounges, and that the airline offers additional services (**main finding C1 p. 271**). The service elements that are most important to respondents included that the domestic airline's offers of prompt service, the consistent courtesy of the employees of the airline, the fact that employees are never too busy to respond to requests or complaints, and the

understanding that the employees of the airline have of respondents' needs **(main finding C2 p. 271)**. After conducting a factor analysis on the service elements that respondents regard as important, four factors emerged. The first factor was labelled as the service offered by airline employees, feeling safe when flying, and departing and arriving on time (**main finding C3 p. 275**). The second factor was labelled as the on-line services offered by domestic airlines (**main finding C4 p. 275**). The third factor was labelled as the check-in related service, as well as the convenient flight schedules offered by domestic airlines (**main finding C5 p. 276**). The fourth factor was labelled as a comfortable post check-in and the supplementary services offered by the airline (**main finding C6 p. 276**).

- **Main conclusion:** Respondents view certain service elements offered by domestic passenger airlines as being more important than others.

- **Implication:** Domestic passenger airlines should know which service elements passengers deem important.

- **Recommendation:** Domestic passenger airlines need to focus on those service elements that passengers deem important when planning their service offerings. In addition to this, domestic passenger airlines also need to focus on the service elements that passengers consider to be most important for themselves when they design and implement their customer service strategies, CRM programmes and service recovery strategies.

8.2.3 MAJOR FINDING 3

Domestic passenger airlines' CRM-related efforts and loyalty programmes influenced respondents' intentions to form a relationship with the airline and become more loyal to the airline with which they fly most of the time.

In terms of the CRM-related efforts and loyalty programmes offered by the domestic airline, it was observed through **main finding D1 (p. 287)** that the majority of respondents agreed with the statement that they would fly with the airline more frequently if they were offered upgrades or discounts (87.7%). **Main finding D3 (p. 288)** elaborates on main finding D1 by indicating that the majority of respondents agreed with the statement that the domestic airline focuses on building long-term relationships with passengers (56.8%). The majority of

respondents also agreed with the statement that the more frequently they fly with the domestic airline, the more services are offered to them (49.1%). The main finding furthermore indicated that respondents agreed with the statements that they would become more loyal if the airline paid individual attention to them and offered them special treatment (67.9%), and that the frequent flier mile programme would cause respondents to form a relationship with the domestic airline (76.5%).

- **Main conclusion:** CRM-related offerings and loyalty programmes positively influenced respondents' relationship with, and loyalty toward, the domestic passenger airline.

- **Implication:** Domestic passenger airlines should endeavour to determine which CRM-related offerings would cause passengers to form a relationship with the airline and its cost-benefit trade-off.

- **Recommendation:** As part of their CRM-efforts and loyalty programme, domestic passenger airlines should identify and offer those services to passengers that would increase the number of times they fly while simultaneously promoting the formation of a relationship with, and loyalty towards, the airline.

8.2.4 MAJOR FINDING 4

Respondents will not stay unconditionally loyal to the domestic passenger airline.

Main finding D2 (p. 287) stated that the largest percentage of respondents indicated that if other domestic airlines offer better service (84.3%), better loyalty programmes (82.1%), or significantly lower prices (76.9%), respondents would defect to those competing airlines. Furthermore, respondents that have formed a long-term relationship with the domestic airline (**main finding E9, p. 298**), as well as respondents that indicated they were loyal (**main finding E24, p. 309**), stated they would defect to other airlines if other airlines were to offer better loyalty programmes.

- **Main conclusion:** Respondents who have formed a relationship as well as loyal respondents would defect to other airlines if other airlines were to offer better loyalty programmes.

- **Implication:** Domestic passenger airlines need to understand that passengers will not stay unconditionally loyal to them and should understand that defection can affect their profit levels.

- **Recommendation:** Domestic passenger airlines need to be constantly aware of the service level, loyalty programmes, and prices offered by competitors. Airlines should furthermore strive to develop and offer competitive service offerings, loyalty programmes and prices that promote loyalty amongst its passengers in an attempt to retain them. Future research should be carried out to identify the most effective loyalty programmes and their cost effectiveness.

8.2.5 MAJOR FINDING 5

Airline ticket prices are important in the domestic passenger airline industry.

Main finding A5 (p. 258) indicated that price is the main consideration for respondents travelling with a domestic airline other than the one on which they were flying on the day of the survey. Respondents also stated that price is the main reason they consider the selection of a domestic airline (**main finding A6, p. 259**). Table 7.18 showed that 90.7% of respondents indicated that while price was an important service element, respondents indicated that they were dissatisfied because prices were not lower (**main finding C7, p. 259**). From **main finding D2 (p. 262)** it was further observed that respondents would not remain loyal to a domestic airline if other airlines were to offer significantly lower prices.

- **Main conclusion:** Price is one of the main elements that respondents consider when choosing a domestic passenger airline with which to fly.

- **Implication:** Domestic passenger airlines need to recognise that price is a main consideration for passengers when selecting an airline, and they can therefore expect price wars from competing airlines.

- **Recommendation:** Domestic passenger airlines need to recognise the importance of the price of airline tickets. The domestic passenger airline should furthermore determine how important price is to their passenger groups and should also determine what the effect of changes in competitor prices will have on the demand for their flights. Ticket prices should not therefore be determined in isolation. They need to be set only after careful consideration of the prices and services that are being offered by competing airlines.

8.2.6 MAJOR FINDING 6

It is important to gain insight into the demographic profile of passengers flying with domestic passenger airlines.

From the demographic profile of respondents (which includes gender, population group, age, education, level of employment, the airline with which respondents usually travel, the reason for travel and the decision maker for choosing the domestic airline respondents travel), significant differences in terms of satisfaction were observed. **Main finding C9 (p. 281)** indicated that African respondents were more satisfied than Asian / Indian respondents, while Asian / Indian are more satisfied than White respondents. Furthermore, Asian / Indian and White respondents were more satisfied than Coloured respondents. **Main finding C10 (p. 281)** indicated that respondents who travelled by themselves were more satisfied than those respondents who travelled with family or with colleagues but that they were less satisfied than respondents travelling with friends. **Main finding C11 (p. 281)** indicated that respondents who were travelling as tourists or for a holiday were more satisfied than respondents flying for business. From **main finding C12 (p. 282)** it was observed that respondents who made use of travel agents were more satisfied than respondents whose business policy dictates the choice of a specific domestic airline although respondents whose business policy dictates then to select a particular airline were more satisfied than respondents who made their own choices.

