CHAPTER II
THEORETICAL FOUNDATION

Theoretical foundation consists of the theoretical base such as opinion and understanding from several experts, which are gathered as secondary data from various sources such as textbook, websites and other sources to support the statement in this thesis. A replication of previous model will be given on this chapter.

2.1 Service industry

Service industry is an industry which part of the economy that creates services (intangible objects) than producing tangible objects to earn the profit in the market. In the other words, service industry is provides a services business rather than providing goods (Brown, Gumesson, Edvardsson, & Gustavsson, 1991). The services industries are involved in retail business, transportation, distribution, food services, health services, banking, communication, which includes hairdresser business, massage therapy business, dry cleaner business and travel agents business (Smith, 2005).

2.2 Customer satisfaction criteria

Customer satisfaction is a measurement of customer attitudes about the company products, services and brands. Customer satisfaction also a measure of how products and services supplied by a company meet the customer expectation (Hansemark & Albinsson, 2004). Loyalty behavior is the result of high customer satisfaction, which means the service quality that perform by the company is equal or above the customer expectation (Brown, Gumesson, Edvardsson, & Gustavsson, 1991). The main objective of a company is to continuously improve their quality and performance in order to maintaining customer satisfaction (Hansemark & Albinsson, 2004). Based on customer satisfaction measurement and survey, company can monitoring their business and also as a key performance indicator for their business performance. This will leads to the company main strategy to fulfill customer expectations (Monica Paula & Costel iluita, 2011).

2.3 Services loyalty

Loyalty is a combination of emotional ideas such as faithfulness and also as a form of practical behavior such as consistency (Smith, 2005). The form of consistency can be shown as a routine using the services and not switching to others competitors (Smith, 2005). Loyalty in services industries is defined as a state of mind or attitude in which customer has a desire to using the services that offer from a specific company rather than using the other services that offer from others competitor in the industry (Johnston, 1995). Loyalty is a relative matter, rather than an absolute concept since the strength of the desire will vary from customer to customer (Hawkins, Mothersbaugh & Best, 2007). Behavioral loyalty commitment and repurchase intention is the measurement of service loyalty (Patterson, 2007)

The main reason customer is being loyal to a specific services is because they satisfied to the services that performed by the company (Monica Paula & Costel iluita, 2011). The services that perform by the company are equal or above the customer expectation, which leads to the customer satisfaction (Brown, Gumesson, Edvardsson, & Gustavsson, 1991). To maintaining customers loyalty and as a form of respect and benefits to the loyal customers, a lot of services companies is using customers loyalty program as a tool to maintaining loyal customers in the company which often given a special package and treatment to the loyal customers in each company (Baran, Galka, & Strunk, 2008). Customer Relationship Management (CRM) also used by the services companies to make sure all of their customers is handle with a good services, makes the customer database well organize and also as a system to increasing and maintaining customers loyalty to the company (Baran, Galka, & Strunk, 2008).

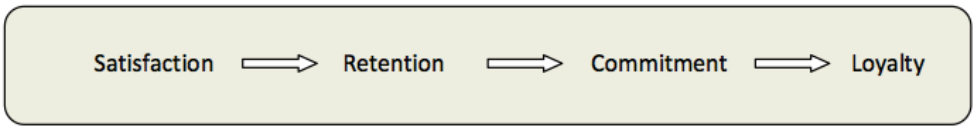
2.4 Customers loyalty behavior

In term of business executives in the market industry, customer's loyalty can define as customers who cannot or who do not want to do without their product or services (Siegle, 2008). The example of product or service loyalist is MacBook and Blackberry users, and in term of services industry is a phone provider customers and airline customers (Siegle, 2008). Customer's loyalty also can define as an ultimate reward that companies receive for the way the companies interacts with their

customers throughout their product and service (Smith, 2005). The loyal customers will stick with a business over time. The characteristic of loyal customers is they purchase more than the ordinary customers, they repeatedly purchase in the long-term base and they spread the positive word of mouth to other peoples about the companies' product or services (Smith, 2005).

There is two different typology of customer loyalty conceptualize which is, behavior and attitude typologies (Smith, 2005). The behavior typology primarily concerned with measures of repeat purchase or proportion of purchases. Customers repurchase intention is the main constructs of customer retention (Smith, 2005). The examples of attitude typologies are customer commitment and customer trust about the product or services (Siegle, 2008). The commitment to loyal and customer trust about the product and services are relates to the customers satisfaction level from the product and the service. The quality of product or services is equal or higher than the customer's expectation then refers to the customer satisfaction (Smith, 2005).

Figure 2.1 Customers Loyalty Process



Source: Strategic Marketing Solutions

Based on the figure 2.1, there are three components that lead to the customer's loyalty; the three components are satisfaction, retention and behavioral loyalty commitment (Siegle, 2008). The first component is Customer satisfaction, the level of satisfaction will relates to the future decision from the customer whether they purchase or not in the future and in the long run (Hansemark & Albinsson, 2004). Customer retention is when the customers are purchase or using the product or services again after they using the product in the previous time. When customers satisfy with the product and services and also routine purchase or using the product and services, they start to builds a commitment with the product and services (Labach, 2010). The forms of commitment can shown by routine use or buy the product and services and not willing change to the alternative product or services. In the end,

costumers commitment will leads to the customers loyalty behavior (Hansemark & Albinsson, 2004)

2.5 Customers retention

Customer's retention is the activity that undertakes by companies in order to reduce costumers defections (Labach, 2010). Customer retention successful if the business relationship and business activity between company and customer is start with the first contact and continues throughout the entire lifetime of a relationship (Krause, Nagel, & Solchenberger, 2007). In the other words, customer's retention defined as existing customers that maintain their relationship with the company trough products and services by routine using the services or purchases the product (Labach, 2010). The customer retention strategies is aim to prevent customers from defecting to alternative brands or going to the competitor. Customer retention is also important to maintain company revenue streams (Krause, Nagel, & Solchenberger, 2007). The company ability to retain and attract new customers is not only related to the companies' product and services, but also related to the existing customers positive word of mouth, the way services to the existing customers and the reputation that creates across the marketplace (Krause, Nagel, & Solchenberger, 2007).

