

CHAPTER 1

INTRODUCTION

Customer Satisfaction

In the context of business studies, the issue of customer satisfaction has become a prime area of concern not only that it creates a competitive edge for organizations, it has become a necessity for business to survive. It is no longer a term limited among the quality engineers or managers, or marketing planners and researchers but it has entered into the board rooms and gained top management's attention.

To explain the importance of customer satisfaction, we may look from two angles, firstly the people in the industrial countries are experiencing the arrival of service era, where 70% of the GNP are generated from service sectors. The quality of service becomes an important area of study, and people in the Asian developing countries are experiencing an economic growth for past several decades, generally the people are wealthier and receive more education. Secondly modern marketing concepts have changed corporations from production

or selling approach to marketing approach, which focuses on customer needs and wants. Combining these two effects, customers are educated through experience and possess the financial ability to seek for products (both goods and services) that continuously satisfy their needs and wants.

When *Asian Business*, a business magazine, conduct an annual survey for Most Admired Companies among executives from nine Asian countries, it was clearly shown that, in the mind of Asia's business leaders, good service and reliable products are a direct reflection of a well-run, respectable -- and therefore admirable -- business. And the consumer revolution made consumer to become more demanding. (McGrath 1995)

In most of US industries, prior to the 1980s, product categories could be dominated by a giant, but no longer the case due to the hard-work of smaller competitors, which today become formidable competitors. The leading brands usually command less than 10% of total market share. (Vavra 1992) Corporations seeing intensify competitions from big and small competitors, they need to seek ways to acquire and keep their customers.

Customer Retention

The importance of retention marketing is being re-emphasized the book *Serving Them Right* (Liswood 1990), where in the past,

retention marketing went hand in hand with acquisition marketing. However as the US industries matured into a more mobile, industrialized and technocratic society, acquisition marketing and retention marketing became two distinction functions. The second half of the sale was relegated to "customer complaint departments" and "service department".

There have been a surge of realizing the importance of retaining customer as second half of sales. Kotler(1991) discussed the importance of customer relationship in Marketing.

"Transaction Marketing is part of a larger idea, that of relationship marketing. Smart marketers try to build up long-term, trusting, "win-win" relationships with customers, distributors, dealers and suppliers."(page 8)

Building a relationship with customers and continuously maintaining customer satisfaction through delivering quality goods and services are undoubtedly essential. From the customer perspective, a purchase is most likely viewed as initiating a relationship. The customer feels considerably desire or need for a continued interaction with the selling organization. (Vavra 1992)

Organizations competing on price and product quality alone have to realize that there are differences between generic

product that sold on price, enhanced product that sold on product quality, and the integrated product that sold on customer relationship. This is important because its getting harder to make product clearly better than competitor's, and buyers are more interested in service quality aspects that builds relationship than in mere features. (Cannie 1991)

Thus a company while busy acquiring new customers and yet rapidly losing its existing customers is fighting a losing war. Statistic shows that retaining an existing customers is far cheaper than conquering a new customer. It cost five times as much to acquire a new customer as it costs to service an existing customer. (Forum Consulting). Other surveys showed

65 percent of the average company's business comes from its present, satisfied customers. (American Management Association)

91 percent of unhappy customers will never again buy from a company dissatisfying them, and will communicate their dissatisfaction to at least nine other people. (Customer Service Institute)

Bain & Company, a strategic consulting firm, claims that an increase in customer retention rates of five percentage point can increase profits from 25% to 80%. (Rust, Zahorik & Keiningham 1994) Corporations today have to understand the importance of customer satisfaction and customer retention,

and investigate the relationship between product quality, service quality, customer satisfaction and how they result to customers repurchasing from the same company.

The Copier (Photostating Machine) Market

The scope of this research paper will limit to the measurement of customer satisfaction on one of the industry that offer service associated with tangible products to business customer. The copier industry is selected for its uniqueness in offering products and after-sales equipment repair services to offices. And unlike automobile industry, where services may be provided by third parties, the copier is usually serviced by the marketers.

Copier market in the world is dominated by a few key players. The entire industry was originally created out from a technology called Xerography. It was developed by a patent attorney Chester Carlson in year 1938, he and others formed a company called Haloid Xerox, after which was named Xerox Corporation. Xerox originally dominated 82% of the worldwide US\$ 25 billion market.(Kearns 1992) Subsequently as the xerography patent expired, Japanese companies such as Minolta (in 1954), Ricoh (1955), Canon (1968) and Konica (1971) introduced their plain paper copiers. These Japanese competitors have grappled Xerox's market share with their low

cost, high quality products. As a consequence, Xerox saw its share dropped to less than 35%.