It was also observed that associations exist between respondents who have formed a long-term relationship with the domestic airline and with whom respondents travel as well as the decision-maker who decides the domestic airline on which the respondent travelled (**main finding E2, p. 292**) – where respondents fly either with colleagues or alone, and that respondents whose business policy

dictates the airline used have formed such relationships. From **main finding E8 (p. 296)** it was observed that respondents of all ages, respondents who fly for business or as tourists or for holidays, and respondents whose business policy dictates the airline or respondents who selected the airline themselves or made use of travel agents, have all formed relationships with the airline.

In terms of the respondents' demographic profile and their loyalty levels, **main finding E18 (p. 304)** revealed associations between respondents' age, reason for travel, decision makers, and whether or not respondents would remain loyal to the airline if other airlines offered significantly lower prices. Respondents from all these demographic groups indicated they would not remain loyal. **Main finding E19 (p. 305)** indicated that associations exist between the population group of respondents and whether or not they would remain loyal to the domestic airline even if other airlines were to offer better service. **Main finding E20 (p. 306)** indicated that an association exists between the respondents' population groups and whether or not respondents would remain loyal to the domestic airline if they were offered individual attention and special treatment.

- **Main conclusion:** It is important to obtain demographic information that offers insights about domestic passenger airline passengers.

- **Implication:** The domestic passenger airline needs to recognise that the segmentation of customers is an important marketing strategy.

- **Recommendation:** Domestic passenger airlines need to determine the demographic profile of their target market. In the development and implementation of the service strategy, airlines need to consider which demographic characteristics they will focus on when forming a relationship and trying to retain customers. Once a group (or groups) has been identified, domestic passenger airlines need to target such groups with their CRM-related efforts, communications and loyalty programmes.

8.2.7 MAJOR FINDING 7

Dissatisfied respondents have not formed long-term relationships with the domestic passenger airline with which they fly the majority of the time.

The majority of dissatisfied respondents have not formed a long-term relationship with the domestic airline (**main finding E4, p. 293**). Those respondents who have not formed a long-term relationship with the domestic airline indicated they had not done so because they do not want to form a relationship with the domestic airline or they do not feel important enough to the domestic airline to form such a relationship (**main finding E12, p. 300**).

- **Main conclusion:** Respondents that are dissatisfied with the service elements provided by the airline are less inclined to form a long-term relationship with the domestic passenger airline.

- **Implication:** When an airline does not satisfy passengers by means of effective customer service, passengers will be less willing to form a long-term relationship with the domestic passenger airline.

- **Recommendation:** Domestic passenger airlines that want to form a long-term relationship with passengers should improve the service offered to their passengers so that they will encourage their passengers to form a relationship with the airline. Domestic passenger airlines should also offer loyalty programmes to those passengers with whom they wish to form a relationship in order to retain passengers.

8.2.8 MAJOR FINDING 8

Respondents who have formed a long-term relationship with the domestic passenger airline they fly with the majority of the time, are loyal towards the domestic airline.

From **main finding E23 (p. 308)** it could be determined that an association exists between respondents who have formed a long-term relationship with the domestic passenger airline and their loyalty levels.

- **Main conclusion:** When respondents form a long-term relationship with the domestic airline, this exerts an effect on their loyalty levels.

- **Implication:** Domestic passenger airlines should strive for relationships with their passengers in order to promote customer loyalty because the management of CRM strategies will become increasingly important.

- **Recommendation:** Domestic passenger airlines need to build relationships with passengers by means of a CRM strategy and loyalty programmes in order to create loyal passengers who can be retained.

8.3 LINKING OF SECONDARY OBJECTIVES AND MAIN FINDINGS TO QUESTIONS IN THE QUESTIONNAIRE

Table 8.1 presented below builds on table 6.1 (discussed in Chapter 6), and presents the link between the secondary objectives for the study, the questions in the questionnaire, as well as the main findings presented in Chapter 7.

TABLE 8.1 LINK BETWEEN OBJECTIVES, PROPOSITIONS, QUESTIONNAIRE AND RESULTS

SECONDARY OBJECTIVES		QUESTIONS IN QUESTIONNAIRE	MAIN FINDINGS IN CHAPTER 7
1)	Conduct a literature review to identify service elements that are important to domestic airline passengers	Used to compile questions 7.1 – 7.26	-
2)	Determine if passengers view the importance of service elements differently	Questions 7.1 – 7.26 (importance)	C1, C2, C3, C4, C5 and C6
3)	Determine if passengers are satisfied with the service elements offered by the domestic airline	Questions 7.1 – 7.26 (satisfaction)	C7, C8, C9, C10, C11 and C12
4)	Determine whether or not passengers have formed a relationship with the domestic airline	Questions 9.1, 9.2 and 9.3	E1, E2, E3, E4, E5, E11 and E12
5)	Determine if passengers are loyal to the domestic airline	Questions 8.3, 8.4, 8.5, 8.6, 9.4, 9.5 and 9.6	D2, E13, E14, E15, E16, E17, E18, E19, E26 and E27
6)	Determine how airlines' CRM efforts are viewed by passengers	8.1, 8.2, 8.6, 8.7, 8.8, 8.9, 8.10, 8.11 and 8.14	D1, D3, D4, D5, D6, E6, E7, E8, E9, E10, E20, E24 and E25

The secondary objectives and the main findings set out in table 8.1 provided support for the research propositions described in section 7.5. Secondary objective two aided in supporting the first research proposition which stated that different customer segments regard the importance of service elements in different ways. Secondary objectives three and four could be linked to proposition two ("Satisfied customers will form a relationship with the domestic airline"). Proposition three – "Customers who have formed a relationship with the domestic airline will remain loyal" – was supported by secondary objectives four and five. The last secondary objective could be linked to the final research proposition which stated that the effectiveness of a domestic airline's CRM efforts to create customer loyalty and retention are influenced by customers' satisfaction, relationship with the domestic airline, and loyalty towards the domestic airline.

