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MARKET ORIENTATION CUSTOMER SATISFACTION

AND PROFITABILITY

MAN 400

GRADUATION PROJECT

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ABSTRACT

In today's globally competitive world, customers expect more, have more choices, and are less brand-loyal. Best (2000) argues that the only thing that is constant is change. Customers will continue to change their needs, demographics, lifestyle, and consumption behaviour; competitors will change as new technologies emerge and barriers to foreign competition shift; the environment in which businesses operate will continue to change as economic, political, social, and technological forces shift. The companies which realises these changes and uses customer satisfaction as their sextant, will survive.

The aim of this study revealing the effects of the Customer Satisfaction to companies' profitability. The impact of the Customer Satisfaction to Profitability can be calculated in dollars, by using Net Present Value of the Customer (NPVC). NPVC is depended variable of the study and other variables (Customer Satisfaction, Retention Rate....) are Independent Variables.

When all calculations finished and compared the effect of the Consumer Satisfaction on Profitability revealed. The difference between them is huge, as expected.

SECTION 1

Introduction

1.1 Introduction

This section introduces the general theoretical arguments on marketing orientation, customer satisfaction, and profitability and the importance of the terms to business firms. It formulates the problem statement and the general purpose of the project. The project objectives are set up followed by methodology worked out to achieve them. The limitations of the project and an introduction on the remaining sections are also provided.

1.2 The problem situation

In today's globally competitive world, customers expect more, have more choices, and are less brand-loyal. Best (2000) argues that the only thing that is constant is change. Customers will continue to change their needs, demographics, lifestyle, and consumption behaviour; competitors will change as new technologies emerge and barriers to foreign competition shift; the environment in which businesses operate will continue to change as economic, political, social, and technological forces shift. One could easily see the conclusion that the companies that survive and grow will be the ones that understand change and are out front leading, often creating change. Others, slow to comprehend change, will follow with reactive strategies, while still others will disappear, not knowing that change has even occurred.

Businesses that are able to survive change those that have a strong marketing orientation (Best 2000). They are constantly in tune with customers' needs, competitors' strategies, changing environmental conditions, and emerging technologies, and they seek ways to continuously improve the solution they bring to target customers. This process then enables them to move with and often lead change.

Businesses with a strong marketing orientation not only outperform competition in delivering higher levels of customer satisfaction, they also deliver higher profits (Buzzell, Gale & Sultan: 1975). Perhaps, the best way to understand the marketing logic that links marketing orientation to customer and shareholder value is to examine the sequence of events that evolves when a business has little or no market orientation.

1.3 Problem statement

A marketing-oriented business has a strong customer focus that cuts across the functions and employees of an organisation. While those in marketing have the primary responsibility to lead marketing excellence, in a marketing-based business, all members of the organisation have a strong marketing orientation. This means all members of the organisation are sensitive to customers' needs, aware of competitors' moves and work well across organisational boundaries toward a timely marketing-based customer solution. Therefore, the marketing-oriented businesses are said to be more profitable (Buzzell et al). There is a need to make the link between the marketing orientation, customer satisfaction and profitability more explicit.

1.4 The Purpose of the Study

The main purpose of this study is to make explicit the connectivity between marketing orientation, customer satisfaction, market-based management, and profitability.

1.5 Research Objectives

- To provide a description of the link between marketing orientation, customer satisfaction and profitability
- To adapt a quantitative system of demonstrating the link between the marketing orientation, customer satisfaction and profitability as prescribed by the literature.
- To select a case study to demonstrate the theory of the link in practice.

1.6 Methodology

This study used the following steps to reach its objectives:

- Literature will be scanned to examine the fundamental components of marketing orientation and how each is related to customer satisfaction and retention.
- A case situation of a company will be selected with an attempt to demonstrate the profit impact of a lifetime customer as well as the high cost of customer dissatisfaction.

- Aircomm Association was selected as the case company and all the information for the purposes of this study were collected from the company's Internet site (http://www.imttech.com).

1.7 The Scope of the Study

This is a case study applied on a company situation for a particular problem. The validity of the study is limited to the validity discussed by the literature and the reliability of the quantitative results are limited to the figures provided by the case company. The case information on the company selected will focus on the marketing efforts of the selected case company over a decided period and will ignore the other internal and external factors in the case situation.

1.8 Sections of the report

This report has six sections. First section includes the introduction, the problem statement, the purpose of the study, research objectives methodology, the scope of the study brief information about the sections of the study and conclusion. In section two literature review of marketing orientation customer satisfaction and profitability placed for necessary information. Section three includes information about customer retention tree, customer life expectancy, net present value of customer and nonnumeric wide explanation about how to solve the case study. These are used to solve the case study in section five. Section four, includes information about Aircomm Association. In section five numeric computations about net present value of customer done twice with different rates of customer satisfaction. Last section of this study is section six. This section includes the conclusion of the report.

1.9 Conclusion

This section introduced the general theoretical arguments on marketing orientation, customer satisfaction, and profitability and the importance of the terms to business firms. It formulated the problem statement and the general purpose of the project. The project objectives was set up followed by methodology worked out to achieve them. The limitations of the project and an introduction on the remaining sections are also provided.

SECTION 2

Literature Review

2.1 Introduction

This section includes the necessary information about market orientation, customer satisfaction and profitability from literature. This literature review includes only the information that directly used by this study. Although marketing orientation, customer satisfaction and profitability subject has wide information sources, this project includes only the subjects that has directly related to this project.

2.2 Literature Review

Consumer satisfaction is a central concept in modern marketing. Realization of its importance has led to a proliferation of research on the subject over the past few decades. This paper will provide a review of some of the research on consumer satisfaction that has been done in these three areas: 1) definition and measurement, 2) determinants and 3) consequences of consumer satisfaction. Additionally, future research that is needed in consumer satisfaction will be discussed.

Why is Consumer Satisfaction Important?

Consumer satisfaction is important to the marketer because it is generally assumed to be a significant determinant of repeat sales, positive word-of-mouth, and consumer loyalty.

Satisfaction is important to the consumer because it reflects a positive outcome from the outlay of scarce resources and/or the fulfillment of unmet needs (Day and Landon 1977; Landon 1977). Previous research has demonstrated that unsatisfactory purchases, though varying by product class or service category, appear to be prevalent. For example, Andreasen and Best (1977) reported that as many as one in five purchase experiences resulted in some dissatisfaction. Similarly, Day and Bodur (1978) and Day and Ash (1979) reported frequent incidences of dissatisfaction for services and durable products. Thus, minimizing dissatisfaction and maximizing satisfaction are seen as important goals for both the firm and the consumer.

What is Consumer Satisfaction ?

Consumer satisfaction with a product/service refers to the favorability of the individual's subjective evaluation of the various outcomes and experiences associated with using or consuming the product/service (Hunt 1977). According to theories of buyer behavior (Engel, Kollat, and Blackwell 1973; Howard and Sheth 1969), the evaluation is based on a cognitive process in which consumers compare their prior expectations of product outcomes (e.g., product performance and other important attributes) to those actually obtained from the product. The extent to which expectations are realized is assumed to be directly related to the level of satisfaction experienced. If actual product outcomes meet or exceed those expected, satisfaction results. If, however, product outcomes are judged below expectations, dissatisfaction occurs. Swan and Combs (1976) have provided empirical support for these propositions. This view of consumer satisfaction/dissatisfaction has been conceptualized as the confirmation/disconfirmation paradigm and has been widely accepted as the process by which consumers develop feelings of satisfaction or dissatisfaction.

Confirmation/disconfirmation of Expectations Paradigm

At time t, a choice of a particular brand (the focal brand) is made. The choice is based on the hierarchy of effects process involving expectations or brand attribute beliefs, attitudes and intentions (Oliver 1980a). At some subsequent time, t + 1, an occasion occurs in which the focal brand is used. A perception of the brand's performance is triggered and the consumer evaluates the use experience. Because evaluation implies comparison of actual performance with some standard, three outcomes of this evaluation are possible. Confirmation occurs when performance matches the standard, leading to a neutral feeling. Performance better than the standard results in positive disconfirmation and, in turn, leads to satisfaction. Performance worse than the standard creates negative disconfirmation and, subsequently, dissatisfaction. (See Appendix 1)

Other evaluative standards besides expectations have been investigated in the literature, including desired levels of product performance or outcomes (Westbrook and Reiley 1983), brand or product-category norms (Woodruff, Cadotte, and Jenkins 1983), and equitable performance or outcomes (Oliver and Swan 1989). The evaluative aspect of the satisfaction judgment is typically assumed to vary along a hedonic continuum, from unfavorable to favorable. In this regard satisfaction is generally assumed to be a unidimensional concept. Although attitude-like in some respects, the concept of satisfaction is distinguished from attitude toward the product or brand, which represents a more generalized evaluation of a class of purchase objects (Oliver 1981).

Consumer satisfaction definitions differ in their level of specificity. Commonly employed levels include satisfaction with *a product* (Churchill & Surprenant 1982; Oliver & Linda 1981; Swan & Trawick 1981), with *a consumption experience* (Bearden & Teel 1983; Fisk & Young 1985), with *a purchase decision* (Kourilsky & Murray 1981; Westbrook & Newman 1978), with *the* *salesperson* (Swan & Oliver 1985), with *a store* (Oliver 1981), with *an attribute* (Bettman 1974), and with *a pre-purchase experience* (Westbrook 1977).

Factor Structure of Consumer Satisfaction

As already mentioned, it is generally assumed that consumer satisfaction is a unidimensional construct, however, a few studies have investigated the possibility that it may be multidimensional (Czepiel, Rosenbreg and Akerele 1974; Leavitt 1977; Oliver & Westbrook 1982; Swan & Combs 1976 and Maddox 1981). The most frequently proposed theory is a dual factor theory, which is similar to Herzberg's two-factor theory of job satisfaction (Herzberg, Mausner & Snyderman 1959). According to the two-factor theory, satisfaction and dissatisfaction are different constructs, which are caused by different facets of interaction between a product and consumer. Since the constructs are unrelated, the level of satisfaction can be independent of the level of dissatisfaction. For example, an individual can be both very satisfied and very dissatisfied with a product, according to the dual factor theory. This approach can be contrasted with the one-factor theory postulating that satisfaction and dissatisfaction are opposites on a single, bipolar continuum.

Affect in Consumer Satisfaction

It has also been argued that satisfaction is not solely a cognitive phenomenon. Rather, it also comprises an element of affect or feeling, in that consumers feel subjectively good in connection with satisfaction, and bad in connection with dissatisfaction. In addition to affect, the construct of satisfaction also involves an element of conation, in that high levels are associated with intentions to repeat the purchase choice if faced again by a similar buying situation, and low levels with intentions to purchase differently (Hunt 1977).