Today Xerox has made a successful come back in the copier market through quality benchmarking programs, together with its Japanese subsidiary Fuji Xerox and Europe partner Rank Xerox. Xerox group is once again a leader in high volume market. Canon acquired 50% of Japan copier market, and its copier revenues represented more than 40% of its total company revenue. Canon is the market leader in low- and mid-volume market. For other key Japanese players, copier revenues represented 45% or more of their total revenues, making competition in copier market even severe and intensify. A reference of Revenue table in 1994 is presented in Table 1.1.

Copier Market in Malaysia is a mini resemblance of the world market, with the key competitors represented by either their subsidiaries or authorized dealers. Because no actual figures were available on copier revenues or unit sold, the companies' total revenues were presented in table 1.2.

The competition in Malaysia is equally intense. As the xerography technology becoming mature, and every company offering similar product features, company service stands out to be a key differentiating item.

TABLE 1.1: WORLDWIDE REVENUE OF KEY COMPETITORS

Company	1994 sales ('millions USD	% Change from 1993	1994 net profit ('mil)	% Change from 1993
Canon	21,723	5	473	103
Sharp	18,176	7	500	40
Ricoh	11,464	5	209	95
Minolta	3,749	4	39	-53
Konica	2,056	5	43	-9
Xerox	17,837	5	794	520
Fuji Xer	7,655	6.2	182	7

Source: Benchmark 1995

Copier machine is an office automation machine with a peculiar characteristic. On one hand it offers speed and convenience in copying, sorting document and thus improves office productivity; on the other hand it often breaks down when it is most needed. A copier machine is often used by many office workers, each needing the machine to improve their work efficiency. Thus when the copier breaks down, the document flow in the office may virtually stops. Therefore most customers when purchasing a copier, will sign a service contract with the copier marketer, to ensure proper after-sales machine servicing to keep the copier in running condition at all time.

TABLE 1.2: REVENUE TABLE OF KEY COMPETITORS IN MALAYSIA

Company	Subsidiaries/ Dealers	1994 Sales (million RM	1995 Sales (million RM	changes
Canon	Canon Marketing	100	140	40%
Sharp	Sharp Roxy Sales & Services	400	400	0%
Ricoh	Wywy Marketing	N/A	N/A	
Minolta	Minolta Marketing	30	40	33%
Konica	Repromac	N/A	N/A	
Fuji Xerox	Fuji Xerox Pacific	75	84	12%
Toshiba	Tele Dynamics	51	51	0%

Source : Dun & Bradstreet 1994-95

Customers usually pay a monthly minimum charges plus additional charges for every copy made. The marketer then provides technical repair and maintenance services to the customers and the service is usually carried out at customer's site. The marketer also keeps stock for spare parts and consumable items as replacement for parts used on customer machines.

Copier customers use the machine and the services provided by the marketer. These combined experiences of the customer and his overall satisfaction provide grounds for this study.

Objectives of study

There are several objectives of this research paper. Firstly, it attempts to confirm the different dimensions in service quality. Secondly, it shall investigate the relationship between product quality, service quality, customer satisfaction and likelihood of repurchase. And thirdly, it shall survey on customer perception on the quality of competing brands, and lastly to find out the characteristics of high and low satisfaction customers.

Organization of this research Paper

Chapter 1 establishes the importance of customer satisfaction and customer retention. A brief overview was given on worldwide and Malaysia copier market. Explanation was given on why copier customers were chosen as the subject of this study. Lastly, the objectives of this research was stated.

Chapter 2 follows a literature review from Customer Satisfaction/Dissatisfaction (CS/D) Model, to the expectancy disconfirmation model as the basis of satisfaction study. The chapter then introduces the study of Service quality which is closely related to disconfirmation model, and SERVQUAL Model

as the basis for the research questionnaire. The later development on SERVPERF is also discussed.

Chapter 3 explains research methodology which include the development of the questionnaire, which was based on the modified SERVQUAL multi-scale items. Sampling area and size are developed and the techniques of statistical analysis are explained. The limitations of study are also discussed.

Chapter 4 illustrates survey results in four parts. First, the respondent characteristics are discussed. Then the dimensionality and validity of the questionnaire are investigated. Third, the study explores the correlation between quality, satisfaction and repurchase. Forth, paired t-test and item mean results of competing brands are shown, to investigate the competitive position of the leading brands. Lastly, one way analysis of variance (ANOVA) is done to find the characteristics of high and low satisfaction customer.

Chapter 5 gives an overview of overall results and their implication to measurement of customer satisfaction and service quality. Then based on the comparative results of competitive brands, suggestions are given to improve customer satisfaction. Lastly, topic for future research is recommended.