

# BASIC CUSTOMER SERVICE AND ITS IMPACT ON CUSTOMER RETENTION

Prof. Krishna K. Havaladar<sup>1</sup>

Prof. Jacob Alexander<sup>2</sup>

Prof. Mihir Dash<sup>3</sup>

## Introduction

*“The more you engage with customers the clearer things become and the easier it is to determine what you should be doing.” (John Russell, President, Harley Davidson)*

For any marketer, one of the greatest challenges is to attract and retain customers. It is imperative to identify parameters which act as stumbling blocks, which if not taken seriously would dampen the marketer’s efforts. Customer service is one such parameter.

The term customer service is defined as “anything to do for the customer that enhances the customer experience” (Harris, 2000). The Oxford Dictionary refers it as “an act of assistance.” To understand the term “basic customer service,” we need to distinguish the terms “service” (singular) and “services” (plural) which are not purely synonymous. Although service and services share common characteristics, such as intangibility and perishability, as discussed by Parasuraman (1998) and Zeithaml et al (1985), but they also differ in a fundamental way. The term “services” (e.g. courier, legal, and software services) is used for “intangible activities” which suppliers market to their customers. Both “tangible products” (e.g. furniture, refrigerator and sugar) and “intangible services” are “core offerings,” which requires traditional marketing activities, with emphasis on pricing and promotion.

On the other hand, a service is basic or fundamental concept that accompanies the core offering, regardless of whether the core offering is a tangible product or an intangible service. In this regard, **“basic customer service” is defined as a service that accompanies the core product or service offering and is provided free of charge to customers.** This definition is similar to the “supplementary service” defined by Parasuraman (1998), but the point of disagreement is mainly for the use of the word “supplementary” service, as it can mean an additional service, such as installation of a machine or a delivery of a product, for which a supplier may charge “extra amount” to its customer. Some examples of basic customer service are as follows:

- A customer wants information about a product’s price and availability from a supplier, who provides the information without charging any amount to the customer.
- A patient’s relative wants a bill for payment from a hospital after the treatment is completed and the doctor has given a discharge note. The hospital billing department gives the bill, without charging for the same.
- A service department receives telephone calls and letters from dissatisfied customers and these are answered without charging any amount.

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<sup>1</sup> School of Business, Alliance University, Bangalore, tel +91-9845529139, e-mail: krishnahavaladar31@gmail.com

<sup>2</sup> School of Business, Alliance University, Bangalore, tel +91-9980187047, e-mail: prof.jacobalexander@gmail.com

<sup>3</sup> School of Business, Alliance University, Bangalore, tel +91-9945182465, e-mail: mihirda@rediffmail.com

Many more examples can be given of basic customer service. If the above mentioned basic customer services are prompt, efficient, helpful, and pleasant, they are called good basic customer services; otherwise they are called bad basic customer services.

The objective of giving superior customer service (or basic customer service) is to gain customer satisfaction, which is the key to customer retention (Kotler, 2002).

## **Literature Review**

Customer service and customer retention are very well-studied areas in marketing. There are several studies addressing issues related to customer service, customer retention, and the impact of customer service on customer retention. The following is a review of some selected articles in the field.

Michel et al (2009) emphasized that superior customer service calls for fair treatment to customers, and that would definitely help in service recovery evaluation. Unfair treatment towards customers is attributed as a reason for service failure, and any service recovery must consolidate confidence by doing justice to customers. The authors further suggested that in any service recovery, negative emotions of the customer, such as anger, anxiety, and hatred, have to be taken care of before any solution to the problem is given. It is therefore important to treat customers as individuals by acknowledging their specific requests.

Pham et al (2010) tried to show how customer satisfaction can be achieved by simply raising self-awareness of the customer. In a typical product/service failure case, increased self-awareness of customers could increase their satisfaction with the service provider, as greater self-awareness would help customers accept greater responsibility for the failure. The reverse would happen if the product or service achieves success; in this case, if their level of self-awareness is increased, then a decrease in satisfaction with the service provider occurs as the customers are more likely to take credit for the success.