Not well represented in the cognitive perspectives is consideration of the affective basis of satisfaction. Westbrook has made progress in this area. Westbrook (1987) posited that consumers form two summary affect states, one based on the positive affects in consumption and the other on the negative affects. Using Izard's (1977) Differential Emotions Scale (DES), he showed that the affects of joy and interest load on a factor separate from that of anger, disgust, and contempt, and that these factors are relatively uncorrelated. Moreover, both were significantly related to satisfaction in the expected direction. These relationships held up to the introduction of cognition (i.e., disconfirmation) in the satisfaction equations. On the basis of the consumer satisfaction/dissatisfaction reviewed in discussions of cognitive and affect influences, Oliver (1993), presents the satisfaction response as being represented by the constructs as shown in Appendix 2. The cognitive antecedents include expectations, performance, disconfirmation, attribution, and equity/inequity. Further, the model shows affect as augmenting these variables in the prediction of satisfaction and, in addition, shows affect as mediating an indirect influence on attribution.

The emergence of affect as a proposed component of postpurchase expression is not unusual in light of other emerging work in the consumer area (Batra and Holbrook 1990; Havlena and Holbrook 1986). Earlier writings on consumer affect, however, can be traced to Bradburn (1969) in the quality-of-life area. Bradburn was, perhaps, the first to propose an "affect balance theory" which recognized that the positive experiences of life (e.g., excitement, pleasure) are not necessarily inversely correlated with negative experiences (e.g., loneliness, boredom). Generally, positive and negative affect have been found to make independent contributions to life satisfaction/dissatisfaction judgments in the life quality literature (e.g., Horley and Little 1985). In other words, Bradburn's "independence hypothesis" states that events in life alternate between the positive and negative, and that instances of one do not preclude occurrences of the other. This argument is especially relevant to product and service consumption, where numerous and varied attributes exist at different levels of abstraction. Because each attribute is a potential source of pleasure or frustration, the likelihood of positive *and* negative experience is enhanced, a premise underlying the use of multiattribute models of attitude.

The role of events (e.g., attribute performance experiences) as causal agents for positive and negative affective states has not been well conceptualized in the consumer satisfaction/dissatisfaction literature (Oliver 1993). Via a mechanism similar to the emergence of attribution-dependent affect, research in the affect literature (e.g., Scherer and Tannenbaum 1986) suggests that various affects are also event specific. That is, different types of everyday experiences may directly trigger different types of affect.

Additionally, prior research has not elaborated on how consumers could entertain both positive and negative affect toward the same product simultaneously (Oliver 1993). Yet regressions of satisfaction on positive and negative affect in Oliver's (1993) studies clearly indicate concurrent effects. The explanation draws on the Bradburn (1969) affect-balance theory which would propose the simultaneous operation of multifaceted product or service attributes, thereby providing differentially valenced product experiences

General States of Affect

Westbrook (1980) argued that since satisfaction is an evaluative response comprising an affective model, it should be influenced by other more general states of affect concurrently experienced by the individual The presence of appreciable positive or negative affect, unrelated to the product, may well shape the affect evoked by the evaluation process inherent in satisfaction judgments. For example, arousal of a good mood, or the presence of a happy, contended disposition, may cause the individual to feel relatively more satisfied not only with specific products, but also with other familiar objects in his/her experience. There exists empirical evidence for this proposition in the work of Isen, Clark, Shalker, and Karp (1978). These researchers explained their results with the "accessibility and cognitive loop" hypothesis which states: that affective states partially determines the cognitive materials available in memory for stimulus evaluation and decision making, which in turn reinforce the prevailing affective state.

A number of distinct sources of affect may influence consumers' product satisfaction/dissatisfaction, differentiated by relative permanence and domain. Certain affective states are relatively more permanent and invariant, whereas others are particularized to a specific time or situation. Independent of temporal stability, affective states also differ in focus, some being relatively general, and others limited to a more specific domain (in this instance consumption activity). Thus, at least four relatively different types of affective influences may be distinguished: (Westbrook 1980)

1. Stable/generalized affective influences are typified by basic personality dispositions, as well as relatively enduring global attitude structures. Optimism and pessimism (Goldman-Eisler 1960; Tiger 1979) and happiness (Cantril 1965) illustrate the former, and life satisfaction (Andrews and Withey 1976), the latter.
2. Transient/generalized affective influences consist of the various elements of mood, such as elation, depression, tranquillity, manifest anxiety, harmony, anger, etc. (Wessman and Ricks 1966).

3. Stable/consumer domain affective influences are those pertaining to attitudinal structures specific to the domain of consumption, e.g., the goods and services offered in the market place, its producers, merchants, and other institutions, and its business practices. Attitudes toward business, the market place and consumerism, as well as sentiments of pervasive consumer discontent typify this class of influences (Lundstom and Lamont 1976).
4. Transient/consumer domain affect is typified by temporarily favorable or unfavorable sentiments in connection with elements of the domain of consumption, e.g., product offerings, marketing practices and retail institutions, as prompted by prior experience or news revelations.

Westbrook (1980) stated that these affective influences do not deny the role of cognitive processes such as expectancy confirmation or disconfirmation, but rather combine with them in the determination of consumer satisfaction. He also suggest that the role of affective influences on the process through which satisfaction is determined may vary by product category adding that perhaps judgments of satisfaction are not mediated by the individual's more general affective states for relatively less important products.

Consumption Emotion and Satisfaction/Dissatisfaction

Consumption emotion refers to the set of emotional responses elicited specifically during product usage or consumption experiences, as described either by the distinctive categories of emotional experience and experience (e.g., joy, anger, and fear) or by the structural dimensions underlying emotional categories, such as pleasantness/unpleasantness, relaxation/action, or calmness/excitement (Russel 1979). Since judgments of satisfaction vary along a hedonic continuum, a natural question is whether satisfaction and consumption emotion are distinguishable theoretical constructs. As stated by Hunt (1977, p.459) "satisfaction is not the pleasurableness of the consumption experience, it is the evaluation rendered that the experience was at least as good as it was supposed to be". Westbrook (1987) further argued that satisfaction necessarily incorporates an evaluation of the emotional aspects of the antecedent consumption emotions elicited by product usage. This position was supported by an empirical study demonstrating that (1) separate and independent dimensions of positive and negative affect underlie discrete emotional responses elicited during consumption (i.e., joy, interest, surprise, anger, disgust and contempt) and (2) both these dimensions contributed significantly to satisfaction above and beyond expectancy-disconfirmation beliefs.

These distinctions are reaffirmed by the Cohen and Areni (1991) review of affective-processing mechanisms, in which emotions elicited during consumption experiences are believed to leave strong affective traces or "markers" in episodic memory. So marked, these memory elements are believed to be highly accessible to current cognitive operations. When an evaluation of the relevant consumption experience is required, the affective traces are readily retrieved and their valences integrated into the evaluative judgment along with other pertinent semantic memories, such as prior expectancies, disconfirmation beliefs, and so on. Under these interpretations, only the valence of the consumption emotion response is translated into satisfaction judgment. Oliver (1989) has questioned this assumption by theorizing that specific types or categories of emotional response may be causally antecedent to, and coexist with, the satisfaction judgment. He proposes five qualitatively different emotional states for instances of satisfaction. Ordered by increasing favorableness and contribution to satisfaction, these are acceptance, happiness, relief, interest/excitement, and delight. For dissatisfaction, the emotional groupings in order of decreasing favorableness are tolerance, sadness, regret, agitation, and outrage.

In contrast to the foregoing distinctions between consumption emotion and satisfaction, other investigators have conceptualized satisfaction as itself an emotional response to the judgmental disparity between product performance and a normative standard (Cadotte, Woodruff and Jenkins 1987; Woodruff et al. 1983). Studies of emotion meaning and knowledge (Plutchik 1980; Russell 1979) reveal that the state of high satisfaction does indeed have unequivocal emotional connotations, notably "happy", "pleased", and "contended" (dissatisfaction is less specific in connotation).

Incorporating Desires in Consumer Satisfaction

According to Spreng, MacKenzie & Olshavsky (1996) satisfaction research has focused primarily on the disconfirmation of *expectations*, rather than of *desires*, as the key determinant of satisfaction. These researchers believe that the extent to which a product or service fulfills a person's desires also plays an important role in shaping his or her feelings of satisfaction-much as the marketing concept would predict and has been acknowledged by some in the satisfaction literature (Olshavsky & Spreng 1989; Westbrook and Reilly 1983). They further argue that the failure to consider the extent to which a product or service fulfills a person's desires has led to logical inconsistencies, such as predicting that a consumer who expects and receives poor performance will be satisfied (LaTour & Peat 1979) and research that sometimes shows no relationship between disconfirmation of expectations and satisfaction (Churchill & Surprenant 1982).

Thus, they propose a model of consumer satisfaction/dissatisfaction stating that feelings of satisfaction arise when consumers compare their perceptions of the performance of a product or service to both their desires and expectations. They claim that this comparison process produces not only feelings of satisfaction with the product or service, but also feelings of satisfaction with the information (often supplied by marketers in such forms as advertising, package information and salesperson communications) on which their expectations are based (See Appendix 3). An empirical test of the model provided support for the hypothesized relationships and a better understanding of the mechanisms that produce satisfaction.

A Market-Level View of Satisfaction

The preceding discussion of consumer satisfaction can be conceptualized as "transaction-specific", however, it is important to note that there exists another conceptualization of satisfaction which can be defined as "cumulative". It is an overall evaluation based on the total purchase and consumption experience with a good or service over time (Fornell 1992; Johnson and Fornell 1991). It is considered as a more fundamental indicator of the firm's past, current, and future performance (Anderson, Fornell, Lehmann 1994).

According to Johnson, Anderson and Fornell (1995) relatively little attention has been paid to the determinants of market-level satisfaction, which is defined as the aggregate satisfaction of those who purchase and consume a particular product offering. They suggest scientific and pragmatic reasons for studying market-level customer satisfaction and its antecedents.

Drawing on economic psychology and economic perspectives they conceptualized market-level consumer satisfaction as a cumulative construct that is affected by market expectations and performance perceptions in any given period and is affected by past satisfaction from period to period. Their results suggest that market performance expectations have a large rational component yet remain adaptive to changing market conditions. Additionally, market-level satisfaction was found to be relatively stable over time and was positively affected by performance and expectations in any given time period. This finding suggests that managers who are interested in increasing market satisfaction in order to improve future profitability should invest in long-run quality improvement programs and strategies. Short-run tactics that temporarily increase performance or benefits per customer dollar spent will have little long-run impact (Johnson, Anderson, and Fornell 1995).

