A CONCEPTUAL MODEL FOR IRAN'S CAR INDUSTRY CUSTOMERS' LOYALTY

Mojgan Bahrami Samani*

Faculty of Management and Human Resource Development
Universiti Technologi Malaysia
Johor, Skudai
Tel: 0177372243, E-mail: bsmojgan2@live.utm.my
Samani_518@yahoo.com.sg

Ali Attafar
Assistant Professor of Management Department of
Isfahan University

Naser Khani Khouzani
Faculty of Management and Human Resource Development
Universiti Technologi Malaysia

Abstract

Iran is the 12th largest automaker in the world and the largest in the Middle-East. In 2009 Iran ranked fifth in car production growth standing next to China, Taiwan, Romania and India. This indicates that there is a significant potential for Iran in car industry. Industry success is dependent on its customers' loyalty. Basically, researchers have agreed that loyalty is the main issue for making and maintaining relationships with customers. Both academicians and industry executives, fundamentally, considered customer loyalty as an organizational valuable asset. This study aims to examine which factors influence customer's loyalty in Iran's car industry. This paper extends an area of marketing context by looking into the element of customer loyalty in Iranian car industry. A conceptual model of customer loyalty in Iran's car industry is proposed in which quality, price, and satisfaction, as three main antecedents, influence customer's loyalty. Quality is divided into quality of products, quality of relationship between buyers and sellers and finally, quality of after sell service.

Keywords: customer loyalty, quality, price, Iran's car industry

1. Introduction

Iran's automotive industry is the second most active industry of the country, after oil and gas industry. In the past 10 years Iran has been emerging as a major car producer in the world. Today, Iran is the 12th largest automaker in the world and the largest in the Middle-East. In 2009 Iran ranked fifth in car production growth standing next to China, Taiwan, Romania and India. This indicates that there is a significant potential for Iran in car industry (Abedini & Péridy, 2009). Industry success is dependent on its customers' loyalty. Basically, researchers have agreed that loyalty is the main issue for making and maintaining relationships with customers.

Researchers considered customer loyalty as an organizational valuable asset (Xu, Benbasaty, & Cenfetelliz, 2009). Both academicians and industry executives, fundamentally, have agreed that customer loyalty act as a determinant of financial performance (Balabanis, Reynolds, & Simintiras, 2006; Cho & Hu, 2009; Johnson & Grayson, 2005; Ramanathan, 2010). Reicheld (1996) mentioned that 5% growth in customer retention rate can result 25%-95% growth in profit of organizations.

Researchers indicated that loyal customer can act as word-of-mouth advertising channels to introduce products and services to potential customers (Chen & Hu, 2010; Hallowell, 1996; Shoemaker & Lewis, 1999; Srinivasan, Anderson, & Ponnavolu, 2002) word-of-mouth advertising of loyal customer can attribute about 60% of sales to new customers (Reichheld & Sasser, 1990). Some other intelligible benefits of customer loyalty to an organization are high cash flows, sales and low costs (Bejou & Palmer, 1998; Thrane, 2002; Yoon, Lee, & Lee, 2010), lower price sensibility (Lynch & Ariely, 2000), willingness to pay more (Srinivasan, et al., 2002), low switching to competitors (Yi & La, 2004) and provide customer preference in competition context (Butcher, Sparks, & O'Callaghan, 2001; Chen & Hu, 2010). This study proposed a comprehensive model of loyalty development process incorporating several antecedents including price, quality (include: relationship between buyers and sellers and after sale service and quality of products) and satisfaction.

2. Research framework

2.1. Customer loyalty

Loyalty as a marketing phenomenon, attracted interest of researchers from as early as in the twentieth century (Steyn, Pitt, Strasheim, Boshoff, & Abratt, 2010). Basically, both academicians and industry executives have agreed that loyalty is the main issues for making and maintaining relationships with customers (Chang & Chen, 2008; Liu, Guo, & Lee, 2010). During this time the focus of loyalty was more on tangible goods and brand loyalty (Day, 1969; Tucher, 1964).

Concept of brand loyalty as brand insistence is introduced by Melvin Copeland (1923) as a continuum of attitudes ranging from brand recognition on the extreme end of the

preference of the other. Consequently, most of the researches concentrated on developing probabilistic models designed to predict repeat purchase behavior rather than establishing a clear conceptual definition to guide future empirical research (Dunn, 2005). But the conceptual construct of customer loyalty has been gradually improved over the years. Oliver's (1999) definition has been used in most loyalty research studies. He depicted loyalty as "a deeply held commitment to re-buy or re-patronize a preferred products and services consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having a potential to cause switching behavior "(p: 34). Traditionally, it was gained by behavior of sales personnel or through the physical setting (Cyr, Hassanein, Head, & Ivanov, 2007).