Anderson et al (2007) hypothesized that attributions of blame also affect what matters to the customer during service failures. Contrary to the popular view that employee interactions take on a greater role in determining customer satisfaction during service failures, they found that the opposite is true if the customer attributes blame to the service provider, instead of external origin (e.g. flight delays due to weather conditions).

Padhy and Swar (2009) examined the salient features of service quality in retail banking using SERVQUAL model. They found that retail banks were able to report an improvement in service quality, and that the SERVQUAL model developed by Parasuraman et al (1985) could adequately capture the improvement in service quality. They also emphasized the importance of frontline employees in service delivery.

Nam et al (2007) studied direct and indirect (i.e. word of mouth) effects of service quality on new customer acquisition, usage and retention using behavioural data from the launch of a new video on demand type service. They found a direct effect of service quality on rental usage and

termination behaviour. In addition, they found word of mouth affects about one-fifth of subscribers with respect to their activation behaviour. In terms of profitability, they found that a 10% increase in service quality leads to a 7% increase in customer lifetime value.

Awara (2010) analysed the crucial role that service provider personnel play for value creation and consumer satisfaction, which are necessary for customer retention. The author suggested that effective strategies for customer retention must focus on the management of the relationships between service provider-personnel and their customers, which would enhance effective relationship between service providers and their customers, especially in medical services.

Ranaveer et al. (2003) showed that perceptions of service quality have a direct linear relationship with customer retention even in mass services with low customer contact like telephone users in England. Also, price perceptions and customer indifference were found to have a direct linear effect on customer retention.

Cohen et al. (2006) examined several factors that influence consumers' decisions to stay with or leave their banks in New Zealand. The results of the study suggested that the most important factors for customer retention were customer satisfaction, followed by the corporate image, and switching barriers.

Sangareddy et al (2009) examined how the complaint management process can impact customers' intention to continue or discontinue using a given technology. They suggested that the complaint management process is neither simply a customer service issue, nor limited to customer service personnel; it also has to do with the overall policies governing the customer service function. For example, Dell's policy of not limiting the time that junior technical support personnel spent in resolving customer complaints (instead of referring to senior personnel) had impact on customers' satisfaction. Moreover, encouraging customer participation and feedback while addressing their concerns can lead to innovative practices within the company. For instance, Cingular involves its customers in its usability lab and leverages its interactions with them to design better mobile phone services. They proposed that a good complaint management process can not only improve customer satisfaction, but can also help leverage customers' input to design better offerings.

Nobrega et al (2010) studied customer service in higher education institutions. In this context, they identified the central service as teaching. Ancillary services have two components - viz. complementary services (e.g. library services, snack services, and photocopying services), and supplementary services (e.g. computer laboratory services and information service). The main finding of the study was that central service (i.e. teaching) had the largest contribution to students' retention in higher education institutions. Complementary and supplementary services also contributed in a balanced way.

Robert-Lombard (2011) emphasized the importance of customer relationship management in acquiring new customers, retaining existing ones, and maximising their lifetime value in the financial services industry. He examined the influence of two-way communication and conflict handling on intentional customer loyalty via CRM as the intervening variable. He found that conflict-handling had a statistically significant positive influence and two-way communication

had a statistically significant negative influence on the intervening variable; which in turn positively influenced the dependent variable (customer loyalty). He suggested that organisations should communicate timely and accurately, and should be skilled in conflict handling, in order to foster greater loyalty among customers.

The literature on customer relationship management and customer retention shows a general positive relationship between customer service and customer retention. The present study addresses the issue of basic customer service and its impact on customer retention, which has not been addressed by any of the previous studies.

## **Methodology**

The primary objectives of the present study are

- (1) to examine the characteristics of organizations providing superior basic customer service as opposed to organizations delivering average/inferior basic customer service, in terms of customer complaint handling systems and culture, and
- (2) to analyze the impact of such basic customer service on customer retention.

