*Original Paper*

# Creating Customer Value for Enhanced Customer Satisfaction and Retention

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*Abstract*

*Customers are increasingly becoming sophisticated due to forces such as advancement in technology, changing social roles and globalization. As a result, customer churning is today a common reality that most companies have to deal with in order to satisfy and retain their customers. Creating customer value has emerged as one of the winning strategic tools that firms could use to gain competitive advantage in the contemporary marketing environment. This paper is an empirical study that presents a comprehensive analysis of the relationship between customer value, customer satisfaction and customer retention. Data was obtained through a survey involving clients of Commercial Banks in Kenya; the survey yielded a total of 385 responses. A self administered questionnaire was used for the customers' survey while interviews were conducted for Management. Descriptive statistics and regression data analysis methods were employed utilizing SPSS software. The findings of the study revealed that customer value has a positive statistically significant relationship with both customer satisfaction and customer retention.*

*Keywords*

*customer value, customer satisfaction, customer retention, customer perceived value*

## 1. Introduction

Delivering superior customer value has become a matter of on-going concern in building and sustaining firms' competitive advantage. The ever increasing competitive pressure in the banking sector in Kenya calls for well laid down offensive and defensive strategies and techniques of ensuring customer satisfaction and retention. Creating and developing customer value is one of the strategies that banks have adopted as a solution to this pressure; Superior customer value serves as the most unique strategic option of differentiation for banks. How a bank delivers on its value proposition therefore, becomes of paramount importance in winning competition (Hidaya et al., 2013; Tsai et al., 2010). Meeting customers' needs must become the major value driver for banks wishing to effectively deliver customer value; banks must therefore be able to identify what exactly their customers' needs and wants are in order to deliver value. The current study will attempt to show the importance that customers place in the identified value aspects and their impact on customer satisfaction and retention.

Customer value delivery refers to the ability of a company to create and add value to goods and services they offer to their customers. It involves extraordinary delivery on: Services offered to customers, Quality of products, Image of the organization and Price of services (Weinstein, 2012; Portolan, 2015). When organizations are able to deliver superior value, their customers are less constrained by economic and financial forces in their spending and purchasing decisions; as such, these customers are willing to spend more in order to obtain value (McFarlane, 2013). It is argued that for the customer to buy a product, and buy it again, it has to be endowed with value, either by incorporating benefits or by reducing the sacrifices the customer has to make in addition to setting a price that the customers can afford (Roig et al., 2006).

Delivering high customer value has many important quantifiable results for firms, which include: higher customer loyalty, higher market share, reduced operating cost, brand loyalty, customer satisfaction, customer retention, Profitability and more positive attitude from employees and customers (Buttel, 2010; Roig et al., 2006). Research has demonstrated that firms that deliver good value for their customers secure loyal customers who are less sensitive to competition and in turn reap favourable levels of outcome in terms of higher revenues, lower churning and less overhead costs (Auka, 2016; Lewis & Saureli, 2006; Ryals, 2005).

However, studies have also shown that these positively related attributes of value, may also have negative impacts on the customer. For instance, an increase in product quality increases customer value, but on the other hand, it may result to increase in the product price which in turn influences customer value negatively (Rebentisch et al., 2016). Other aspects of value such as convenience and comfort may also come with cost implications which may consequently lead to increase in price. To improve on customer value delivery, organizations will also need to invest in research (customer value learning) and make major changes on how organizations are managed (Woodruff, 1997). This in turn has cost implications that may affect the price of products and services. Even with these major roles of customer value and the antagonising views, little empirical evidence is available on the relative importance of

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customer value in relation to customer satisfaction and customer retention. Existing research has not considered customer value against a combination of customer satisfaction and customer retention. The current study will therefore attempt to bridge this gap by providing comprehensive empirical evidence on the association between customer perceived value, customer satisfaction and customer retention.

## 2. Literature Review

### 2.1 The Concept of Customer Value

Customer value is an important metric in acquiring, growing and retaining the "right customers" by driving Customer Relationship Management (CRM) performance (Rooster & Mithaly, 2013). In the recent past, customer value has continued to receive recognition as a stable construct in predicting customer behaviour. A business that fulfils customer value expectations is more likely to increase customer satisfaction and also increase chances of continued business (Tsai et al., 2010; Lewis & Saureli, 2006).