When one takes the main findings and the major findings into consideration, it may stated that the study did in fact determine that there is a logical flow between customer service, relationship building, customer loyalty and customer retention.

8.4 FRAMEWORK FOR CUSTOMER RETENTION IN THE SOUTH AFRICAN DOMESTIC PASSENGER AIRLINE INDUSTRY

If one makes use of the results that have been obtained from Chapter 7 in conjunction with the major findings discussed in section 8.3, it is possible to propose a framework to demonstrate how customer retention can be created in the South African domestic passenger airline industry. Figure 8.1 presents a framework (based on the findings of this study) that could be used by domestic passenger airlines for the purpose of customer retention in the South African domestic passenger airline industry.

FIGURE 8.1 FRAMEWORK FOR CUSTOMER RETENTION IN THE SOUTH AFRICAN DOMESTIC PASSENGER AIRLINE INDUSTRY

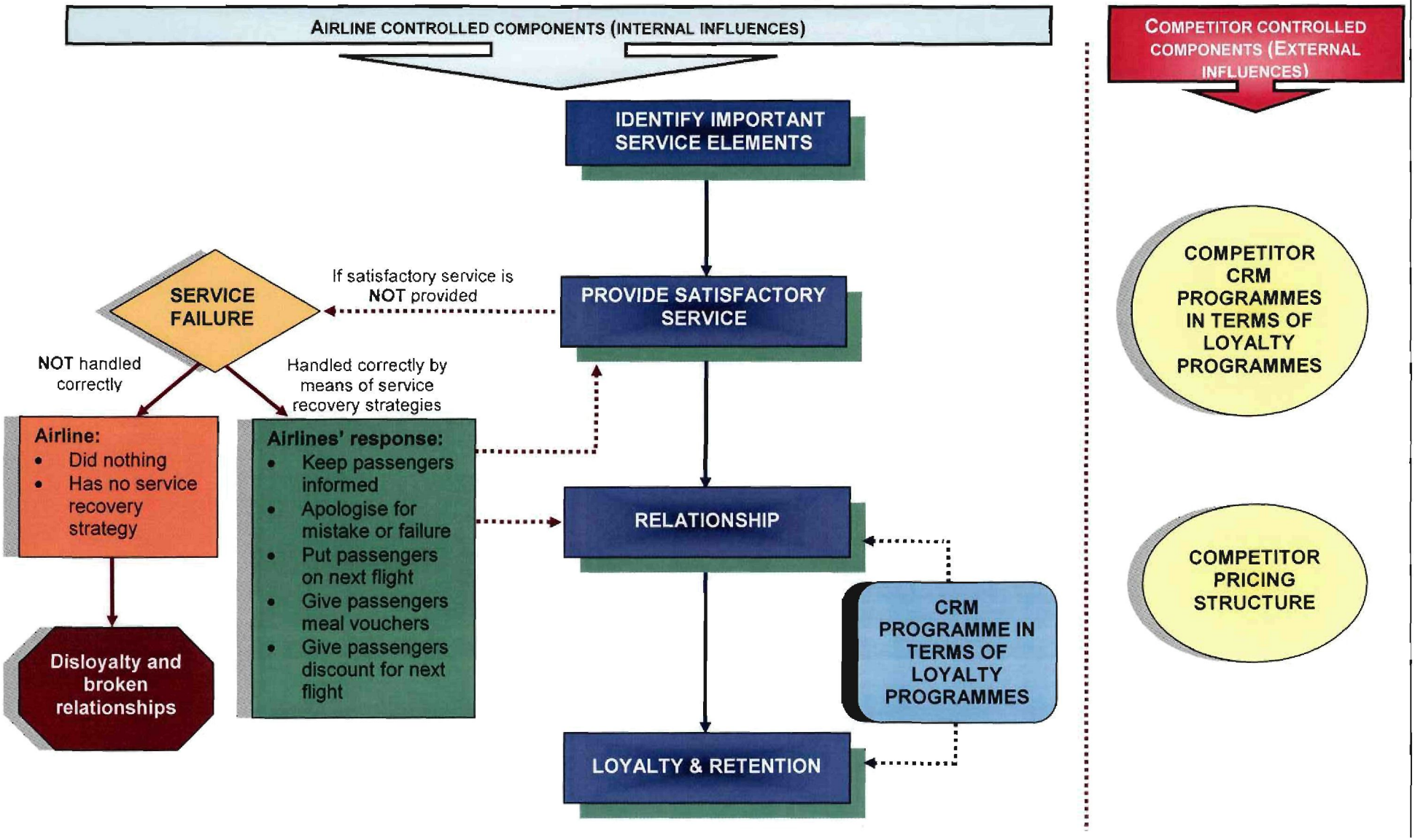


Figure 8.1 indicates two main areas that need to be considered in connection with the issue of customer retention in the South African domestic passenger airline industry, namely, airline controlled components (internal influences) and competitor controlled components (external influences).

When it comes to those components controlled by the airline (internal influences), domestic passenger airlines need to begin by identifying the service elements that are most important to passengers. In this study four service elements that the respondents deemed to be most important were observed (**proposition 1**). The first factor was labelled as services offered by airline employees, feeling safe when flying, and departing and arriving on time. The second factor was labelled as on-line services offered by domestic airlines. The third factor was labelled as check-in related services as well as convenient flight schedules provided by domestic airlines. The final factor was labelled as a comfortable post-check-in as well as other supplementary services offered by the airline. Once the most important service elements have been identified, the domestic passenger airlines need to provide satisfactory service with regard to the identified service elements.

If satisfactory service is not provided at this stage, a service failure can ensue. If the domestic passenger airline does not handle the service failure correctly (which is characterised in this study by an airline doing nothing to try to rectify the service failure or by an airline not having a service recovery strategy in place), disloyalty, and broken relationships with passengers are bound to occur. If domestic passenger airlines try to rectify the service failure through service recovery strategies (in this study, such attempts to rectify failures were characterised by keeping respondents informed, apologising for mistakes or failures, putting respondents on the next flight when they have missed their original flight, providing respondents with meal vouchers or discounts for next flight if a flight has been delayed), such attempts at rectification can create or restore respondent satisfaction. The study identified the fact that the service recovery strategies mentioned above provided respondents with the highest levels of satisfaction.