The study is based on primary data collected using a structured questionnaire from a sample of one hundred and twenty-four business organizations in Bangalore, India. The sample supplier companies were elicited from a panel of consumers who were asked to identify organizations providing superior basic customer service as opposed to organizations delivering average/inferior basic customer service, and what characteristics distinguished these two groups. Overall, 48.4% of the sample supplier companies were perceived to deliver superior basic customer service, while 51.6% of the sample supplier companies were perceived to deliver average/inferior basic customer service.

The questionnaire was developed based on some of the characteristics identified by the panel of consumers. The variables considered were the sample supplier companies' self-assessment of basic customer service, the frequency with which they reviewed customer complaints, the speed with which they informed customers about the status of their complaints, their basic customer service delivery systems, their customer-centric culture, their perception of whether superior basic customer service would result in improvement of customer retention and/or sales performance, their sales growth over the last three years, and their percentage of repeat customers over the last two years. The supplier companies perceived to provide superior basic customer service were compared with those perceived to provide average/inferior basic customer service along these dimensions.

## **Analysis & Findings**

There were several elements of basic customer service systematized by the supplier companies. Information-dissemination has been revolutionized by Internet, and almost all the sample supplier companies had detailed product profiles on their websites. Many of the supplier companies which were perceived to deliver superior basic customer service provided online customer support, with customer login facility, and regular updates through e-mail as well as SMS. Several of them also had call centers providing customer guidance and support. Along

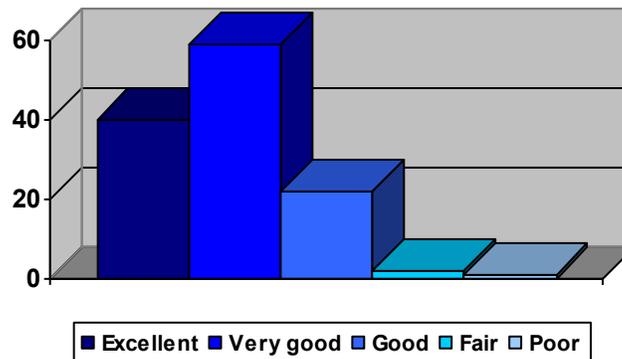
with information-dissemination, these networks allow for customer feedback and review. More importantly, they also allow for real-time handling of customer complaints, and periodic tracking/review of complaint resolution. Proper communication, a cornerstone of basic customer service, has thus been increasingly embodied into the supplier companies' delivery systems. On the other hand, supplier companies which were perceived to deliver average/inferior basic customer service failed to achieve the same extent of customer networking, especially in terms customer complaint handling.

The overall self-assessment of the sample supplier companies of their basic customer service delivery is presented in Table 1 below.

**Table 1: self-assessment of basic customer service**

	Frequency	Percentage
<b>Excellent</b>	40	32.3%
<b>Very good</b>	59	47.6%
<b>Good</b>	22	17.7%
<b>Fair</b>	2	1.60%
<b>Poor</b>	1	0.8%
<b>Total</b>	124	

**self-assessment of basic customer service**



The overall level of self-assessment of basic customer service was high, with mean value of 1.91, and standard deviation 0.796, with 79.9% of the sample supplier companies perceiving their basic customer service to be excellent or very good. Thus, self-assessment of basic customer service by the sample supplier companies was much higher at 79.9% in comparison with their customers' perceptions of superior basic customer service of 48.4% for the same set of supplier organizations.

In fact, supplier companies which were perceived to deliver superior basic customer service had a significantly higher level of self-assessment of basic customer service (with a mean value of 1.60, and a standard deviation of 0.643) than supplier companies which were perceived to deliver average/inferior basic customer service (with a mean value of 2.20, and a standard deviation of 0.820) [F-cal = 20.586, p-value = 0.000].