The concepts of customer value and customer perceived value have been used interchangeably to refer to the value that a customer derives from a product; the consumer's overall assessment of utility of a product based on perception of what is received and what is given. Customer value is therefore what a customer perceives in a product rather than what can be objectively determined by a seller (Graf & Mass, 2008; Woodall, 2003; Woodruff, 1997). It should be understood therefore that a business expressed customer value, can be quite different from a customer-expected value. Research has shown that there are differences in what managers think customers value and what customers say they value. Such gaps make it difficult for organizations to deliver customer value. A business must therefore endeavour to understand customer value from the perspective of the customer to minimise the differences between these two perspectives (Portlan, 2015; Tsai et al., 2010). This study considers customer value as comprising of the value that a customer perceives in a product; the fulfilment of customers goals and desires by the company's products and services (Graf & Mass, 2008; Kotler & Keller, 2006; Zeithamil, 1988).

Customer value is created when the benefits to the customer associated with a product or a service exceed the offering's lifecycle cost; such benefits can be improved, extended or expanded with time (Guenze & Tloro, 2006; Horoviz, 2000). A position of superior customer value is therefore created when the seller creates more value for the customer than does a competitor (Kotler & Keller, 2006; Yang & Peterson, 2004; Slater & Narver, 2000). Customer value can be increased in two main ways; by increasing the benefit the customer experiences with a product or decreasing the sacrifices the customer has to make in obtaining, purchasing and using the product (Buttel, 2010; Kotler et al., 2009; Gale, 1994).

Authors such as Tsai et al. (2010); Kotler (2000) view customer value as the difference between total customer benefit (economic, social, and relational) and the total customer cost (price, time effort and risk). Creating customer value therefore includes all the activities that a trader engages in which grow

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the customer from being a sceptical buyer to a loyal and retained customer. Consistently, Weinstein (2012) regards customer value as a trade-off between benefits received from offers such as convenience, quality, reliability and promptness versus the sacrifices the customer has to make which include money, stress, and time to obtain products and services.

Customer value management relies upon customer value assessment to gain an understanding of customer's requirements and what it takes in monetary value to fulfil the requirements. Understanding the buyer's value within a given offering, creating it for them, strategising how best it can be delivered and managing it over time, have for long been recognized as essential elements of every market oriented firm's core business strategy (Slater & Narver, 1998; Woodruff, 1997). Verhoef and Langerak (2000) argue that a better understanding of the customer perception of value should lead to changes in the way the customers are managed as every point of interaction with customer affects their perception of value and the company's ability to design and deliver superior value. It should be understood that Customers' perception of value differs between first time customers and loyal customers. Portolan (2015) in his study demonstrates that a consumer who consumes a product or a service for the first time has the highest perception of value as that which attracted them to the product or service. In the contrary, loyal customers are more inclined to perceive value as that which is superior in comparison to the competitors' offer. Customer value therefore becomes a competitive advantage creation tool, when it is shared within the organization and all those involved in its implementation get a common framework of implementing it (Woodruff, 2007). As such, monitoring and meeting customers' needs and wants must essentially become the major value driver for the organization (Mcfarlane, 2013).

Roig et al. (2006) observe two important characteristics of customer value: First is that customer value is inherent to the use of the product; this differentiates it from organisational value. Second is that customer's perceived value, cannot be determined objectively by the seller; only the customer is able to perceive whether or not a product or a service offers them value. From a customer's perspective according to Rebentich (2016), Perceived value is a multidimensional construct composed of six dimensions, namely: functional value of the organization, functional value of the employees, functional value of the service, functional value price, emotional value; and social value. On the other hand, Setifonos and Dahigaard (2007) view customer value as existing in 3 modes: added value, received value and perceived value. According to them, perceived value is the customer's assessment of utility of the product against the cost of acquiring it. Graf and Mass (2008) on the other hand, argue that customer value can be viewed from two different approaches: Perceived Customer Value (PCV and Desired Customer Value (DCV). PCV is a result of specific perceived benefits from a product and sacrifices that the customer makes to acquire it while DCV is based on consumer needs and desires.

Customers tend to be maximizers of value within the bounds of: search, cost, limited knowledge, mobility and income. A customer chooses the product which he expects will deliver the maximum value with the sum of both tangible as well as intangible benefits and costs; they estimate which offer will deliver the most perceived value. Whether the offer lives up to the customers' expectations affects

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their satisfaction and the probability that the customer will buy the product again (Ryals, 2005). Satisfied customers tend to buy again, buy more frequently, buy larger quantities and buy other products that the company may be selling. As such, they tend to stay for longer (Kotler et al., 2009).

Despite the fact that delivering customer value is key to the success of every organization, the challenge that most firms face, is the fact that customer expectations are always changing; today's value may be obsolete tomorrow. Therefore, firms must keep on evaluating and adding value to their products as customers' tastes and preferences change. While it seems to be clear how important it is for the firm to compose and offer value to the customers, it does not seem to be clear what the value perceived by the customer is. Some banks still perceive customer value as the value they can get from the customer rather than what they offer or can offer to the customer and this has contributed to difficulties in offering customer value (Roig et al., 2006). Other barriers to delivering customer value include organizational culture, organizational procedural barriers and managerial learning barriers (Narver & Slater, 2000).