Customers with long term loyalty don't easily switch to other service and product providers. On the other hand, customers with short-term loyalty when offered a perceived better alternative, defect more easily. This study concentrates on long-term loyalty that is beneficial for product and service providers to establish a satisfied relationship with customers. Traditionally, in determining the improvement of loyalty, satisfaction of customers has been recognized as the main input for customer loyalty (Chang & Chen, 2008; Harris & Goode, 2004).

2.2. Customer satisfaction

For more than fifty years, customer satisfaction has become a critical issue in the marketing. The first study that measured the customer satisfaction occurred in the mid 1960s (Wu, 2006). Because of potential influence of customers' satisfaction on customer retention and behavioral intentions, customer satisfaction has been the subject of much attention in the literature (Yuksel , Yuksel, & Bilim, 2010). In the consumer behavior studies, satisfaction is defined as ''a judgment that a product or service feature, or the product or the service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under or over fulfillment'' (Oliver, 1999, p: 13). In the previous studies, the strong relation between customer satisfaction and loyalty in the marketing and sell has been shown (Lai, Griffin, & Babin, 2009; Liu, et al., 2010; Yen & Lu, 2008) and satisfaction presented as one of the antecedents of customer loyalty and positively affects customer loyalty (Deng, Lu, Wei, & Zhang, 2010).

Furthermore, these studies represented that customer satisfaction is the main important mediate goal for providers on their way to obtain marketing success. Winter (2001) believes that customer satisfaction is in the center of the firm's relationship programs. Therefore, there is a need to develop a model to explore factors influencing customer satisfaction and loyalty of Car industry in Iran that may differ from that found in other studies. **Quality** (products, relationship between buyers and sellers and after sale service quality) and **price** are supported as drivers of customer satisfaction.

2.3. Quality

2.3.1. Quality of product

Quality of products has a major influence on the market success and profitability of firms. A significant determinant of profitability and product's market success of firms is their quality of products and goods, which is the superiority of the product in dimensions such as performance, appearance, life/durability, and workmanship (Aaker and Jacobson 1994). In other words, in the marketplace, product quality has a vital role on firm's competitiveness through affecting customers' satisfaction. If a product fulfills the customer's expectations, the customer will be pleased and consider that the product is acceptable or even high quality. This means that the quality of a product may be defined as "its ability to fulfill the customer's needs and expectations". The specifications and drawings produced by the designer should show the quality standard demanded by the customer or marketplace in clear and precise terms.

2.3.2. Quality of relationship between buyers and sellers

Currently in the competitive markets, firms and companies are faced with increasing competition resulted from technological changes, market globalization and more demanding customers. Such changes are important because of their impact on the buyers' behavior. Therefore customers need a more complete answer to their needs (Sanzo, Santos, Vazquez, & Alvarez, 2003).

Understanding how companies can profit from customer relationship is important for academics and marketing managers (Boulding, Staelin, Ehret, & Johnston, 2005). Webster and Wind (1972) define the organizational buying as ''a process carried out by individuals, in Interaction with other people, in the context of a formal organization'' (p: 18). The close interaction between buyers and service employees, also the manner of performed service often is more important than what is actually delivered (Ozment & Morash, 1994).

Attitudes and performance of employees, particularly sales staff is a vital factor for the failure or success of the so the behaviors of employee with customers can influence a quality perception of customers (Brady & Cronin, 2001). Based on Solomon et al.(1985) there is interdependence between customers and service providers. Emotional response of customers to a service and products can be attitude to their dealing and experience with sales staff (Singh, 2000). Employees can influence perceptions of customer and satisfaction with a service (Sierra & McQuitty, 2005). These emotions are important for managers, because they can influence interactions of customer for future purchase.