2.6 Repurchase Intention

Repurchase intention is the customer's decision and customers plan to purchase again or repeatedly after the customers use or purchase the product or the services in the past (Patterson, 2007). Based on Michael Krause, Maximilian Nagel, Barbara Solchenberger (2007) repurchase intention also can define as "The individual's judgments about buying again a designated service from the same company, taking into account his or her current situation and likely circumstances"

2.7 Behavioral Commitment

Behavioral commitment is defined as a willingness and intent to stay loyal to a certain products and services in the market. The behavioral commitment also can define with the degree of customer commitment to a specific brand or services that they are likely to repurchase or re-use in the future (Smith, 2005).

2.8 Brands or Product Loyalty

Based on the American Marketing Association (2011) there is two definition of brand or product loyalty, in term of sales promotion and consumer behavior. These are the following definitions:

Sales Promotion definition:

"The situation in which a consumer generally buys the same manufacturer-originated product or service repeatedly over time rather than buying from multiple suppliers within the category" (American Marketing Association, 2011)

Consumer Behavior definition:

"The degree to which a consumer consistently purchases the same brand within a product class"

(American Marketing Association, 2011)

2.9 Customers loyalty motives

Customer's loyalty motives is a reason, motivation or expectation from a customers, which drives the loyalty behavior to a specific brand or companies (Smith, 2005). Customer's satisfaction for the products or services is the main instrument for the customer's loyalty motives (Johnston, 1995). The main element of customer's satisfaction is the successfulness from the companies to fulfill the customer's expectation (Smith, 2005). In this thesis, there were three customers' loyalty motives that found from the research in Jakarta services industry, which is, social benefits, special treatment and confidence benefits.

2.9.1 Social benefits

The form of social benefits that desired by the loyal customers is the customers is expect that the employee is willing to treat them as an important client, willing to have a genuine relationship with the customers, always recognize the moment when the customers contact the employee and the employee is likely treat the customers as a personal friend (Patterson, 2007).

2.9.2 Special treatment benefits

The second motives to loyalty are the customers are wanted to get a special treatment from the company. Giving a special deals and discount to the customers, given more attention to the customer specific needs, and always search the most reasonably priced solution is the example of special treatment that being given to the customers (Patterson, 2007).

2.9.3 Confidence benefits

The last motives is confidence benefits, the customers will have a big confidence when using the services from the company. The customer will have more confidence the service will be performed correctly, having a less anxiety when use the service, the service can fulfilled the customers expectation and the employee are reliable and can be trusted (Patterson, 2007). Those are the example of confidence benefits that customers willing to receive from the company.

2.10 Customer acquisition cost vs. Customer retention cost

Customer acquisition is the process of obtaining new customers or converting prospects to customers. Customer acquisition also can define as a company process to convincing a new consumer to buy the product or service from the company (Hawkins, Mothersbaugh & Best, 2007). Customer acquisition cost is the cost that used during the customer acquisition process that includes market research, marketing development and advertising costs (Hawkins, Mothersbaugh & Best, 2007). Customer retention cost is the cost that company has to spend in order to retain an existing customer or the cost that will spend during the process of keeping, sustaining and growing good relationship with the company existing customer (Hawkins, Mothersbaugh & Best, 2007).

Acquiring a new customer will cost more significantly than retaining an existing customer (Arnold, Fang & Palmatier, 2011). It takes time and money to acquire new customers. To acquire new customer, company routine make an advertising to increase awareness, updated market research data and always make a development in marketing strategy. Those activities are cost more time and money (Hawkins, Mothersbaugh & Best, 2007).

Compared to the main customer retention strategy, which is build a long-term relationship to the existing customers and keep satisfying the loyal customers through loyalty programs, customers reward program, good customer services, customer relationship management and maintaining the good services from the company (Arnold, Fang & Palmatier, 2011). All the expenses in customer retention cost are mostly for running the internal task for the company that also related to improving company performance and quality (Arnold, Fang & Palmatier, 2011). Customer retention strategy is more cost effective and a profitable strategy compared to the Customer acquisition strategy that will cost a lot of expenses to gain awareness through advertising and improvement in marketing strategy and data research (Hawkins, Mothersbaugh & Best, 2007).

2.11 Optimum stimulation level

Optimum stimulation level (OSL) theory is stated that individual behavior is influenced by the desire motivation to accomplish a specific level of stimulation (Boedeker, 1995). OSL can define as "a property that characterizes an individual of their general response to environment stimuli" (Orth & Bourian, 2005). When the customers receive the actual stimulation that less than optimum a customers will try to increase the stimulation level (Boedeker, 1995). The form of increasing is by seeking new products or trying new services in the market. In the other words, the options to choose to another product or seeking an alternative product or services was appear for some people that not achieve the exactly optimum stimulation level from the product (Orth & Bourian, 2005).

When the level of OSL is more than optimum, customers will decrease the stimulation by loyal to one services provider or product, because their needs and desire is already fulfilled and not willing to try an alternatives product or services (Orth & Bourian, 2005). The customers with high OSL, is the one who might easily to choose an option to change to another alternative product and services (Boedeker, 1995). The customer with low OSL which means has a low possibility to seeking an alternatives product or services is a typical for older age customers, more constant, and loyal in their consumer behavior (Orth & Bourian, 2005).