### 2.2 Banking Sector in Kenya

The Banking sector in Kenya is characterised by high customer switching following high competition among banks, micro finance institutions and other sectors such as the mobile phone services providers. In the recent past, competition has been accelerated by blurring boundaries between industries whereby industries such as mobile phone service providers, are offering banking oriented services such as money transfers, credit facilities, savings, deposits and withdrawals. Banks must therefore appeal to their customers through value creation and value addition without creating additional costs.

A study by Njane (2013) on Baclays Bank, Kenya found the following to be the customers' perception of value on banking services: efficient services, convenient bank location, many outlets (branches, ATMs, Agents, M-banking), extended/flexible working hours and a wide variety of products. On the other hand, studies by Chege (2013); Mwangi (2010) on CRM revealed that banks in Kenya endeavoured to create customer value through: competitive pricing, efficient relationship management, provision of quality products, proximity of company to customer, convenience of operating hours, use of customer friendly technology interfaces, efficiency in dealing with customer requests and complaints, accessibility of credit facilities and giving personalized services. All these measures recorded a moderate implementation with means ranging between 3.5 and 3.9 out of five.

### 2.3 Impact of Customer Value on Customer Satisfaction and Customer Retention

As discussed above, Customer Value is a dynamic construct with multiple dimensions and several levels of abstraction. Ideas on how to conceptualize and link the concept to other constructs vary widely. Customer value has been closely linked to constructs such as customer loyalty, market share sales volumes, customer satisfaction and customer retention. A study by Utamil et al. (2016) found that there is a statistically significant relationship between customer value and customer satisfaction with customer value making a 17.9% contribution to customer satisfaction. The study also found that there is a statistically significant impact of customer value on customer loyalty and customer retention. At

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individual customer level, Deserbo (2001) demonstrated that customer value mediated by loyalty results in increased purchases, increased cross-buying and increased word of mouth referrals.

In their study on the different dimensions of value, Onaran et al. (2013) found emotional value to be the most influential dimension on customer satisfaction and social value to be the least influential. Further, the study demonstrated that the different dimensions of customer value affected customer satisfaction directly. Roostika et al. (2013) found customer value to be the highest contributor to customer satisfaction at Betta = 0.752 and that customer value had a positive effect on behavioural intentions. Ryals (2005) demonstrated that there was a performance improvement attributed to increased customer value while Auka (2016) established that the different dimensions of customer perceived value (monetary, emotional, customization and relational) related directly but diversely to customer loyalty.

Customer satisfaction generates customer retention and loyalty; this in turn causes the customer to increase their volume of business with the organisation. Consequently, the business becomes more closely acquainted with the evolution of the customers' needs and expectations, and hence generates an advantageous position to adapt to these needs (Roig et al., 2006). To retain customers, the company must offer products and services that are of high value than those of competition.

Based on the reviewed literature, the study hypothesises as follows:

$H0_1$: Customer value in the banking sector has no statistically significant influence on customer satisfaction.

$H0_2$: Customer value in the banking sector has no statistically significant influence on customer retention.

## 3. Methodology

The current study employed both descriptive and explanatory research designs (Saunders et al., 2007; Cooper & Schindler, 2006). The study was based in Nairobi, Kenya targeting customers within Nairobi City Central Business District (CBD); a total of 385 responses were obtained. The study sample was obtained through multistage sampling utilizing both stratified and random sampling methods. These methods helped to ensure proportionate representation of all the three categories of banks (Large, Medium and Small) (Kothari & Garg, 2014). A five point likert scale was used to measure the constructs. Descriptive analysis was done to ascertain the extent to which banks attempted to create and develop value for their customers while regression analysis was used to determine the direction and the magnitude of the relationship between the independent variable(customer value and the dependent variables (customer retention and customer satisfaction).

As part of data cleaning, frequencies were run to help scan for any possible wrong entries; the data had only a few missing cases which could not affect the results and were therefore ignored. All constructs in the instrument exceeded Nunnaly's 1978 recommended Cronchbach Alpha threshold of 0.70 thus confirming reliability of the instrument. The study also ensured that all assumptions of linear regression had been met, i.e. absence of multicollinearity, absence of outliers, normality, linearity, and

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homogeneity. Normality test was done using Kolmorov-Smirnov and Shirpiro-Wilk Normality tests (Field, 2009); the results indicated that the variables were different from a normal distribution. To test the significance of the departure from normality, Q-Q plots were run and the results revealed that departure from normality was minimal. This meant that the data was approximately normally distributed and could therefore be used to run the regressions.