From a scientific standpoint, satisfaction research stands to gain by augmenting existing individual-level studies with market-level analyses. They propose that studying customers in the aggregate is one way to establish empirical generalizations in the domain of satisfaction research. While individual-level studies demonstrate the range of possible behavioral phenomena, psychologists have long recognized the difficulties involved in obtaining generalizations from them (Warneryd 1988). According to Johnson et al. (1995), a lack of emerging empirical generalizability is clearly evident in the quality and satisfaction literature, in which the debate over alternative models and methods continues (Anderson and Sullivan 1993; Yi 1991). They argue that the attitudes and behavior of individuals may be so situationally unique that individual-level studies will be unable to establish reliable generalizations in this area. They suggest the solution of aggregations of individuals, occasions, stimuli, and/or modes of measurement (Epstein 1980).

From a pragmatic standpoint, they argue that, marketing managers, product planners, and development teams focus on the needs and wants of entire markets or market segments thus making the contribution of market-level satisfaction relevant to these professionals. Aggregate-level surveys to *Consumer Reports* surveys provide important indicators of the level of satisfaction in a firm's customer base. They state, that this market-level satisfaction is a strong indicator of aggregate customer retention and future profitability (Anderson, Fornell, and

Lechmann 1994) and thus has emerged as an important yardstick or benchmark for firms seeking to accelerate business performance as well as for policymakers interested in tracking consumer well-being.

How is Consumer Satisfaction Measured ?

Direct survey methods are the most widely used means of measuring consumer satisfaction. Their primary advantage is directness; the purpose is clear, and the responses straightforward. The major disadvantage is reactivity. Responses might be influenced by the act of measurement itself. Other problems such as selection bias, interviewer bias, and nonresponse bias, also provide threats to the validity of the survey data.

Other methods of measuring consumer satisfaction include collecting data on consumer complaints and repeat purchases. These indirect methods are important since complaint and repeat purchase behaviors are truly relevant to consumer satisfaction, important to both firms and consumers, and are relatively unobtrusive, resulting in reduced reactivity. However, they do have their disadvantages. For example, the corresponding rules between the concept and the measures are ambiguous and imperfect due to confounding factors. Repeat purchase is affected not only by consumer satisfaction but also by other factors, such as promotional activities, and brand availability. Also, these measures may sample from the tails of the distribution and fail to capture the typical consumer's level of satisfaction.

Antecedents of Consumer Satisfaction

Some studies have examined demographic or socio-psychological characteristics of consumers as determinants of consumer satisfaction (Mason & Himes 1973; Pfaff 1972; Pickle & Bruce 1972;

and Westbrook & Newman 1978). Consumer satisfaction has been found to increase with age (Pickle & Bruce 1972) and personal competence (Westbrook & Newman 1978), and to decrease with education (Pickle & Bruce 1972) and total family income (Mason & Himes 1973). There is also evidence that consumer satisfaction is related to race (Pfaff 1972) and marital status (Mason & Himes 1973). However, other investigations fail to find such relationships with age (Mason & Himes 1973) or education (Gronhaug 1977). Overall, support for relationships between consumer satisfaction and these factors seems to be weak (Westbrook & Newman 1978).

Other studies have focused on post-purchase evaluation of product performance by relating it to cognitive processes such as confirmation or disconfirmation of expectations (Anderson 1973; Cardozo 1965; Chosen & Goldberg 1970; Oliver 1976). In these studies, expectation (or some other comparison standard) and confirmation/disconfirmation have consistently been found to be key variables affecting evaluation of product performance. To date, this approach has been more fruitful than attempts to find demographic factors and appears to be promising (Yi 1990).

Objective Vs. Perceived Performance

In developing research for some of the antecedents of consumer research there has been a conceptual difference between perceived product performance and objective product performance. Objective performance of a product is the actual level of product performance which is assumed to be constant across consumers. As a result, only one level of objective performance exists for a product. However, perceptions of product performance may vary across consumers, depending upon their expectations. That is, several different levels of perceived performance for a product may exist among consumers. Therefore, there are two types of disconfirmation, which is defined as the disparity between expectations and performance, depending upon the type of performance. The discrepancy between expectations and objective performance is referred to "objective disconfirmation", whereas the discrepancy between expectations and perceived performance is referred to as "subjective disconfirmation" (See Appendix 4 - For an Illustration).

Mixed Findings

Some key variables which have been found to affect consumer satisfaction include expectation, disconfirmation, perceived performance and prior attitudes. (See Appendix 5- for an Illustration of these Relationships). However, there are mixed findings as to the antecedents of consumer research. Consumer satisfaction is found to be directly affected by expectations in some studies (Bearden & Teel 1983; Churchill & Surprenant 1982; Oliver 1980a), but not in other studies (Churchill & Surprenant 1982; Oliver & Bearden 1983). Most studies found that disconfirmation is a significant predictor of consumer satisfaction, but Churchill and Surprenant (1982) showed that neither disconfirmation nor expectation had any effect on consumer satisfaction, and that only perceived performance had a significant effect. The effect of attitudes was found in some studies (Oliver 1980a) but not in others (Bearden & Teel 1983; Oliver & Bearden 1983).

2.2.1 Consequences of Consumer Satisfaction

Consumer Satisfaction and Profitability for the Firm

How does satisfying current customers affect profitability? Fornell (1992) enumerates several key benefits of high customer satisfaction for the firm. Several of these will be discussed.

Increased Loyalty In general, high customer satisfaction should indicate increased loyalty for current customers. This means more customers will repurchase (be retained) in the future. If a firm has strong customer loyalty, it should be reflected in the firm's economic returns because it ensures a steady cash flow (Reichheld and Sasser 1990).

Reduced Price Elasticities Customer satisfaction should reduce price elasticities for current customers (Garvin 1988). Satisfied customers are more willing to pay for the benefits they receive and are more likely to be tolerant of increases in price. This implies high margins and customer loyalty (Reichheld and Sasser 1990). Low customer satisfaction implies greater turnover of the customer base, higher replacement costs, and due to the difficulty of attracting customers who are satisfied doing business with a rival, higher customer acquisition costs. Decreased price elasticities lead to increased profits for a firm providing superior customer satisfaction.

Lower Transaction Costs High customer satisfaction should lower the costs of transactions in the future. If a firm has high customer retention, it does not need to spend as much to acquire new customers each period. Satisfied customers are likely to buy more frequently and in greater volume and purchase other goods and services offered by the firm (Reichheld and Sasser 1990).

Reduced Failure Costs Consistently providing goods and services that satisfy customers should also increase profitability by reducing failure costs. A firm that consistently provides high customer satisfaction should have fewer resources devoted to handling returns, reworking defective items and handling and managing complaints (Crosby 1979; Garvin 1988; TARP 1979, 1981).

New Customers The costs of attracting new customers should be lower for firms that achieve a high level customer satisfaction (Fornell 1992). For example, satisfied customers are reputedly more likely to engage in positive word of mouth and less likely to engage in damaging negative word of mouth for the firm (Anderson 1994b; Howard and Sheth 1969; Reichheld and Sasser 1990; TARP 1979, 1981). Media sources are also more likely to convey positive information to prospective buyers. Customer satisfaction claims may also make advertising more effective.

Increased Reputation An increase in customer satisfaction should also enhance the overall reputation of the firm. An enhanced reputation can aid in introducing new products by providing instant awareness and lowering the buyer's risk of trial (Robertson and Gatignon 1986; Schmalansee 1978). Reputation can also be beneficial in establishing and maintaining relationships with key suppliers, distributors and potential allies (Anderson and Weitz 1989; Montgomery 1975). Reputation can provide a halo effect for the firm that positively influences customer evaluations, providing insulation from short-term shocks in the environment. Customer satisfaction should play an important role in building other important assets for the firm, such as brand equity (Aaker 1992; Keller 1993).

Although there are many compelling reasons to conclude that higher customer satisfaction leads to higher profitability, it is, nevertheless, not always the case. At some point there must be diminishing returns to increasing consumer satisfaction. Given that increasing customer satisfaction by design like adding features, increasing the quality of raw materials, increasing the level of personal service, providing greater variety by differentiating the product line to meet needs etc. will invariably increase costs at an increasing rate (Shugan 1989) thus reducing the profitability of consumer satisfaction.

Attribution Theory and Consumer Satisfaction

Expressions of consumer satisfaction/dissatisfaction with products may be partly due to the individual, and not to factors under the control of marketers and public officials (Westbrook and Newman 1978) given the caveats and assumptions of causality implicit in consumer satisfaction/dissatisfaction conceptual models. This view is consistent with deductions from attribution theory (Kelly 1967; 1972). As Settle and Golden (1974) have argued, consumers may attribute marketers' communications of product performance to the latter's desire to sell the product, rather than to the inherent nature of the product itself. The results of such attributions would be weaker and less realistic expectations, which are less likely to be confirmed by actual product outcomes, thereby, reducing satisfaction with the product.

Attribution theory notions are also relevant to assessing the effects of consumer satisfaction/dissatisfaction, once these judgments have been formed. In principle, product satisfaction may be attributed to the inherent nature of the product, the motivations of the seller, the consumer's own abilities to select or consume the product appropriately or to the circumstances surrounding choice or consumption, depending on the information available (Orvis, Cuningham, and Kelly 1975). Yet, research has suggested that consumers are more likely to attribute their product dissatisfaction to the product and/or seller than to themselves, and that attributions are linked to subsequent complaining behavior (Landon and Emery 1975; Valle and Wallendorf 1977).

Consumer Responses to Satisfaction/Dissatisfaction

Many studies have attempted to identify factors that predict different types of consumer responses to satisfaction or dissatisfaction (Best & Andreasen 1977; Day & Ash 1979).

Substantial focus has been placed on consumers' complaint strategies in reaction to dissatisfaction. It has been found that consumers show several types of responses to dissatisfaction: 1) taking no action, 2) switching brands or curtailing patronage, 3) making a complaint to the seller or third party, and 4) telling others about the unsatisfactory product (i.e., negative word-of-mouth communication) (Day 1980; Krapel 1985; and Richins 1983b) (See Appendix 6).

Complaining Behavior as a Reaction to Dissatisfaction

Complaining behavior as a reaction to dissatisfaction in order seek rectification varies considerably. Frequently, consumers do not take any actions to alleviate their marketplace induced problems. Day and Bodur (1978) discovered that reported cases of extreme dissatisfaction for which no action of any kind was taken were 49.6% for nondurable goods, 29.4% for durable products, and 23.2% for services. Substantial evidence suggests that complaint behavior is not just a function of the intensity of dissatisfaction but of several other factors as well, such as consumer characteristics, consumers' perceptions of the attribution of dissatisfaction, expectancy of outcomes, economic costs involved, product type, etc. (Day 1984 and Singh & Howell 1985). This can explain empirical findings which show that a large proportion of dissatisfied consumers do not complain.