The study also elucidated the fact that the majority of respondents were dissatisfied with the domestic passenger airline's response to service failure, and the majority of respondents indicated that their relationship with the

domestic passenger airline had been weakened or broken after they had experienced an airline's response to a service failure. This suggests that the way in which domestic passenger airlines respond to service failure does influence passengers' relationships with domestic airlines. In those cases where respondents have experienced satisfactory levels of service from an airline, it is possible for them to form a relationship with the domestic passenger airline (**proposition 2**).

Proposition 4 indicated that satisfied respondents agreed with statements that the domestic airline focuses on building a long-term relationship with them. They support this by saying that the more frequently they fly, the more services they are offered, and that the airline rewards them for their business. From the results obtained from propositions 2 and 4, it can be determined that a clear link exists between satisfaction and relationship formation.

Proposition 3 indicated that respondents who have formed a long-term relationship with the domestic passenger airline will be loyal (an indicator of retention) to the domestic airline. This is emphasised by the fact (embodied in **proposition 4**) that the domestic passenger airlines' CRM efforts influenced respondents' relationships with and loyalty to the domestic passenger airline. It was furthermore observed that respondents stated they would become more loyal if they were offered individual attention and special treatment by the domestic passenger airline. They added that the frequent flier mile programme (the loyalty programme) would influence them to form a relationship with the domestic passenger airline. It can therefore be proposed that the airline should focus more attention on building long-term relationships with passengers.

During the service delivery process, domestic passenger airlines also need to consider the competitor-controlled components (external influences) that include competitors' CRM programmes in terms of loyalty programmes and their pricing structures. This is because respondents indicated that they would not remain loyal to the domestic passenger airline if competing airlines were to offer superior loyalty programmes or if competing airlines were to offer significantly lower prices. It is also important to consider competitors' pricing structure because respondents identified *price* as a primary consideration when selecting a domestic passenger airline.

If these factors are taken into account, it can be proposed that, in order to develop customer retention in the South African domestic passenger airline, domestic airlines first need to identify those service elements that are important to passengers and then provide passengers with satisfactory services which embody those service elements (these should include service recovery strategies). Once passengers are satisfied with the services that they have received, they are willing to form a relationship with the airline. By means of a CRM programme that also focuses on loyalty programmes, passengers could form a relationship with the domestic airline that would result in passenger loyalty. This indicates that passengers can be retained because loyalty is an indicator of retention. During this process, domestic airlines need to consider competitors by specifically focusing on how competing CRM programmes handle their loyalty programmes as well as their pricing structures, since if competitors offer better loyalty programmes and prices, passengers may not remain loyal to the domestic airline and will therefore not be retained.

8.5 LIMITATIONS OF THE STUDY

All research studies contain inherent limitations that influence the study. The limitations of this study are described below.

8.5.1 LIMITATIONS OF LITERATURE REVIEW

It was possible to identify the following limitations of the literature review:

- There was a lack of available literature on the link between customer retention and customer loyalty. While some researchers disagreed with one another, many authors collated these two terms as one construct while others, by contrast, noted the existence of a difference between the two constructs. The researchers who had observed a difference stated that loyalty is a main element of retention and the element whereby loyal customers can be retained. There was also a distinct lack of literature about what could be done to create customer retention and loyalty.
- There was a limited amount of literature available on South African studies into the problems of customer retention and loyalty. This resulted

in a limited amount of information about customer retention and loyalty relevant to South African industries.

- There is a lack of literature about the South African airline industry. There is also limited amount of data available from the South African airline industry. Although airlines and their destinations could be identified, there was only a limited amount of publicly available literature about the number of passengers flying with each domestic airline, how often each airline flies, and the CRM and retention strategies of these airlines.

8.5.2 LIMITATIONS OF EMPIRICAL RESEARCH

Apart from the limitations experienced during the literature review, the majority of the limitations of the study were experienced during the empirical research process.

- Since a convenience survey method was used, the results of the study were not representative of the whole population, but were only representative of the respondents who participated in the study. This particular sampling method had to be used because the domestic airlines were not prepared to allow access to their passenger database.
- Problems were also experienced when obtaining permission to distribute the questionnaires at OR Tambo International Airport. Although each domestic airline was contacted to determine whether questionnaires could be distributed on their flights, no domestic airline granted permission to do this. Although permission was originally granted by ACSA to distribute questionnaires in the departure lounge of OR Tambo International Airport, the security measures in place meant that to the time schedules and the locality in which the questionnaires were distributed, had to be revised.
- Even though all South African domestic airlines were asked to participate and assist in the study, these airlines were not prepared to provide any information about their service recovery, CRM, and loyalty strategies.
- The study was only conducted by passengers passing through the OR Tambo International Airport and not at all domestic airports.
- Since ordinal scales were used within the questionnaire, only limited a limited amount of statistical analysis could be performed.

- The length of the questionnaire also caused a lack of interest on the part of some of the respondents who participated in the study. Since the questionnaires were handed out to respondents just as they were about to board their domestic flights, some respondents had to stop completing the questionnaire when they were asked to board their flight. This resulted in a number of incomplete questionnaires.

8.6 RECOMMENDATIONS FOR FUTURE RESEARCH

After completing the study and considering its limitations, the following recommendations for future research into this topic can be made:

- A similar study needs to be conducted for each individual domestic airline. By working with each domestic airline individually, it would be possible to distribute questionnaires to their passengers. This would provide a larger number of respondents and make the study more representative. By working with each individual domestic airline and gaining access to information about their current CRM and retention strategy, a comparison can be drawn between what airlines are currently doing and what their passengers really require.
- This research would profit from using a probability sampling method because it would make the results representative of the whole population.
- It would be advisable to utilise a shorter questionnaire so that respondents would find it easier to participate in the study.
- Interval scales should be used in the questionnaire. This would ensure that a greater variety of statistical analysis could be performed.
- This kind of research should also be undertaken for international airlines. Passengers who fly on domestic routes and those who travel on international flights may require different levels of service and find other customer service elements more important. This could indicate important differences in the kind of strategies that domestic and international airlines need to use to adapt or redesign their procedures.
- The results of research into international airlines could be compared with the result of this study. This would enable similarities and differences to be identified.