In terms of supplier companies' perception of the impact of superior basic service on customer retention, 79.8% perceived that superior basic customer service would definitely result in

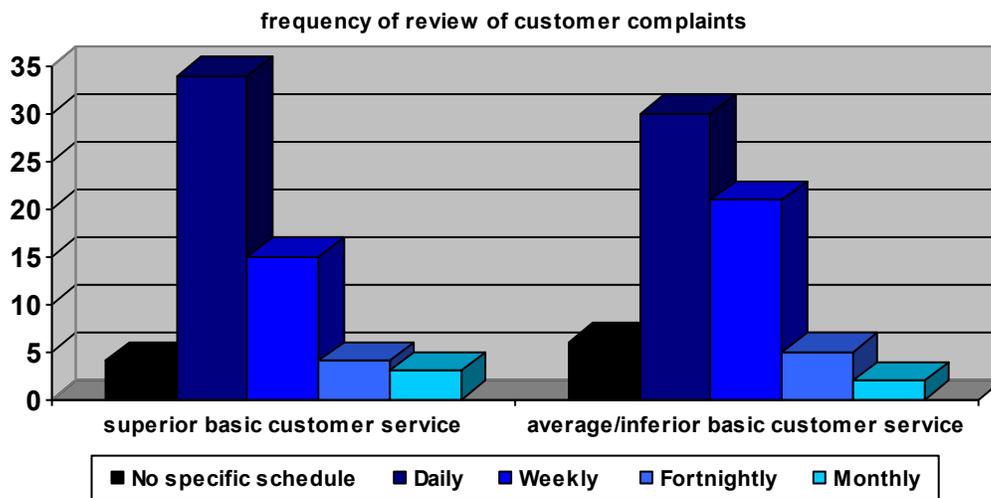
improvement of customer retention, 18.5% perceived that superior basic customer service would probably result in improvement of customer retention, while 1.6% were uncertain of the impact of superior basic customer service on customer retention.

In terms of supplier companies' perception of the impact of superior basic service on sales performance, 68.5% perceived that superior basic customer service would definitely result in improvement in sales performance; 19.4% perceived that superior basic customer service would probably result in improvement in sales performance, while 12.1% were uncertain of the impact of superior basic customer service on sales performance. Of course, sales performance of an organization may depend on many factors such as price, promotional expenditure, competitors' strategies and tactics, environmental elements, and so on. The respondent perceptions suggest that superior basic customer service is also a driver of sales performance.

The frequency of review of customer complaints by the two groups of supplier companies is presented in Table 2 below.

**Table 2: frequency of review of customer complaints**

	superior basic customer service		average/inferior basic customer service		overall	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
<b>No specific schedule</b>	4	9.4%	6	6.7%	10	8.1%
<b>Daily</b>	34	46.9%	30	56.7%	64	51.6%
<b>Weekly</b>	15	32.8%	21	25.0%	36	29.0%
<b>Fortnightly</b>	4	7.8%	5	6.7%	9	7.3%
<b>Monthly</b>	3	3.1%	2	5.0%	5	4.0%
<b>Total</b>	60		64		124	



Daily review of customer complaints was higher for sample supplier companies which were perceived to deliver superior basic customer service (56.7%) than for those which were perceived to deliver average/inferior basic customer service (46.9%), indicating that sample supplier companies which were perceived to deliver superior customer service had a higher frequency of review of customer complaints. On the other hand, 6.7% of the sample supplier companies which were perceived to deliver superior basic customer service, and 9.4% of sample supplier companies which were perceived to deliver average/inferior customer service had no