These findings have negative implications for marketers and consumers alike. First, failure to express dissatisfaction prevents the consumer from achieving redress from an unpleasant marketplace experience. Second, limited action on part of consumers may mask marketplace problems which the firm could and/or should correct. Additionally, complaints are now seen as important *free* sources of information that can help firms create more competitive products. One study of a variety of consumer products for which the potential loss to the consumer exceeded $100 estimated that 54 percent of consumers whose complaints were satisfactorily resolved repurchased the product, compared with 9 percent of unhappy customers who did not bother to complain (Russo and Schoemaker 1989).

Some studies have also attempted to obtain profiles of complaining consumers. They examined the following questions: What types of consumers are likely to voice complaints? What are the differences between consumers who complain and consumers who give compliments? Robinson and Berl (1980) found that complainers were typically younger, had more income, and were less brand-loyal than were complimenters. The finding that younger, high-income consumers were more likely to complain suggests that their expectations were higher. If this had been the case, their expectations were highly likely to be disconfirmed. (The subjects were customers of a lodging chain).

Consumer Satisfaction as a Mediator of Attitude Change

An important issue is the role of consumer satisfaction in attitude change. As consumers interact with a product toward which they have established an attitude, they are subject to two sets of forces. On one hand, new experiences and information produce forces toward change. An attitude may change with the product experience, since some consumers learn from experience. An attitude will therefore be affected by consumer satisfaction, which can be seen as a summary of the nature of product experience. On the other hand, the existing attitude creates forces toward stability (resistance to change). As a result, an attitude may be affected by the previous attitude. In sum, the effect of a previous attitude indicates the temporal stability of an attitude, whereas the effect of consumer satisfaction reflects the consequence of consumer learning from the product experience (Oliver 1980a).

2.2.2 Future Research

There is a need for a clearer conceptualization of consumer satisfaction. For the field of consumer satisfaction to develop further, a clear definition of consumer satisfaction is needed. Several questions may be raised on this issue. Is consumer satisfaction a global evaluation, a component evaluation, or a global one constructed on the basis of component evaluations? Is consumer satisfaction directed toward a product, a purchase decision process, or a consumption experience? What does consumer satisfaction mean to consumers? For example, satisfaction may mean minimum acceptability to some consumers, but near perfection to others. Clearly, consumer satisfaction as a concept needs clarification.

There is a need for future research in order to understand whether consumer satisfaction is a unidimensional or multidimensional construct. Future research might also focus on identifying the conditions under which consumer satisfaction is one-dimensional and when it is bi- or multidimensional.

Future research is needed to get a better insight into the determinants of consumer satisfaction. Some of the contradictory findings on the effects of expectation, disconfirmation, performance, and attitudes on consumer satisfaction suggest that these may be more complex than hypothesized by the original expectation-disconfirmation model. Further studies should attempt to determine the moderating conditions of these effects and to provide a framework that could integrate the mixed findings.

Future research is needed in further understanding the determinants of complaint behavior. As was discovered, the ability of a single satisfaction variable to moderately explain complaint behavior was seen as being encouraging (Bearden & Teel 1983), however, future efforts should incorporate other variables (i.e., perceived risk, economic constraints, benefits and costs from complaining) into future research on the determinants of consumer satisfaction and complaining behavior.

Future research is needed to clarify the role of affect on consumer satisfaction. An additional unresolved issue concerning affect is whether the affective element precedes, or is concurrent with, judgments of satisfaction and dissatisfaction. Yi (1990) did an extensive review of consumer satisfaction by focusing on the cognitive-evaluative paradigm of consumer satisfaction. Research that was done on the effects of affect on consumer satisfaction was lacking. A future study should review and provide a framework for all of the affective research which has been done on consumer satisfaction.

Several questions arise regarding consumer satisfaction and attributions that could be investigated in future research. For example, when do consumers participate in attributional thinking? Is it mainly when they are dissatisfied, as is implicitly assumed in consumer satisfaction research? Is it also when consumers are satisfied? Or do consumers make attributions when satisfaction or dissatisfaction is extremely intense? Clearly, these questions need to be answered in order to better understand consumer satisfaction/dissatisfaction.

Future research, as identified by the Marketing Science Institute, is needed in "measuring the value of customer relationships, customer satisfaction, and loyalty". They recognize the need for future research in identifying the value of loyal and satisfied customers and to identify good practices. Additionally, they suggest that future research is needed in determining what drives completely satisfied consumers.

2.2.3 Conclusion of Literature Review

Prior research on consumer satisfaction suggests that many important findings have led to much progress in the understanding and modeling of consumer satisfaction. Consumer satisfaction is generally defined as the consumer's response to the evaluation of the perceived discrepancy between some comparison standards (i.e., expectations) and the perceived performance of the product. Many attempts have been made to conceptualize the key constructs and integrate their interrelationships into comprehensive models. These studies have contributed greatly toward a better understanding of consumer satisfaction by relating it to the antecedents and consequences. Several areas of future research have been suggested. An investigation of these issues would provide a better understanding of consumer satisfaction, a key concept in modern marketing.

2.3 Conclusion

This section covered the necessary information about market orientation, customer satisfaction and profitability from literature. The next section will formulate a theoretical framework based on the literature review as carried out in this section.

SECTION 3

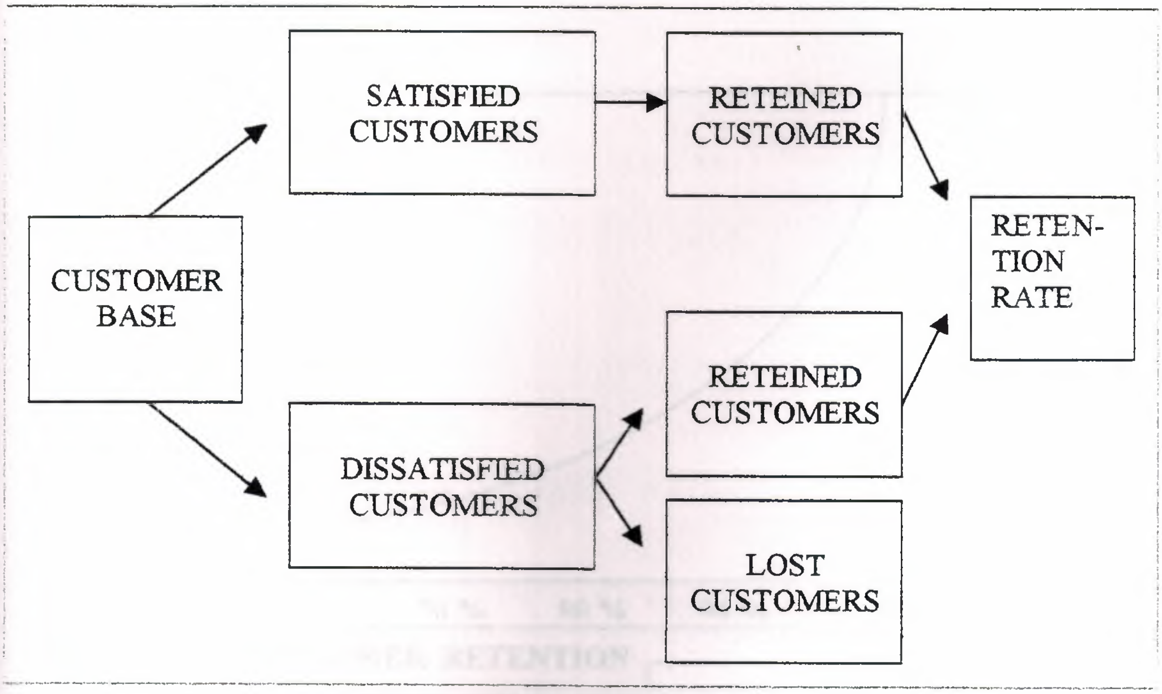
Theoretical Framework

3.1 Introduction

This section explains customer retention tree, customer life expectancy, and net present value of a customer. Also a graphical representation of the link between marketing orientation, customer satisfaction and profitability is going to take place.

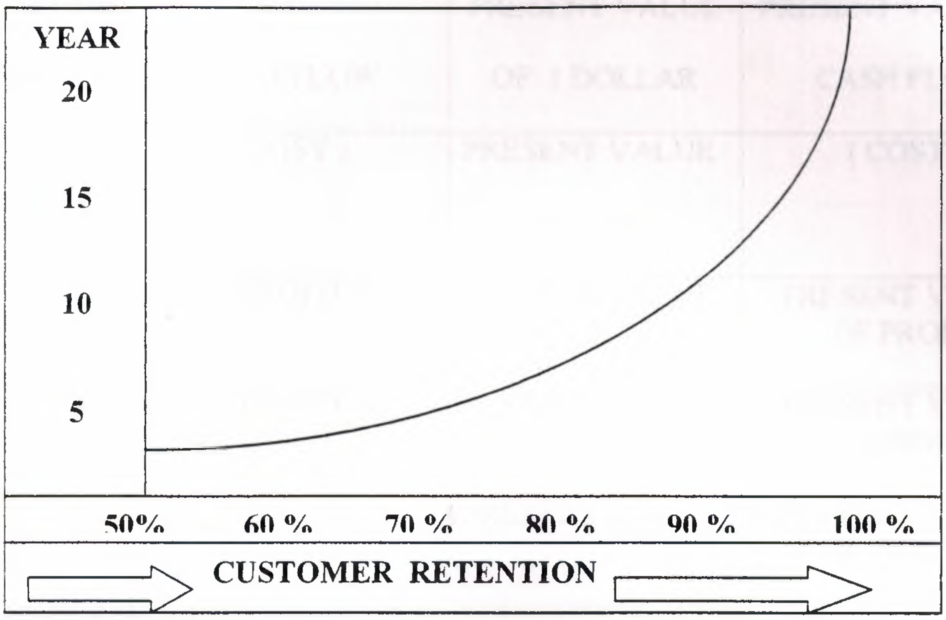
3.2 Customer Retention Tree

Customer retention tree is a graphical tool that analyzes the customer base in order to find the customer retention rate. It shows satisfied and dissatisfied customers and divides dissatisfied customers into two parts, retained or lost. Satisfied customers accepted as retained. Input of this tool is questionnaires. In other words Customer Retention Tree regulates questionnaire results, to find retention rate of the company.



3.3 Customer Life Expectancy

Customer Life Expectancy is a basic formula that uses the Retention Rate to find answers of the question of, "For how many years a customer will make business with company?" In other words it calculates the time that company has before the customer leave. Longer Life Expectancy, always better for company's profitability. This formula is also used to calculate the Net Present Value of a Customer.