- A separate study needs to be focused on the CRM strategies implemented by domestic passenger airlines.
- A separate study needs to focus on how CRM influences the customer retention rate of domestic passenger airlines.

8.7 CONCLUSION

This chapter provided a conclusion to the study by presenting the specific major findings and recommendations in terms of the results that were obtained. It also presented the link between the secondary objectives set for the study, the questions in the questionnaire, and the main findings relating to the secondary objectives. A framework for creating customer retention in the South African domestic passenger airline industry was presented by combining the results obtained from the study. The limitations of the study were outlined, and recommendations were made for future research.

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APPENDIX A:

PILOT STUDY QUESTIONNAIRE

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TO WHOM IT MAY CONCERN

QUESTIONNAIRE: CUSTOMER RETENTION IN THE DOMESTIC PASSENGER AIRLINE INDUSTRY OF SOUTH AFRICA.

This questionnaire serves as part of a PhD study on Customer Retention in the South African Domestic Passenger Airline Industry.

The questionnaire aims to determine which elements an airline should offer to you, the passenger, to ensure that you are satisfied with your flying experience and will want to fly with the airline in the future.

It would be greatly appreciated if you would complete this questionnaire as honestly as possible. The questionnaire will be treated with the utmost confidence and should take no longer than 20 minutes to complete.

Thank you for your willingness to complete the questionnaire.

Christine De Meyer	Prof. P.G. Mostert	Prof. L. R. J van Rensburg
PhD student	Promoter	Co-Promoter

Please mark all your answers with an X

Q1. Please indicate the domestic airline which you fly with the MAJORITY of the time, the airline you are flying with TODAY and the domestic airline which you PREFER.

	a. MAJORITY	b. TODAY	c. PREFER
1 – Time	1	1	1
Kulula.com	2	2	2
Mango	3	3	3
Nationwide	4	4	4
South African Airlink	5	5	5
South African Airways	6	6	6
South African Express	7	7	7

Q2. How many other domestic airlines have you flown with this past year apart from the airline identified in question 1 as the airline that you fly with the majority of the time?

None	1
One	2
Two	3
Three	4
Four	5
Five	6
Six	7

Q3. If you are flying with a different domestic airline than the airline you identified in question 1 as the airline you fly with the majority of the time, please indicate the reasons why you are flying with a different domestic airline today. (You may select more than one answer).

Business policy	1
No flights were available	2
No seats were available on the flight	3
Price	4
Random decision	5
Service quality	6
Other, please specify:	7

Q4. Please select the reasons why you choose a specific domestic airline. (You may select more than one answer).

Availability of flights	1
Business policy	2
Frequent flier miles / points	3
Price	4
Random decision	5
Service quality	6
Other, please specify	7

Q5. Think of the domestic airline with which you fly with most. How many times have you flown with this airline in the past 12 months?

1 – 2 times	1
3 – 6 times	2
7 – 12 times	3
13 times and more	4

Q6. Think back to when you suffered a service failure with a domestic airline: (If you have not suffered a service failure on any domestic airline, please proceed to question 7).

6.1 Did you suffer the service failure with the domestic airline that you fly with the most?

Yes	1
No	2

6.2 Please describe the nature of the service failure.

6.3 On a scale of 1 to 5 (where 1 is minor and 5 is major), how would you describe the degree of the mistake.

Minor				**Major**
1	2	3	4	5

6.4 What did the domestic airline do to solve your problem / rectify the mistake?

6.5 On a scale of 1 to 5 (where 1 is very satisfied and 5 is totally dissatisfied), how satisfied were you with the airlines' response to the service failure?

Very satisfied	**Satisfied**	**Neutral**	**Dissatisfied**	**Totally dissatisfied**
1	2	3	4	5

6.6 If you answered "very satisfied" or "satisfied" to question 6.5, please describe why you were satisfied.

6.7 If you answered "dissatisfied" or "totally dissatisfied" to question 6.5, please describe what, in your opinion, should the airline have done.

6.8 What was the effect of the service failure and response from the domestic airline on your relationship with them?

Broken	1
Weakened	2
Unchanged	3
Strengthened	4

6.9 After you experienced the service failure and response from the domestic airline, how often do you fly with them?

Never again	1
Less than before. I try to avoid the domestic airline if I can	2
The same as before	3
More than before. I try to fly with the domestic airline whenever I can	4
All the time	5

6.10 Would you recommend this airline to others?

Yes, definitely	1
Yes, maybe	2
Neutral	3
Probably not	4
No, never	5

Q7. This question serves to determine your level of satisfaction with the airline regarding the services provided by the domestic airline.

Please think of the **domestic airline** that **YOU FLY WITH THE MAJORITY OF THE TIME**. Rate the following elements in terms of the **IMPORTANCE of the element to you (on the left)**, and rate the **domestic airline with regards to how SATISFIED** you are with its performance (**on the right**), using the following scale:

LEFT: rate **IMPORTANCE** to you, where

1	2	3	4	5
Not important at all	Not important	Neutral	Important	Very important

RIGHT: rate **SATISFACTION** in airline performance, where

1	2	3	4	5
Not satisfied at all	Not satisfied	Neutral	Satisfied	Very Satisfied

	IMPORTANCE					ELEMENT	SATISFIED				
7.1	1	2	3	4	5	Quality food & beverages are provided during the flight	1	2	3	4	5
7.2	1	2	3	4	5	The domestic airline has convenient flight schedules	1	2	3	4	5
7.3	1	2	3	4	5	The aircraft has comfortable interiors (e.g. seats)	1	2	3	4	5
7.4	1	2	3	4	5	The airline has comfortable waiting lounges	1	2	3	4	5
7.5	1	2	3	4	5	Employees of the airline appear neat & tidy	1	2	3	4	5
7.6	1	2	3	4	5	The service is performed right the first time	1	2	3	4	5
7.7	1	2	3	4	5	The promises made in advertising campaigns are kept	1	2	3	4	5
7.8	1	2	3	4	5	Employees of the airline have knowledge to answer your questions	1	2	3	4	5
7.9	1	2	3	4	5	Employees of the airline offer you prompt service	1	2	3	4	5
7.10	1	2	3	4	5	Employees of the airline understand your needs	1	2	3	4	5
7.11	1	2	3	4	5	Employees of the airline are never too busy to respond to your request or complaint	1	2	3	4	5
7.12	1	2	3	4	5	Employees of the airline are consistently courteous	1	2	3	4	5
7.13	1	2	3	4	5	Employees of the airline are always willing to help	1	2	3	4	5
7.14	1	2	3	4	5	The flight departs & arrives on time	1	2	3	4	5
7.15	1	2	3	4	5	Consistent ground services	1	2	3	4	5
7.16	1	2	3	4	5	Consistent in-flight services	1	2	3	4	5
7.17	1	2	3	4	5	You feel safe when you fly	1	2	3	4	5
7.18	1	2	3	4	5	The ability to purchase tickets on-line (on the Internet)	1	2	3	4	5
7.19	1	2	3	4	5	The ability to track flights and schedules on-line	1	2	3	4	5
7.20	1	2	3	4	5	The ability to check in on-line	1	2	3	4	5
7.21	1	2	3	4	5	The airline offers you additional services (e.g. air/accommodation/car hire packages)	1	2	3	4	5
7.22	1	2	3	4	5	The airline has efficient check-in services	1	2	3	4	5
7.23	1	2	3	4	5	The airline has sufficient (enough) check-in services	1	2	3	4	5
7.24	1	2	3	4	5	The airline has efficient baggage-handling services	1	2	3	4	5
7.25	1	2	3	4	5	The airline has sufficient baggage-handling services	1	2	3	4	5
7.26	1	2	3	4	5	Low prices of tickets	1	2	3	4	5

Q8. The following questions serve to determine the extent of your relationship and loyalty toward the domestic airline you fly with most often.

Please think of the domestic airline that you fly with the **majority of the time**. Rate the following elements in terms of whether you agree or disagree with the element, using the following scale:

1	2	3	4	5
Totally agree	Agree	Neutral	Disagree	Totally disagree

8.1	I want to form a relationship with the airline	1	2	3	4	5
8.2	The airline focuses on building long-term relationships with passengers	1	2	3	4	5
8.3	I will stay loyal to the airline even if other airlines offer slightly lower prices (less than 10% difference in price)	1	2	3	4	5
8.4	I will stay loyal to the airline even if other airlines offer significant lower prices (more than 10% difference in price)	1	2	3	4	5
8.5	I will stay loyal to the airline even if other airlines offer better service	1	2	3	4	5
8.6	I will stay loyal to the airline even if other airlines offer better loyalty programmes	1	2	3	4	5
8.7	I will become more loyal if the airline offers individual attention and special treatment	1	2	3	4	5
8.8	The airline communicates special offers to me through e-mail or newsletters	1	2	3	4	5
8.9	The more frequently I fly with the airline, the more services are offered	1	2	3	4	5
8.10	I will fly with the airline more frequently if I was offered upgrades or discounts	1	2	3	4	5
8.11	The frequent flier mile programme will cause me to form a relationship with the airline	1	2	3	4	5
8.12	The airline responds to my queries	1	2	3	4	5
8.13	The airline offers satisfactory answers to my queries or problems	1	2	3	4	5
8.14	The airline rewards me for my business	1	2	3	4	5
8.15	Employees of the airline are trained to deal with my problems or queries	1	2	3	4	5

Q9. Please think of the domestic airline that you fly with the majority of the time:

9.1 On a scale of 1 to 5 (where 1 is yes, definitely and 5 is not at all), please indicate whether you have formed a long-term relationship with the domestic airline?

Yes, definitely	**Yes**	**Neutral**	**No**	**Not at all**
1	2	3	4	5

9.2 If you answered "yes, definitely" or "yes" to question 9.1, please describe why you have formed a relationship with the domestic airline.

9.3 If you answered "no" or "not at all" to question 9.1, please describe why you have not formed a relationship with the domestic airline.

9.4 On a scale of 1 to 5 (where 1 is very loyal and 5 is not loyal at all), indicate how loyal you are to the domestic airline.

Very loyal	Loyal	Neutral	Not loyal	Not loyal at all
1	2	3	4	5

9.5 If you answered "very loyal" or "loyal" to question 9.4, please describe why you are loyal to the domestic airline.

9.6 If you answered "not very loyal" or "not loyal at all", please describe why you are disloyal to the domestic airline.

Q10. The following questions aim to obtain information about you:

10.1 Gender

Male	1
Female	2

10.2 To which population group do you belong?

African	1
Asian / Indian	2
Coloured	3
White	4
Other	5

10.3 Your age

Younger than 20	1
20 – 30	2
31 – 40	3
41 – 50	4
51 – 60	5
61 and older	6

10.4 Your highest level of education

Primary school	1
High-school	2
Diploma	3
University degree	4
Post-graduate degree	5

10.5 Employment

Full-time employed	1
Part-time employed	2
Pensioner	3
Self-employed	4
Student	5
Other	6

10.6 You usually travel

By yourself	1
With family	2
With friends	3
With colleagues	4

10.7 In general, you fly for

Business	1
Tourist / holiday	2
Visiting friends / relatives	3
Other, please specify	4

10.8 Who usually makes the decision as to with which domestic airline you fly?

Business policy	1
Family member	2
Travel agent	3
Yourself	4
Other, please specify	5

Thank you for your time. Have a pleasant flight.

APPENDIX B:

FINAL QUESTIONNAIRE

YUNIBESITI YA BOKONE-BOPHIRIMA
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TO WHOM IT MAY CONCERN

QUESTIONNAIRE: CUSTOMER RETENTION IN THE DOMESTIC PASSENGER AIRLINE INDUSTRY OF SOUTH AFRICA.

This questionnaire serves as part of a PhD study on Customer Retention in the South African Domestic Passenger Airline Industry.

The questionnaire aims to determine which elements an airline should offer to you, the passenger, to ensure that you are satisfied with your flying experience and will want to fly with the airline in the future.

It would be greatly appreciated if you would complete this questionnaire as honestly as possible. The questionnaire will be treated with the utmost confidence and should take no longer than 15 minutes to complete.

Thank you for your willingness to complete the questionnaire.