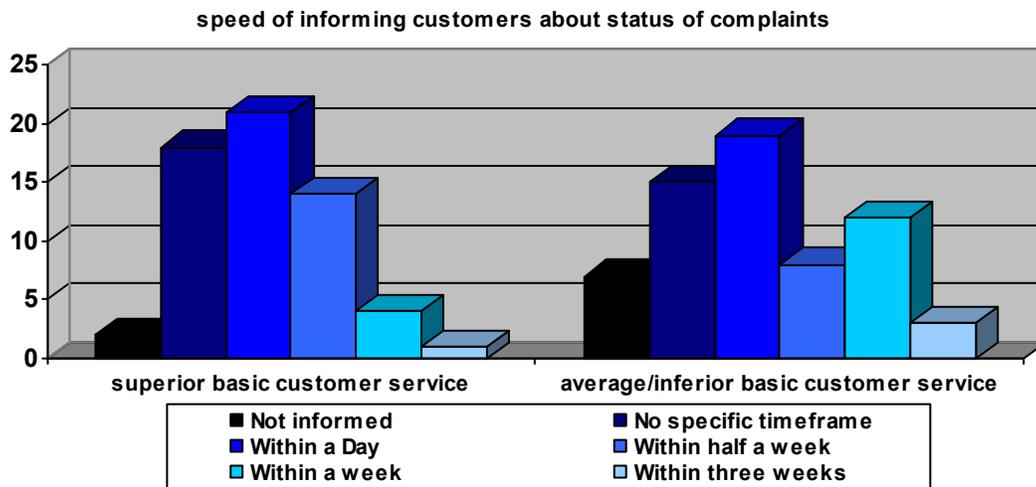
specific schedule of review of customer complaints, indicating a scope for establishing a formal customer review system [Pearson Chi-square = 1.834, p-value = 0.383]. The overall frequency of review of customer complaints was high, with 80.6% of the sample supplier companies reviewing customer complaints either daily or once a week. Also, 8.1% of the sample supplier companies had no specific schedule of review of customer complaints, indicating a scope for establishing a formal customer review system.

In terms of an inbuilt system for corrective action for handling complaints, 88.3% of the sample supplier companies which were perceived to deliver superior customer service had such a system, while only 76.6% of the sample supplier companies which were perceived to deliver average/inferior basic customer service had such a system; and the difference was statistically significant [Pearson Chi-square = 2.940, p-value = 0.043]. Overall, 82.3% of the sample supplier companies had an inbuilt system for corrective action for handling complaints, while 17.7% of the sample supplier companies did not, indicating a scope for establishing a formal system of corrective action for handling complaints.

The speed of informing customer about the status of complaints by the two groups of supplier companies is presented in Table 3 below.

**Table 3: speed of informing customers about status of complaints**

	superior basic customer service		average/inferior basic customer service		overall	
	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
<b>Not informed</b>	2	3.3%	7	10.9%	9	7.3%
<b>No specific timeframe</b>	18	30.0%	15	23.4%	33	26.6%
<b>Within a Day</b>	21	35.0%	19	29.7%	40	32.3%
<b>Within half a week</b>	14	23.3%	8	12.5%	22	17.7%
<b>Within a week</b>	4	6.7%	12	18.8%	16	12.9%
<b>Within three weeks</b>	1	1.7%	3	4.7%	4	3.2%
<b>Total</b>	60		64		124	



In terms of the speed of informing customer about the status of complaints, 58.3% of the sample supplier companies which were perceived to deliver superior basic customer service informed

customers about the status of complaints within a day or within half a week, while 42.2% of the sample supplier companies which were perceived to deliver average/inferior basic customer service informed customers about the status of complaints within a day or within half a week, and the difference was statistically significant [Pearson Chi-square = 9.668, p-value = 0.0425]. On the other hand, 30.0% of the sample supplier companies which were perceived to deliver superior basic customer service, and 23.4% of sample supplier companies which were perceived to deliver average/inferior basic customer service had no particular timeframe of informing customers about the status of complaints, indicating a scope for establishing a formal system for informing customers about status of complaints. The overall speed of communication of information to customers about complaints was relatively quick, with 50.0% of the sample supplier companies informing customer about complaints within a day or within half a week. Also, 26.6% of the sample supplier companies had no specific timeframe for intimating customers about complaints, and 7.3% of the sample supplier companies did not inform their customers at all about complaints, indicating a scope for establishing a formal system for informing customers about complaints.

There were several cultural elements of basic customer service inculcated by the supplier companies. Supplier companies which were perceived to deliver superior basic customer service inculcated customer-centricity at all levels, from the front-line employees, who were trained to deal with customers in a courteous, empathetic manner, all the way to the top management, which were involved in periodic review of customer complaints. In fact, customer-centric culture was a pre-requisite for proper customer handling systems. On the other hand, supplier companies which were perceived to deliver average/inferior basic customer service did not show so strong a commitment to customer-centricity, and often did not have adequate systems in place to provide customer support and/or handle customer complaints.