CUSTOMER LIFE EXPECTANCY FORMULA: $N = \dfrac{1}{1- CR}$

(Best 2000)

3.4 Net Present Value of a Customer

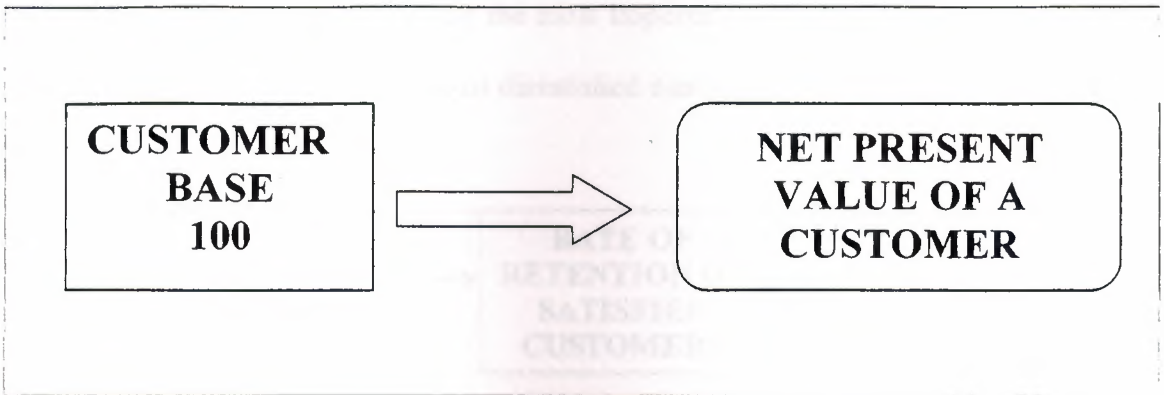
Net Present Value of a Customer means, the profit that a company will earn from one customer during their customer life. In order to calculate net present value of a customer a table must be drawn. This table contains periods, cost and profit from each customer. Than due to the discount rate present values calculated and added. Found number gives the present value of each customer.

PERIOD	CASH FLOW	PRESENT VALUE OF 1 DOLLAR	PRESENT VALUE OF CASH FLOW	TOTAL PROFIT
0	(COST)	PRESENT VALUE	(COST)	TOTAL
1	PROFIT	PRESENT VALUE	PRESENT VALUE OF PROFİT	TOTAL
2	PROFIT	PRESENT VALUE	PRESENT VALUE OF PROFİT	TOTAL
3	PROFIT	PRESENT VALUE	PRESENT VALUE OF PROFİT	TOTAL

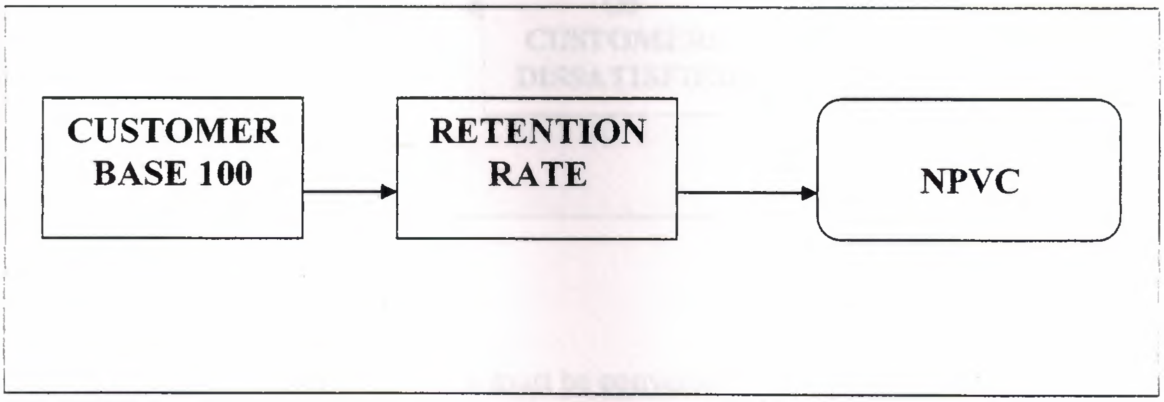
3.5 Graphical Representation of the Link between Marketing Orientation, Customer Satisfaction and Profitability.

Every company has a customer base. Customer base means the total number of customers who are making business with that company. In this study in order to calculate percentages practically, customer base accepted as 100. Customer base is one of the independent variables of this study.

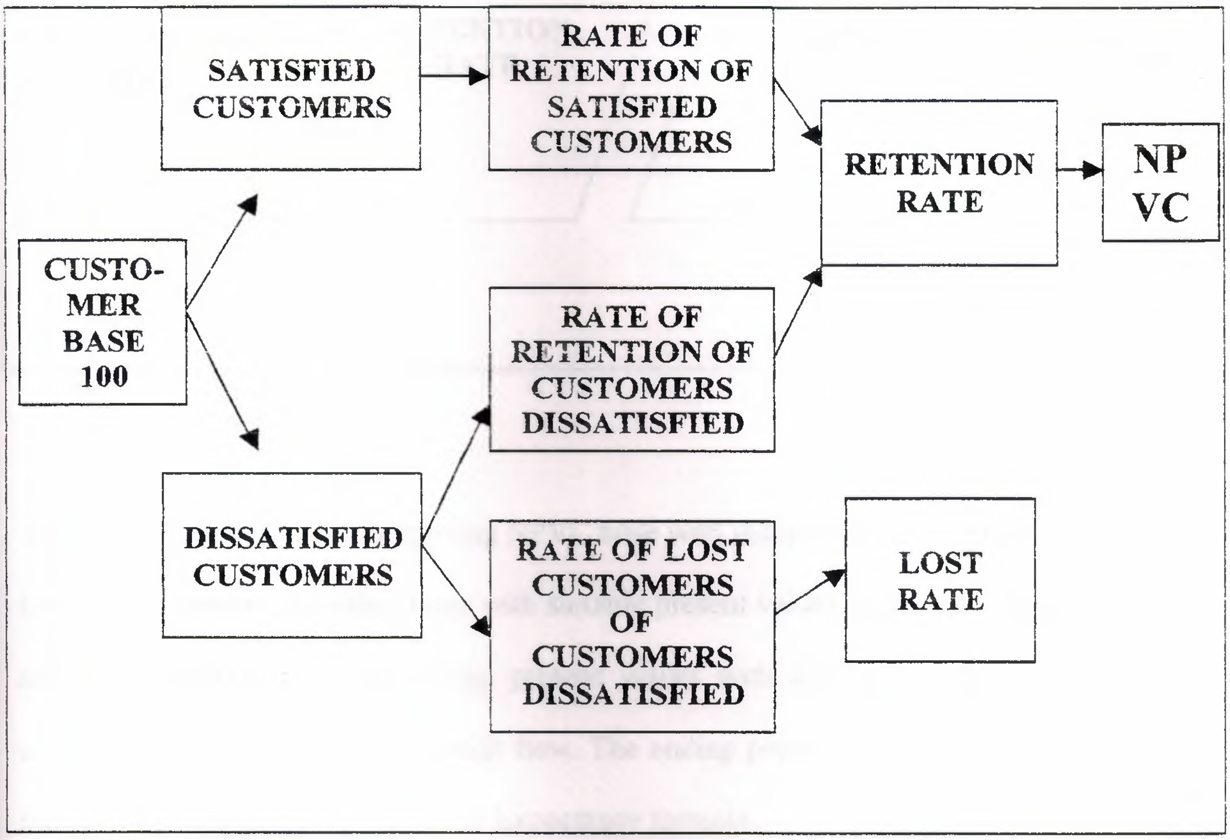
The Net Present Value of a Customer is the dependent variable of this study. It represents the total cash profit from single customer while they are making business with company.



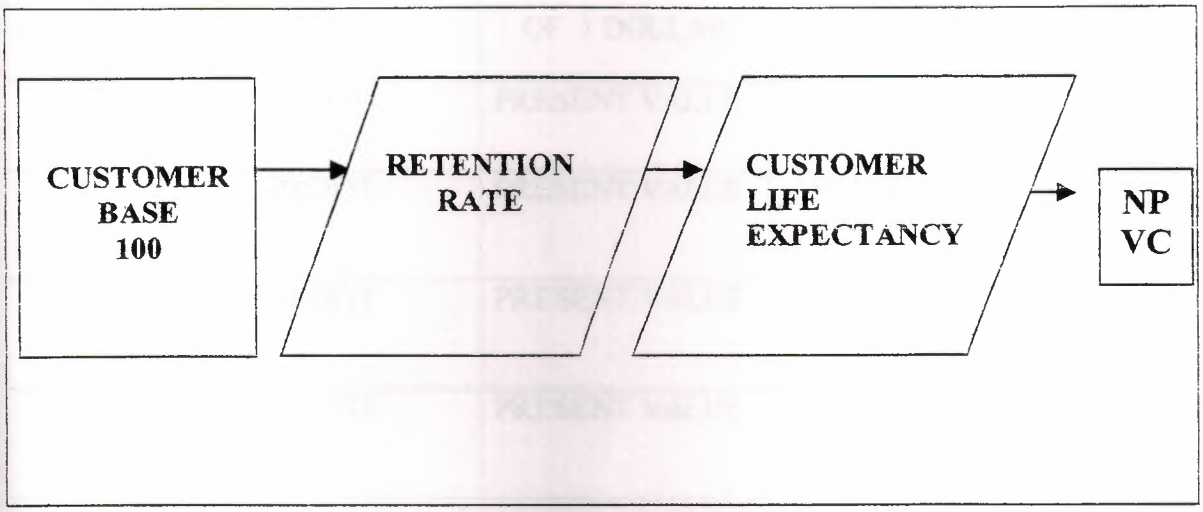
Another independent variable is Retention Rate. It effected by the changes in the customer base and it directly effects the Net Present Value of Customer (NPVC). The effect of the Customer Base to Retention Rate comes from the percentages of satisfied and dissatisfied customers, not from the not from the number of customers.



In order to calculate the Retention Rate, Customer Base must be divided into two parts. satisfied customers and dissatisfied customers. This division needs serious questionnaire application. This application must also show the retaining rate of customers dissatisfied in order to find Retention Rate. The retaining dissatisfied customers added to the satisfied customer which all retains, but the remaining customers lost by the company. Satisfied customers always retain. As a result the most important and big part of Retention Rate comes from satisfied customers. Most dissatisfied customers usually lost by firms.



Retention Rate is useless by itself. It must be converted to Customer Life Expectancy to calculate NPVC. Customer Life Expectancy is a basic formula that uses the Retention Rate to find answer of the question of, "For how many years a customer will make business with company?" The answer of this question shows the length of the time of the profit flow from one customer. If the answer is three, three years of profit flow; if the answer is six, six years of profit flow expected from one customer.