Christine De Meyer	Prof. P.G. Mostert	Prof. L. R. J van Rensburg
PhD student	Promoter	Co-Promoter

Please mark all your answers with an X

SECTION A

Q1. Please indicate the domestic airline which you fly with the MAJORITY of the time, the airline you are flying with TODAY and the domestic airline which you PREFER.

	a. MAJORITY	b. TODAY	c. PREFER
1 – Time	1	1	1
Kulula.com	2	2	2
Mango	3	3	3
Nationwide	4	4	4
South African Airlink	5	5	5
South African Airways	6	6	6
South African Express	7	7	7

Q2. How many other domestic airlines have you flown with this past year apart from the airline identified in question 1 as the airline that you fly with the majority of the time?

None	1
One	2
Two	3
Three	4
Four	5
Five	6
Six	7

Q3. If you are flying with a different domestic airline than the airline you identified in question 1 as the airline you fly with the majority of the time, please indicate the reasons why you are flying with a different domestic airline today. (You may select more than one answer).

Business policy	1
No flights were available	2
No seats were available on the flight	3
Price	4
Random decision	5
Service quality	6
Other, please specify:	7

Q4. Please select the reasons why you choose a specific domestic airline. (You may select more than one answer).

Availability of flights	1
Business policy	2
Frequent flier miles / points	3
Price	4
Random decision	5
Service quality	6
Other, please specify	7

Q5. Think of the domestic airline with which you fly with most. How many times have you flown with this airline in the past 12 months?

1 – 2 times	1
3 – 6 times	2
7 – 12 times	3
13 times and more	4

SECTION B

Q6. Think back to when you suffered a service failure with a domestic airline: (If you have not suffered a service failure on any domestic airline, please proceed to question 7).

6.1 Did you suffer the service failure with the domestic airline that you fly with the most?

Yes	1
No	2

6.2 Please describe the nature of the service failure.

6.3 On a scale of 1 to 5 (where 1 is minor and 5 is major), how would you describe the degree of the mistake.

Minor				Major
1	2	3	4	5

6.4 What did the domestic airline do to solve your problem / rectify the mistake?

6.5 On a scale of 1 to 4 (where 1 is very satisfied and 4 is totally dissatisfied), how satisfied were you with the airlines' response to the service failure?

Very satisfied	Satisfied	Dissatisfied	Totally dissatisfied
1	2	3	4

6.6 If you answered "very satisfied" or "satisfied" to question 6.5, please describe why you were satisfied.

6.7 If you answered "dissatisfied" or "totally dissatisfied" to question 6.5, please describe what, in your opinion, should the airline have done.

6.8 What was the effect of the service failure and response from the domestic airline on your relationship with them?

Broken	1
Weakened	2
Unchanged	3
Strengthened	4

6.9 After you experienced the service failure and response from the domestic airline, how often do you fly with them?

Never again	1
Less than before. I try to avoid the domestic airline if I can	2
The same as before	3
More than before. I try to fly with the domestic airline whenever I can	4
All the time	5

6.10 Would you recommend this airline to others?

Yes, definitely	1
Yes, maybe	2
Probably not	3
No, never	4

SECTION C

Q7. This question serves to determine your level of satisfaction with the airline regarding the services provided by the domestic airline.

Please think of the **domestic airline** that **YOU FLY WITH THE MAJORITY OF THE TIME**. Rate the following elements in terms of the **IMPORTANCE of the element to you (on the left)**, and rate the **domestic airline with regards to how SATISFIED** you are with its performance (**on the right**), using the following scale:

LEFT: rate **IMPORTANCE** to you, where

1	2	3	4	5
Not important at all	Not important	Important	Very Important	Not applicable

RIGHT: rate **SATISFACTION** in airline performance, where

1	2	3	4	5
Not satisfied at all	Not satisfied	Satisfied	Very Satisfied	Not applicable

	IMPORTANCE					ELEMENT	SATISFIED				
7.1	1	2	3	4	5	Quality food & beverages are provided during the flight	1	2	3	4	5
7.2	1	2	3	4	5	The domestic airline has convenient flight schedules	1	2	3	4	5
7.3	1	2	3	4	5	The aircraft has comfortable interiors (e.g. seats)	1	2	3	4	5
7.4	1	2	3	4	5	The airline has comfortable waiting lounges	1	2	3	4	5
7.5	1	2	3	4	5	Employees of the airline appear neat & tidy	1	2	3	4	5
7.6	1	2	3	4	5	The service is performed right the first time	1	2	3	4	5
7.7	1	2	3	4	5	The promises made in advertising campaigns are kept	1	2	3	4	5
7.8	1	2	3	4	5	Employees of the airline have knowledge to answer your questions	1	2	3	4	5
7.9	1	2	3	4	5	Employees of the airline offer you prompt service	1	2	3	4	5
7.10	1	2	3	4	5	Employees of the airline understand your needs	1	2	3	4	5
7.11	1	2	3	4	5	Employees of the airline are never too busy to respond to your request or complaint	1	2	3	4	5
7.12	1	2	3	4	5	Employees of the airline are consistently courteous	1	2	3	4	5
7.13	1	2	3	4	5	Employees of the airline are always willing to help	1	2	3	4	5
7.14	1	2	3	4	5	The flight departs & arrives on time	1	2	3	4	5
7.15	1	2	3	4	5	Consistent ground services	1	2	3	4	5
7.16	1	2	3	4	5	Consistent in-flight services	1	2	3	4	5
7.17	1	2	3	4	5	You feel safe when you fly	1	2	3	4	5
7.18	1	2	3	4	5	The ability to purchase tickets on-line (on the Internet)	1	2	3	4	5
7.19	1	2	3	4	5	The ability to track flights and schedules on-line	1	2	3	4	5
7.20	1	2	3	4	5	The ability to check in on-line	1	2	3	4	5
7.21	1	2	3	4	5	The airline offers you additional services (e.g. air/accommodation/car hire packages)	1	2	3	4	5
7.22	1	2	3	4	5	The airline has efficient check-in services	1	2	3	4	5
7.23	1	2	3	4	5	The airline has sufficient (enough) check-in services	1	2	3	4	5
7.24	1	2	3	4	5	The airline has efficient baggage-handling services	1	2	3	4	5
7.25	1	2	3	4	5	The airline has sufficient baggage-handling services	1	2	3	4	5
7.26	1	2	3	4	5	Low prices of tickets	1	2	3	4	5

SECTION D

Q8. The following questions serve to determine the extent of your relationship and loyalty toward the domestic airline you fly with most often.