The sales growth over the last three years and the percentage of repeat customers over the last two years for the two groups of supplier companies are presented in Tables 4 and 5, respectively.

**Table 4: sales growth**

	superior basic customer service		average/inferior basic customer service		overall		ANOVA/F-test	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Fcal	p-value
<b>Current year</b>	29.05%	29.48%	21.01%	20.81%	24.57%	25.12%	1.558	0.217
<b>Last year</b>	24.04%	24.86%	17.23%	21.61%	20.78%	23.36%	0.975	0.329
<b>Two years ago</b>	24.28%	18.82%	12.12%	11.24%	17.87%	16.28%	5.677	0.023

**Table 5: percentage repeat customers**

	superior basic customer service		average/inferior basic customer service		overall		ANOVA/F-test	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Fcal	p-value
<b>Current year</b>	51.83%	33.03%	46.33%	29.09%	48.86%	30.77%	0.392	0.534
<b>Last year</b>	52.04%	32.26%	50.36%	28.35%	51.17%	29.97%	0.037	0.848

There were statistically significant differences in the sales growth over the last three years between the sample supplier companies which were perceived to deliver superior basic customer service and the sample supplier companies which were perceived to deliver average/inferior basic customer service, particularly the sales growth two years ago, affected by the global

recession. The mean and standard deviation of sales growth of both groups of the sample companies showed an increasing trend over the last three years, with the current year sales growth being significantly higher than last years' sales growth, again due to the global recession. The mean and standard deviation of percentage of repeat customers of both groups of the sample supplier companies also showed an increasing trend, though not statistically significant.

### **Discussion of Findings:**

Some of the observations and recommendations based on the key findings of the study are as follows:

- Organizations providing superior basic customer service had a higher frequency of daily reviewing of customer complaints (58.2%) than organizations delivering average/inferior basic customer service (43.9%), but this narrows down when considering weekly review (82.1% and 79.0%, respectively). Thus, establishing a proper and timely customer complaint review system would enable organizations to provide superior basic customer service.
- Organizations providing superior basic customer service had inbuilt corrective processes and/or actions for handling customer complaints (88.1%), as opposed to organizations delivering average/inferior basic customer service (75.4%). Thus, instituting an inbuilt corrective process for handling customer complaints would definitely provide greater satisfaction to the customers and would thereby enable organizations to retain customers.
- Organizations providing superior basic customer service had a higher frequency of informing customers regarding customer complaint resolution within a day (32.8%) than organizations delivering average/inferior basic customer service (24.3%), and this gap widens when considering weekly information (55.2% and 32.5%, respectively). Streamlining the process of communication to customers on complaint status would further enable organizations to provide superior basic customer service.
- Organizations providing superior basic customer service fostered a customer-centric culture amongst employees, and in many such organizations it was top management's involvement through periodic review of customer complaints that made the difference. In particular, organizations providing superior basic customer service strongly believe that customer service must be backed with top management commitment, and full employee involvement.
- Organizations providing superior basic customer service had a higher rate of customer retention (51.08%) than organizations delivering inferior basic customer service (33.18%). Of course, customer retention/repeat purchase varied considerably with quality of core product/service; but superior basic customer service contributed to customer retention by providing a solid foundation for customer satisfaction.

The study indicates that systems for frequent reviewing of customer complaints, with inbuilt corrective processes for handling customer complaints, providing adequate and timely information to customers on their complaints status, and a customer-centric organizational culture are crucial in delivering superior basic customer service, thereby enhancing customer retention and loyalty.

There are some limitations inherent in the study. The sample size used for the study is relatively low. Also, the sample supplier companies were quite heterogeneous. More careful selection of sample companies would have improved the quality of findings.

There is a vast scope for further research in this area. The role and impact of basic customer service should be examined in different industries. Also, the impact of basic customer service can be compared with that of other factors, such as price and quality of core product/service and other ancillary services. There may be some more characteristics of organizations giving superior basic customer service, which need to be explored. Further, the factors affecting basic customer service must be analysed, so as to build a model for basic customer service. Such models could be used as a basis for strategy formulation.

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