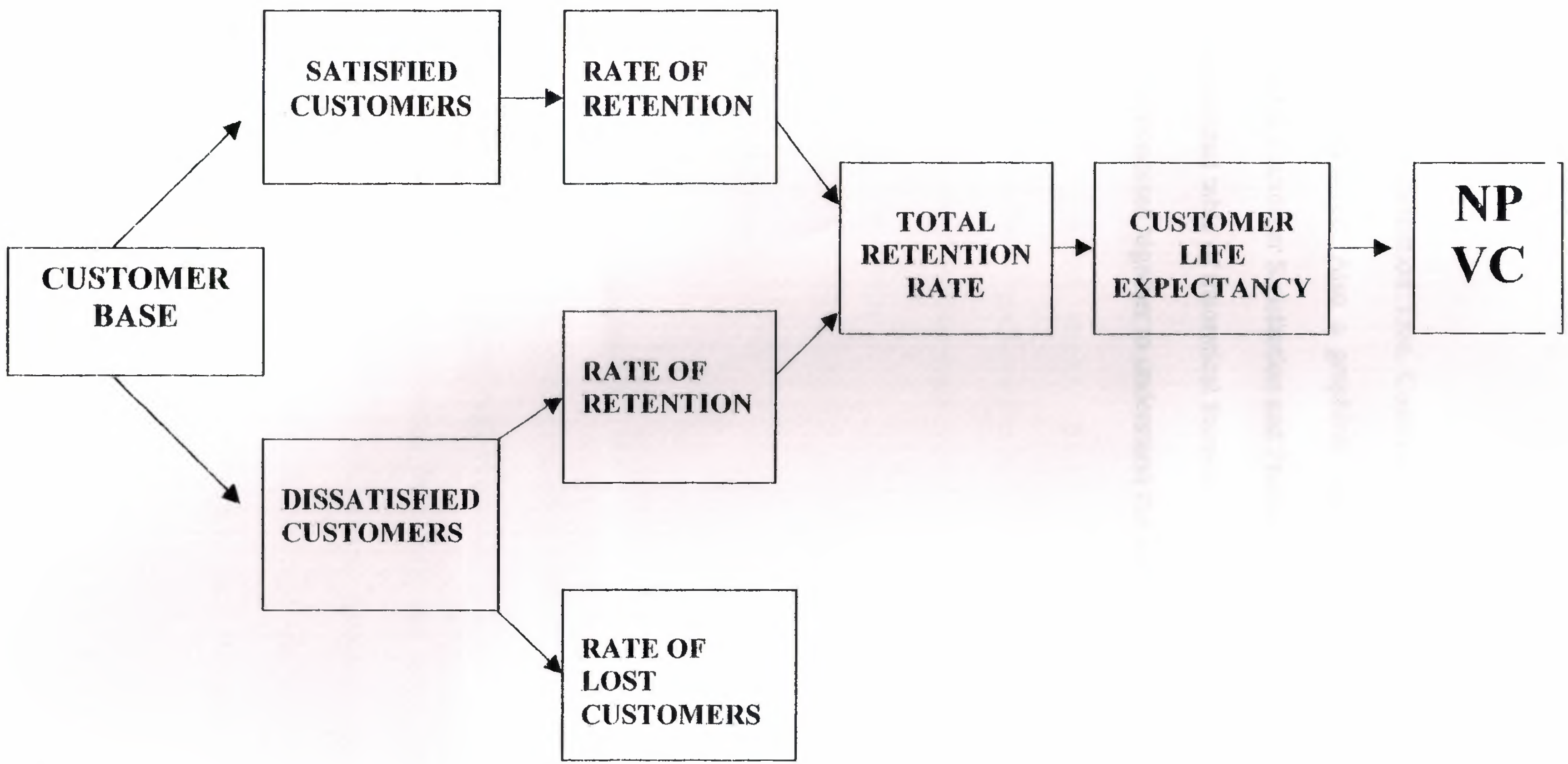


The last part of the link is completing NPVC table with independent variables that found from questionnaire and using them with suitable present values that comes from money markets' discount rate. Multiplying present values with cost and profit flows of a customer gives us year by year profit flow. The ending period of that profit flow is the number that found by Customer Life Expectancy formula.

PERIOD	CASH FLOW	PRESENT VALUE OF 1 DOLLAR	PRESENT VALUE OF CASH FLOW	TOTAL PROFIT
0	(COST)	PRESENT VALUE	(COST)	TOTAL
1	PROFIT	PRESENT VALUE	PRESENT VALUE OF PROFİT	TOTAL
2	PROFIT	PRESENT VALUE	PRESENT VALUE OF PROFİT	TOTAL
3	PROFIT	PRESENT VALUE	PRESENT VALUE OF PROFİT	TOTAL

The total profit from the last raw of the table is NPVC. This result show how much profit a customer generate before he or she leave. This study can be applied to any company. But a satisfactory questionnaire is necessary for valid results. The whole picture of framework is also available below.

3.5.1 Graphical representation of the link between marketing orientation, customer satisfaction and profitability.



3.6 Conclusion

In this section Customer Retention Tree, Customer Life Expectancy and Net Present Value of Customer explained. Also a graphical representation of the link between Marketing Orientation, Customer Satisfaction and Profitability placed during this section. And finally a summarized table of theoretical framework included into this section. This table showed all the processes together to understand the relationship between parts.

SECTION 4

Aircomm Association

4.1 Introduction

This section has three parts. First part of this section gives the brief information about Aircomm Association in order to introduce the company. Second part of this section explains the need for a range of performance measures briefly. That section helps to understand the need of comprehensive study. The third part includes the comprehensive study results of Aircomm Association.

4.2 Aircomm Association

Aircomm Associates is a proactive and innovative computer consulting, communications, software design, and networking firm. Aircomm Associates specialize in Windows NT replication strategies and high availability and fault tolerant wired and wireless networks. Aircomm routinely manage both large and small networks in the manufacturing, communications, educational, accounting, insurance, and real estate industries. The tools they provide their customers include Local and Wide Area Networks (LANs, WANs), Internet and Intranet applications, data acquisition, data base technology, and custom programming services. (http://www.jmttech.com)

What Aircomm Associates Do:

- Design wireless networking solutions in the office, production area or to the Internet.
- Provide innovative solutions to include wired and wireless network connectivity
- Supply out-sourcing computer technology services.
- Supply the "glue" necessary for a group of computers to operate as a cohesive whole in your network rather than "islands of automation"
- Engineer backup and fail-over systems to keep your network "humming" and protect your business data. (http://www.jmttech.com)

Aircomm Associates was established in northwest Florida in early 1990. The company was formed when James McDonald, Director of Information Systems at National Steel Corporation (the fifth largest steel producer in America), resigned to launch Aircomm Associates. Mr. McDonald decided to direct his twenty years of expertise towards helping businesses focus on their core talents by providing them with the technology needed to accomplish their goals. His vast experience in information technology allowed him to capitalize on the trends he witnessed in his career. Over the years, he has seen the responsibility for information technology increasingly shift to small businesses. Activities formerly reserved for large manufacturing firms are being outsourced to smaller companies that are able to respond more quickly to changing technology. Much of this shift has been accelerated by the ever decreasing cost of computer technology and increased level of software sophistication. Mr. McDonald has positioned Aircomm Associates to help businesses control this shift in responsibility and harness the inevitable change technology introduces to their corporate lives. His vision is to help companies "do more, do better, with less" through the use of technology. (http://www.jmttech.com/About.htm)

4.3 The Need for a Range of Performance Measures

Organisational control is the process whereby an organisation ensures that it is pursuing strategies and actions which will enable it to achieve its goals. The measurement and evaluation of performance are central to control and mean posing 4 basic questions :

- What has happened ?
- Why has it happened ?
- Is it going to continue ?
- What are we going to do about it ?

The first question can be answered by performance measurement. Management will then have to hand far more useful information than it would otherwise have in order to answer the other three questions. By finding out what has actually been happening, senior management can determine with considerable certainty which direction the company is going in and, if all is going well, continue with the good work. Or, if the performance measurements indicate that there are difficulties on the horizon, management can then lightly effect a touch on the tiller or even alter course altogether with plenty of time to spare.(www.fpm.com)

As to the selection of a range of performance measures which are appropriate to a particular company, this selection ought to be made in the light of the company's strategic intentions which will have been formed to suit the competitive environment in which it operates and the kind of business that it is. (www.fpm.com)

For example, if technical leadership and product innovation are to be the key source of a manufacturing company's competitive advantage, then it should be measuring its performance in this area relative to its competitors. But if a service company decides to differentiate itself in the marketplace on the basis of quality of service, then, amongst other things, it should be monitoring and controlling the desired level of quality. (www.fpm.com)

Whether the company is in the manufacturing or the service sector, in choosing an appropriate range of performance measures it will be necessary however to balance them, to make sure that one dimension or set of dimensions of performance is not stressed to the detriment of others. The mix chosen will in almost every instance be different. While most companies will tend to organise their accounting systems using common accounting principles, they will differ widely in the choice, or potential choice, of performance indicators. (www.fpm.com)

Authors from differing management disciplines tend to categorise the various performance indicators that are available as follows :

- competitive advantage flexibility
- financial performance resource utilization
- quality of service innovation

These 6 generic performance dimensions fall into two conceptually different categories. Measures of the first two reflect the success of the chosen strategy, ie. ends or results. The other four are factors that determine competitive success, ie. means or determinants. (www.fpm.com)

Another way of categorizing these sets of indicators is to refer to them either as upstream or as downstream indicators, where, for example, improved quality of service upstream leads to better financial performance downstream. (www.fpm.com)

Table 1. Upstream Determinants and Downstream Results

Performance Dimensions	Types of Measures
Competitiveness	Relative market share and position Sales growth, Measures re customer base
Financial performance	Profitability, Liquidity, Capital Structure, Market Rations, etc.
Quality of Service	Reliability, Responsiveness, Appearance, Cleanliness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability, Security etc.
Flexibility	Volume Flexibility, Specification and Speed of Delivery Flexibility
Resource Utilisation	Productivity, Efficiency, etc.
Innovation	Performance of the innovation process, Performance of individual innovations, etc.

(www.fpm.com)

4.4 Aircomm Association Comprehensive Study Results

The necessary information, to solve case study selected and written below from the comprehensive study of Aircomm Association. Unnecessary information does not take place to prevent data confusion.

- Sixty-seven percent of Aircomm's customers are satisfied, and 33 percent are dissatisfied.
- 23.48 percent of dissatisfied customers retains, others lost.
- Satisfied customers produce an average margin of $ 250 per year.
- New customers generate $ 50 margin in first year.
- The average marketing cost to attract a new customer is $ 250.

(Best 2000)

4.5 Conclusion

This section included the brief information about Aircomm Association. And also its comprehensive study results which related to case study of this project. The need of measuring performance explained briefly to understand the aim of the comprehensive study of Aircomm Association.