2.3.3. Quality of after sale service

The rising number of private automobiles has deeply affected after-sales service market. With the increase number of cars, the after-sales service market attracted interest of both researchers and industry executives. After-sale service is an element of customer relationship management and is activities planned by organizations especially business organizations after the purchasing stage (Shaharudin, Yusof, Elias, & Mansor, 2009). In other words, after-sales services indicate product support activities and customer support activities (Lele & Karmarkar, 1983; Loomba, 1998). After sales service include repair,

maintenance, and upgrading. If the quality of these services offered at a guaranteed or fixed rate, they can be an important competitive advantage. According to Saccani et al., (2006) after-sales service act as a key role in supporting marketing activities to improve customer loyalty, and thus to increase competitive advantages and profitability in the long term. Koskela (2002) beliefs that in the automobile industry developing loyalty of customers requires increasing amount of contact with customers and after sales service can provides a continuous link between the providers and the customers. Thus, this study with measuring quality of after sale service wants to enhance understanding the role of after-sales service.

2.4. Price

Basically, the customer satisfaction is subject to some factors such as products/services quality, perceived value and price (Zeithaml and Bitner, 1996). Among those factors the "price" needs more investigation (Bei & Chiao, 2001). Huber et al(2001) indicated that price is a vital factor for customers when selecting a products or services. When customers believe that a product's price is fair, the purchase behavior tends to be repeated. In contrast, if customers feel that a certain product or services doesn't deserve its price, they will not repeat purchase behavior. In addition, firms and customers compare the price of products with the price of same products that paid by other customers and evaluate the justice of price by making comparisons with other references (Beldona & Namasivayam, 2006).

So to manage pricing decisions effectively, marketing managers should assay respond of consumers to price changes (Martın-Consuegra, Molina, & Esteban, 2007). In the former research studies of customer satisfaction have not paid enough attention to price (Huber, et al., 2001).

2.5. Research Model

Based on prior discussion and in order to understand the relationship between price, quality, satisfaction, and loyalty a research model is presented (Figure 1).

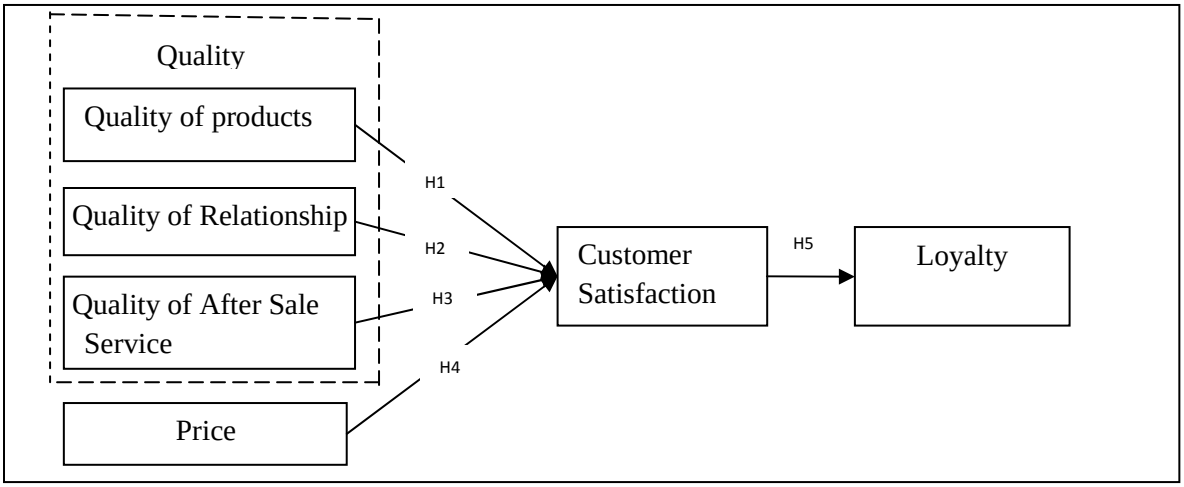


Figure 1: research model

Based on the literature and proposed model the following hypotheses are presented.

H1: There is a positive relationship between the quality of products and customer satisfaction.

H2: There is a positive relationship between the quality of relationship of customers and sellers and customer satisfaction.

H3: There is a positive relationship between the quality of after sell services and customer satisfaction.

H4. There is a positive relationship between the price of products and customer satisfaction.

H5. There is a positive relationship between the customer satisfaction and customer loyalty.

2.5 Conclusion

The purpose of this paper was to investigate what factors affect customer satisfaction and loyalty in the car industry. Therefore, based on literature review, a conceptual model of customer loyalty in Iran's car industry is proposed in which quality, price, and satisfaction, as three main antecedents, influence customer's loyalty. Quality is divided into quality of products, quality of relationship between buyers and sellers and finally, quality of after sell service that can indirectly affect customers' loyalty. As a conceptual model, it needs empirical testing in future research.

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