Please think of the domestic airline that you fly with the **majority of the time**. Rate the following elements in terms of whether you agree or disagree with the element, using the following scale:

1	2	3	4	5
Totally agree	Agree	Disagree	Totally disagree	Not applicable

8.1	I want to form a relationship with the airline	1	2	3	4	5
8.2	The airline focuses on building long-term relationships with passengers	1	2	3	4	5
8.3	I will stay loyal to the airline even if other airlines offer slightly lower prices (less than 10% difference in price)	1	2	3	4	5
8.4	I will stay loyal to the airline even if other airlines offer significant lower prices (more than 10% difference in price)	1	2	3	4	5
8.5	I will stay loyal to the airline even if other airlines offer better service	1	2	3	4	5
8.6	I will stay loyal to the airline even if other airlines offer better loyalty programmes	1	2	3	4	5
8.7	I will become more loyal if the airline offers individual attention and special treatment	1	2	3	4	5
8.8	The airline communicates special offers to me through e-mail or newsletters	1	2	3	4	5
8.9	The more frequently I fly with the airline, the more services are offered	1	2	3	4	5
8.10	I will fly with the airline more frequently if I was offered upgrades or discounts	1	2	3	4	5
8.11	The frequent flier mile programme will cause me to form a relationship with the airline	1	2	3	4	5
8.12	The airline responds to my queries	1	2	3	4	5
8.13	The airline offers satisfactory answers to my queries or problems	1	2	3	4	5
8.14	The airline rewards me for my business	1	2	3	4	5
8.15	Employees of the airline are trained to deal with my problems or queries	1	2	3	4	5

SECTION E

Q9. Please think of the domestic airline that you fly with the majority of the time:

9.1 On a scale of 1 to 4 (where 1 is yes, definitely and 4 is not at all), please indicate whether you have formed a long-term relationship with the domestic airline?

Yes, definitely	Yes	No	Not at all
1	2	3	4

9.2 If you answered "yes, definitely" or "yes" to question 9.1, please describe why you have formed a relationship with the domestic airline.

9.3 If you answered "no" or "not at all" to question 9.1, please describe why you have not formed a relationship with the domestic airline.

9.4 On a scale of 1 to 4 (where 1 is very loyal and 4 is not loyal at all), indicate how loyal you are to the domestic airline.

Very loyal	Loyal	Not loyal	Not loyal at all
1	2	3	4

9.5 If you answered "very loyal" or "loyal" to question 9.4, please describe why you are loyal to the domestic airline.

9.6 If you answered "not very loyal" or "not loyal at all", please describe why you are disloyal to the domestic airline.

SECTION F

Q10. The following questions aim to obtain information about you:

10.1 Gender

Male	1
Female	2

10.2 To which population group do you belong?

African	1
Asian / Indian	2
Coloured	3
White	4
Other	5

10.3 Your age

Younger than 20	1
20 – 30	2
31 – 40	3
41 – 50	4
51 – 60	5
61 and older	6

10.4 Your highest level of education

Primary school	1
High-school	2
Diploma	3
University degree	4
Post-graduate degree	5

10.5 Employment

Full-time employed	1
Part-time employed	2
Pensioner	3
Self-employed	4
Student	5
Other	6

10.6 You usually travel

By yourself	1
With family	2
With friends	3
With colleagues	4

10.7 For the majority of the time, you fly for

Business	1
Tourist / holiday	2
Visiting friends / relatives	3
Other, please specify	4

10.8 Who usually makes the decision as to with which domestic airline you fly?

Business policy	1
Family member	2
Travel agent	3
Yourself	4
Other, please specify	5

Thank you for your time. Have a pleasant flight.

APPENDIX C:

ASSISTANCE IN STATISTICAL ANALYSIS

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Statistical Consultation Service
Tel: (018) 299 2181

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18 April 2008

To whom it may concern

Re: Thesis Ms. C.F. De Meyer, student number: 11993464

We hereby confirm that the Statistical Consultation Service of the North-West University has analysed the data and assisted with the interpretation of the results.

Kind regards

SM Ellis

DR. S M ELLIS (Pr. Sci. Nat)

Head Subject Specialist

APPENDIX D:

STATISTICAL ANALYSIS

CROSS-TABULATION: THE DOMESTIC AIRLINE RESPONDENTS FLY WITH THE MAJORITY OF THE TIME AND THE DOMESTIC AIRLINE THEY PREFER

Domestic airline fly majority of time (Q1A)	Domestic airline prefer (Q1C)							
	1-Time	Kulula.com	Mango	Nation-wide	SA Airlink	SAA	SA Express	Row totals
1-Time	6	0	2	2	2	2	0	14
Row %	42.9	0.0	14.3	14.3	14.3	14.3	0.0	
Kulula.com	2	81	2	1	0	15	2	103
Row %	1.9	78.6	1.9	10.0	0.0	14.6	1.9	
Mango	0	1	6	0	0	2	2	11
Row %	0.0	9.1	54.5	0.0	0.0	18.2	18.2	
Nationwide	0	0	0	22	0	11	4	37
Row %	0.0	0.0	0.0	59.5	0.0	28.7	10.8	
SA Airlink	0	0	0	1	3	0	0	4
Row %	0.0	0.0	0.0	25.0	75.0	0.0	0.0	
SAA	0	10	0	11	1	110	8	140
Row %	0.0	7.1	0.0	7.9	0.7	78.6	5.7	
SA Express	0	0	0	1	0	0	14	15
Row %	0.0	0.0	0.0	6.7	0.0	0.0	93.3	
Total	**8**	**92**	**10**	**38**	**6**	**140**	**30**	**324**

Statistic	Statistics (Q1A x Q1C)		
	Chi-square	df	p
Pearson Chi-square	783.4020	df=36	p=0.0000
M-L Chi-square	436.455	df=36	p=0.0000
Phi	1.559784		
Contingency coefficient	0.8418452		
Cramer's V	0.6367791		

Note: This appendix indicates how each Chi-square test was calculated for each of the Chi-square tests mentioned in chapter 7.