SECTION 5

Customer Present Value Computations

5.1 Introduction

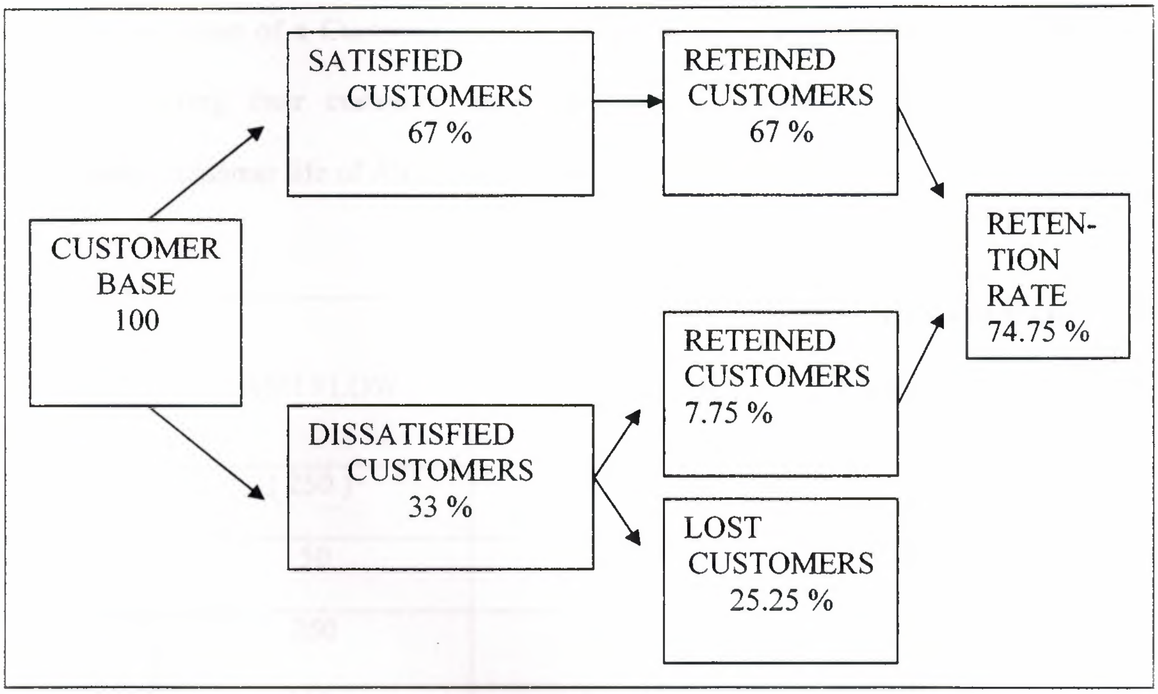
This section has computations of the study. The computations divided into two parts. First part of computations based on the findings of Aircomm Association. The second part of computations also uses the same findings but, an independent variable; satisfied customer rate increased 10 percent in order to see the effect of the Customer Satisfaction on Profitability.

5.2 Customer Present Value Computations

Computations can be divided into three steps. The first step of computations is preparing a Customer Retention Tree to find the Retention Rate.

5.2.1 Retention Tree Computations

Retention Tree analyses Customer Base and reaches the Retention Rate. In order to calculate Retention Rate Customer Base divided into two parts as Satisfied Customers and Dissatisfied Customers. Aircomm has 67 % satisfied and 33 % dissatisfied customers. The rate of satisfied customers and Rate of Retention of Satisfied Customers are equal. Because, there is no reason to leave. The bigger part of the Retention Rate comes from satisfied customers. Although most of the dissatisfied customers lost; some of the dissatisfied customers decide to retain. This small Retention Rate from dissatisfied customers added to retention rate from satisfied customers and the result is Retention Rate of Aircomm.



5.2.2 Customer Life Expectancy

Customer Life Expectancy uses Retention Rate to find for how many years a customer will make business with company. Retention rate of Aircomm is 74.75. The application of this number to the formula gives us 3.96 years. Aircomm's Customers generate profit for four years, than Aircomm lost its customer.

The formula is 1/ (1-Retention Rate) which equal to 1/ (1- 74.75) so 1/ 25.25 = 3.96 yrs.

5.2.3 Net Present Value of a Customer

Net Present Value of a Customer means, the profit that a company will earn from one customer during their customer life. From the calculation of the Customer Life Expectancy customer life of Aircomm's customer is four years.

PERIOD	CASH FLOW	PRESENT VALUE OF 1 DOLLAR	PRESENT VALUE OF CASH FLOW	TOTAL PROFIT
0	(250)	1.000	- 250	-250
1	50	0.893	44.65	-205.35
2	250	0.797	199.25	-6.1
3	250	0.712	178.00	171.9
4	250	0.636	159	330.9

5.2.4 Conclusion of first part

As seen on the table Aircomm is not able to produce profit from first years. In fact a new customer do not generate profit until third year.

5.2.5 Retention Tree Computations (10 % increase in satisfied customer)

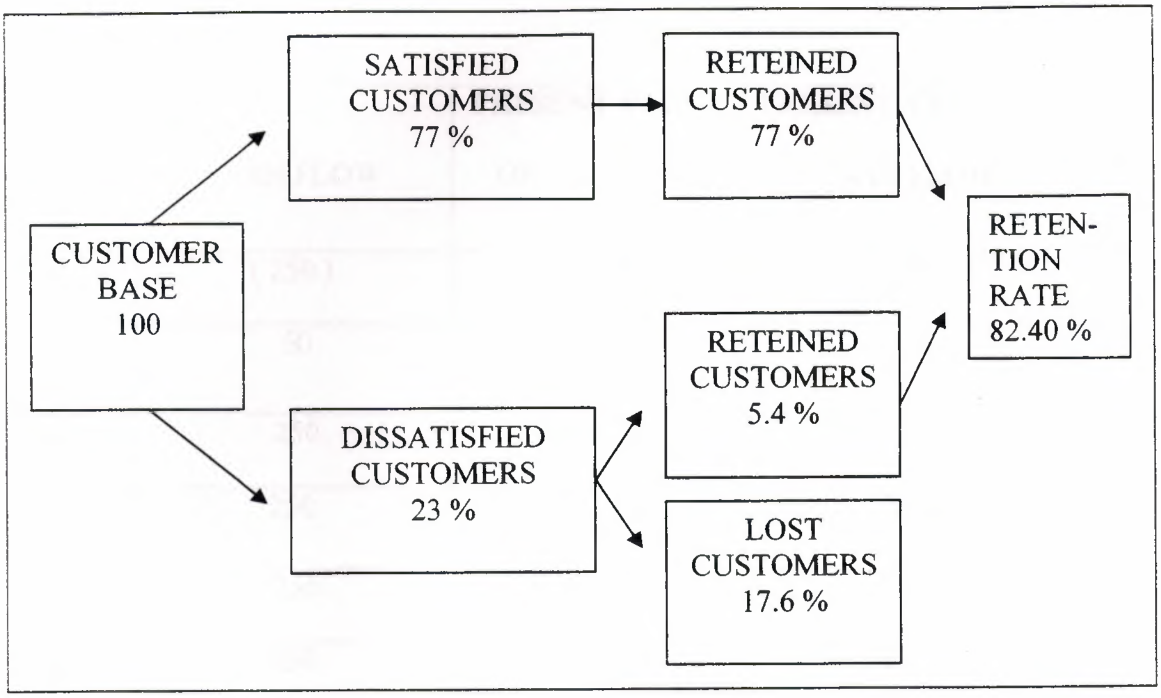
Computations includes the new satisfaction rate in order to see the impact of the Customer Satisfaction in Profitability.

5.2.6 Introduction

One of the independent variables changed in order to see its impact to the profitability. Satisfied Customer rate increased 10 %, but the other independent variables stay constant to see the effect of the change clearly.

5.2.7 Retention Tree Computations

If Aircomm's satisfied customer rate increased 10 % Customer base will have 77 % satisfied and 23 % dissatisfied customers. Other independent variables stay constant.



5.2.8 Customer Life Expectancy

Retention rate of Aircomm is 82.4. The application of this number to the formula gives us five and a half years. Aircomm's Customers generate profit for four years, than Aircomm lost its customer.

The formula is 1/ (1-Retention Rate) which equal to 1/ (1- 82.4) so 1/ 17.6 = 5.68 yrs.

5.2.9 Net Present Value of a Customer

Net Present Value of a Customer means, the profit that a company will earn from one customer during their customer life. From the calculation of the Customer Life Expectancy customer life of Aircomm's customer is four years.

PERIOD	CASH FLOW	PRESENT VALUE OF 1 DOLLAR	PRESENT VALUE OF CASH FLOW	TOTAL PROFIT
0	(250)	1.000	- 250	-250
1	50	0.893	44.65	-205.35
2	250	0.797	199.25	-6.1
3	250	0.712	178.00	171.9
4	250	0.636	159	330.9
5	250	0.567	141.75	472.65
5.5	125	0.507	63.38	536.03

5.2.10 Conclusion of second part

As seen below the effect of the change in the Customer Satisfaction Rate is very clear. Customer Life Expectancy increased 4 to 5.5 years. The profit effect of this change is bigger than Life Expectancy Rate. The Net Present Value of Customer increased $ 330.9 to $ 536.03 . This change exactly means that the change in Customer Satisfaction directly and strongly effect Aircomm Association's profitability.

5.3 Conclusion

This section included computations of the study. The computations divided into two parts. First part of the computations made by using independent variables, based on the findings of Aircomm Association. The second part of computations used the same findings but, an independent variable; satisfied customer rate increased 10 percent in order to see the effect of the Customer Satisfaction on Profitability.

SECTION 6

CONCLUSION

6.1 Introduction

This is the final section of this study. This section includes the conclusion of the study.

6.2 Conclusion

Consumer satisfaction with a product/service refers to the favorability of the individual's subjective evaluation of the various outcomes and experiences associated with using or consuming the product/service (Hunt 1977).

Consumer satisfaction is important to the marketer because it is generally assumed to be a significant determinant of repeat sales, positive word-of-mouth, and consumer loyalty. Satisfaction is important to the consumer because it reflects a positive outcome from the outlay of scarce resources and/or the fulfilment of unmet needs (Day and Landon 1977; Landon 1977).

How does satisfying current customers affect profitability? Fornell (1992) enumerates several key benefits of high customer satisfaction for the firm. Several of these will be discussed.

Increased Loyalty :In general, high customer satisfaction should indicate increased loyalty for current customers. This means more customers will repurchase (be retained) in the future. If a firm has strong customer loyalty, it should be reflected in the firm's economic returns because it ensures a steady cash flow (Reichheld and Sasser 1990).

Reduced Price Elasticities: Customer satisfaction should reduce price elasticities for current customers (Garvin 1988). Satisfied customers are more willing to pay for the benefits they receive and are more likely to be tolerant of increases in price. This implies high margins and customer loyalty (Reichheld and Sasser 1990). Low customer satisfaction implies greater turnover of the customer base, higher replacement costs, and due to the difficulty of attracting customers who are satisfied doing business with a rival, higher customer acquisition costs. Decreased price elasticities lead to increased profits for a firm providing superior customer satisfaction.

Lower Transaction Costs: High customer satisfaction should lower the costs of transactions in the future. If a firm has high customer retention, it does not need to spend as much to acquire new customers each period. Satisfied customers are likely to buy more frequently and in greater volume and purchase other goods and services offered by the firm (Reichheld and Sasser 1990).

Reduced Failure Costs: Consistently providing goods and services that satisfy customers should also increase profitability by reducing failure costs. A firm that consistently provides high customer satisfaction should have fewer resources devoted to handling returns, reworking defective items and handling and managing complaints (Crosby 1979; Garvin 1988; TARP 1979, 1981).

New Customers: The costs of attracting new customers should be lower for firms that achieve a high level customer satisfaction (Fornell 1992). For example, satisfied customers are reputedly more likely to engage in positive word of mouth and less likely to engage in damaging negative word of mouth for the firm (Anderson 1994b; Howard and Sheth 1969; Reichheld and Sasser 1990; TARP 1979, 1981). Media sources are also more likely to convey positive information to prospective buyers. Customer satisfaction claims may also make advertising more effective.

Increased Reputation: An increase in customer satisfaction should also enhance the overall reputation of the firm. An enhanced reputation can aid in introducing new products by providing instant awareness and lowering the buyer's risk of trial (Robertson and Gatignon 1986; Schmalansee 1978). Reputation can also be beneficial in establishing and maintaining relationships with key suppliers, distributors and potential allies (Anderson and Weitz 1989; Montgomery 1975).

Satisfied customers are more loyal and their cost is lower than new customers. Companies must prefer holding their customers to generate satisfactory profit.

These were theoretical findings. In order to see the effect more clearly Aircomm Association analysed as a case study. Firstly, Profitability of the company measured with the independent variable 67 % Customer Satisfaction Rate. And a result found with that rate. To measure the effect of changing variable the rate of satisfied customer increased 10 %. And computations made by exactly the same way.

As a result the change occurred by the expected way, increased customer satisfaction generates profitability. Finally companies which generates high Customer Satisfaction generates more profit.

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APPENDIX 1

Present Value of $1 to Be Paid in the Future

This table shows how much $1, to be paid at the end of various periods in the future, is currently worth, with interest at different rates, compounded annually. (www.toolkit.com)

To use the table, find the vertical column under your interest rate (or cost of capital). Then find the horizontal row corresponding to the number of years it will take to receive the payment. The point at which the column and the row intersect is your present value of $1. You can multiply this value by the number of dollars you expect to receive, in order to find the present value of the amount you expect. (www.toolkit.com)

An example showing how to use this table to find the Net Present Value of a major purchase or project follows the table. (www.toolkit.com)

Present Value of $1 to be Paid in Future

Years	3.0%	3.5%	4.0%	4.5%
1	$0.970874	$0.966184	$0.961538	$0.956938
2	$0.942596	$0.933511	$0.924556	$0.915730
3	$0.915142	$0.901943	$0.888996	$0.876297
4	$0.888487	$0.871442	$0.854804	$0.838561
5	$0.862609	$0.841973	$0.821927	$0.802451
6	$0.837484	$0.813501	$0.790315	$0.767896
7	$0.813092	$0.785991	$0.759918	$0.734828
8	$0.789409	$0.759412	$0.730690	$0.703185
9	$0.766417	$0.733731	$0.702587	$0.672904
10	$0.744094	$0.708919	$0.675564	$0.643928
11	$0.722421	$0.684946	$0.649581	$0.616199
12	$0.701380	$0.661783	$0.624597	$0.589664
13	$0.680951	$0.639404	$0.600574	$0.564272
14	$0.661118	$0.617782	$0.577475	$0.539973
15	$0.641862	$0.596891	$0.555265	$0.516720
16	$0.623167	$0.576706	$0.533908	$0.494469
17	$0.605016	$0.557204	$0.513373	$0.473176

Years	3.0%	3.5%	4.0%	4.5%
18	$0.587395	$0.538361	$0.493628	$0.452800
19	$0.570286	$0.520156	$0.474642	$0.433302
20	$0.553676	$0.502566	$0.456387	$0.414643
21	$0.537549	$0.485571	$0.438834	$0.396787
22	$0.521893	$0.469151	$0.421955	$0.379701
23	$0.506692	$0.453286	$0.405726	$0.363350
24	$0.491934	$0.437957	$0.390121	$0.347703
25	$0.477606	$0.423147	$0.375117	$0.332731

Years	5.0%	5.5%	6.0%	6.5%
1	$0.952381	$0.947867	$0.943396	$0.938967
2	$0.907029	$0.898452	$0.889996	$0.881659
3	$0.863838	$0.851614	$0.839619	$0.827849
4	$0.822702	$0.807217	$0.792094	$0.777323
5	$0.783526	$0.765134	$0.747258	$0.729881
6	$0.746215	$0.725246	$0.704961	$0.685334
7	$0.710681	$0.687437	$0.665057	$0.643506
8	$0.676839	$0.651599	$0.627412	$0.604231
9	$0.644609	$0.617629	$0.591898	$0.567353
10	$0.613913	$0.585431	$0.558395	$0.532726
11	$0.584679	$0.554911	$0.526788	$0.500212
12	$0.556837	$0.525982	$0.496969	$0.469683
13	$0.530321	$0.498561	$0.468839	$0.441017
14	$0.505068	$0.472569	$0.442301	$0.414100
15	$0.481017	$0.447933	$0.417265	$0.388827
16	$0.458112	$0.424581	$0.393646	$0.365095
17	$0.436297	$0.402447	$0.371364	$0.342813
18	$0.415521	$0.381466	$0.350344	$0.321890
19	$0.395734	$0.361579	$0.330513	$0.302244
20	$0.376889	$0.342729	$0.311805	$0.283797
21	$0.358942	$0.324862	$0.294155	$0.266476
22	$0.341850	$0.307926	$0.277505	$0.250212
23	$0.325571	$0.291873	$0.261797	$0.234941
24	$0.310068	$0.276657	$0.246979	$0.220602
25	$0.295303	$0.262234	$0.232999	$0.207138

Years	7.0%	7.5%	8.0%	8.5%
1	$0.934579	$0.930233	$0.925926	$0.921659
2	$0.873439	$0.865333	$0.857339	$0.849455
3	$0.816298	$0.804961	$0.793832	$0.782908
4	$0.762895	$0.748801	$0.735030	$0.721574
5	$0.712986	$0.696559	$0.680583	$0.665045
6	$0.666342	$0.647962	$0.630170	$0.612945
7	$0.622750	$0.602755	$0.583490	$0.564926
8	$0.582009	$0.560702	$0.540269	$0.520669
9	$0.543934	$0.521583	$0.500249	$0.479880
10	$0.508349	$0.485194	$0.463193	$0.442285
11	$0.475093	$0.451343	$0.428883	$0.407636

Years	7.0%	7.5%	8.0%	8.5%
12	$0.444012	$0.419854	$0.397114	$0.375702
13	$0.414964	$0.390562	$0.367698	$0.346269
14	$0.387817	$0.363313	$0.340461	$0.319142
15	$0.362446	$0.337966	$0.315242	$0.294140
16	$0.338735	$0.314387	$0.291890	$0.271097
17	$0.316574	$0.292453	$0.270269	$0.249859
18	$0.295864	$0.272049	$0.250249	$0.230285
19	$0.276508	$0.253069	$0.231712	$0.212244
20	$0.258419	$0.235413	$0.214548	$0.195616
21	$0.241513	$0.218989	$0.198656	$0.180292
22	$0.225713	$0.203711	$0.183941	$0.166167
23	$0.210947	$0.189498	$0.170315	$0.153150
24	$0.197147	$0.176277	$0.157699	$0.141152
25	$0.184249	$0.163979	$0.146018	$0.130094

Years	9.0%	9.5%	10.0%	10.5%
1	$0.917431	$0.913242	$0.909091	$0.904977
2	$0.841680	$0.834011	$0.826446	$0.818984
3	$0.772183	$0.761654	$0.751315	$0.741162
4	$0.708425	$0.695574	$0.683013	$0.670735
5	$0.649931	$0.635226	$0.620921	$0.607000
6	$0.596267	$0.580117	$0.564474	$0.549321
7	$0.547034	$0.529787	$0.513158	$0.497123
8	$0.501866	$0.483824	$0.466507	$0.449885
9	$0.460428	$0.441848	$0.424098	$0.407136
10	$0.422411	$0.403514	$0.385543	$0.368449
11	$0.387533	$0.368506	$0.350494	$0.333438
12	$0.355535	$0.336535	$0.318631	$0.301754
13	$0.326179	$0.307338	$0.289664	$0.273080
14	$0.299246	$0.280674	$0.263331	$0.247132
15	$0.274538	$0.256323	$0.239392	$0.223648
16	$0.251870	$0.234085	$0.217629	$0.202397
17	$0.231073	$0.213777	$0.197845	$0.183164
18	$0.211994	$0.195230	$0.179859	$0.165760
19	$0.194490	$0.178292	$0.163508	$0.150009
20	$0.178431	$0.162824	$0.148644	$0.135755
21	$0.163698	$0.148697	$0.135131	$0.122855
22	$0.150182	$0.135797	$0.122846	$0.111181
23	$0.137781	$0.124015	$0.111678	$0.100616
24	$0.126405	$0.113256	$0.101526	$0.091055
25	$0.115968	$0.103430	$0.092296	$0.082403

Years	11.0%	11.5%	12.0%	12.5%
1	$0.900901	$0.896861	$0.892857	$0.888889
2	$0.811622	$0.804360	$0.797194	$0.790123
3	$0.731191	$0.721399	$0.711780	$0.702332
4	$0.658731	$0.646994	$0.635518	$0.624295
5	$0.593451	$0.580264	$0.567427	$0.554929

Years	11.0%	11.5%	12.0%	12.5%
6	$0.534641	$0.520416	$0.506631	$0.493270
7	$0.481658	$0.466741	$0.452349	$0.438462
8	$0.433926	$0.418602	$0.403883	$0.389744
9	$0.390925	$0.375428	$0.360610	$0.346439
10	$0.352184	$0.336706	$0.321973	$0.307946
11	$0.317283	$0.301979	$0.287476	$0.273730
12	$0.285841	$0.270833	$0.256675	$0.243315
13	$0.257514	$0.242900	$0.229174	$0.216280
14	$0.231995	$0.217847	$0.204620	$0.192249
15	$0.209004	$0.195379	$0.182696	$0.170888
16	$0.188292	$0.175227	$0.163122	$0.151901
17	$0.169633	$0.157155	$0.145644	$0.135023
18	$0.152822	$0.140946	$0.130040	$0.120020
19	$0.137678	$0.126409	$0.116107	$0.106685
20	$0.124034	$0.113371	$0.103667	$0.094831
21	$0.111742	$0.101678	$0.092560	$0.084294

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