## 4. Data Analysis

### 4.1 Reliability Test

The research instrument was subjected to reliability test and the results were as follows:

**Table 1. Reliability Test Results**

| Construct | Cronbach's Alpha |
|---|---|
| 1. My Bank makes deliberate effort to offer convenience of service to its customers | .781 |
| 2. My bank offers value added products and services at fair prices | .733 |
| 3. My bank makes deliberate effort to offer customer value | .778 |
| 4. My bank offers a wide variety of products to choose from. | .731 |
| 5. My bank offers me high quality services | .744 |

The results in Table 1 show that all the constructs met the recommended Cronbach Alpha threshold of 0.7 confirming the reliability of the instrument.

### 4.2 Sample Characteristics

The sample composition was 56.7% male and 43.9% female; meaning that more men than women accessed the banking services despite the fact the total population for women in Kenya is higher than that of men. The sample was well educated with more than 82% reporting college/tertiary education. On customer churning, 52% of the respondents indicated they had ever switched banks out of which 60% had switched at least twice.

### 4.3 Descriptive Results on Creating Customer Value

The study sought to establish whether commercial banks in Kenya made deliberate efforts to create and add value for their customers. Customer value was measured subjectively as perceived by the individual customers. Respondents were asked to rate their banks on the basis of five value creation aspects on a scale of 1 (strongly disagree) to 5 (strongly agree). The study findings were as shown in Table 2.

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**Table 2. Descriptive Results on Creating Customer Value**

| Statement | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard deviation |
|---|---|---|---|---|---|---|---|
| 1. My Bank makes deliberate effort to offer convenience of service to its customers | 2.1 | 3.9 | 6.5 | 40.5 | 47.5 | 4.270 | 0.901 |
| 2. My bank offers value added products | 2.9 | 5.2 | 8.6 | 38.4 | 44.9 | 4.174 | 0.986 |
| 3. My bank makes deliberate effort to offer customer value | 3.1 | 3.9 | 14.4 | 42.7 | 35.9 | 4.042 | 0.971 |
| 4. My bank offers better discounts and prices while buying additional products. | 9.1 | 16.2 | 31.6 | 26.9 | 16.2 | 3.248 | 1.773 |
| 5. My bank offers the customers high quality services | 2.6 | 8.1 | 27.0 | 46.9 | 16.0 | 3.648 | 0.933 |

N=385, $\bar{X} = 3.876$, Figures in %

The results in Table 2 reveal that most banks were keen on value creation for their customers with 88% of the respondents agreeing that their banks made deliberate efforts to offer them convenience, 83.3% agreed that their banks gave them value added products, and 78.6% agreed that their banks made deliberate efforts to offer them value. Quality of services received a relatively low rating with 62.6% of respondents agreed that their banks offered them high quality services. The percentages show a very favourable agreement that commercial banks in Kenya made deliberate efforts to create customer value though there was room for improvement especially on quality of services. Further examination of the means for items 1, 2, and 3 (4.270, 4.174, 4.042) respectively revealed that the processes had been implemented to a large extent while items 4 and 5 indicated moderate implementation. The standard deviations showed there was consensus among the respondents on all constructs. These results reveal that creating and enhancing customer value was a priority agenda for most banks in Kenya.

These findings were validated by Management interview responses that most banks had put in place value adding measures such as: time value, computerised queuing systems aimed at serving the customer within the shortest time possible, discounted prices at selected shops while using the bank credit card, cost reduction through bundled offers and taking services to the customers through M-banking, Online banking and Agency banking. From the customers' perspective of value analysis, the open ended question revealed customers' expectation of value as: quality services, E-banking,

discounted charges, efficient and first services, good customer service, convenience, accessibility of credit and embracing Technology.

*4.4 Regression Analysis*

To test hypothesis one, Customer value was regressed on customer satisfaction and was also regressed on customer retention. The results are summarized in Table 3.

**Table 3. Regression Results for Customer Value on Customer Satisfaction**

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .542[a] | .294 | .292 | .64323 |

| ANOVA[a] | | | | | |
|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 65.443 | 1 | 65.443 | 158.174 | .000[b] |
| | Residual | 157.222 | 380 | .414 | | |
| | Total | 222.665 | 381 | | | |

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.924 | .153 | | 12.613 | .000 |
| | X2E | .530 | .042 | .542 | 12.577 | .000 |

a. Dependent Variable: Customer Satisfaction

b. Predictors: (Constant), Customer Value

It was hypothesised that **there is no statistically significant relationship between customer value and customer satisfaction.** The model $Y = \beta_0 + \beta_1 CV + \varepsilon$ was fitted to determine the relationship. The results in Table 3 show a positive statistically significant relationship between customer value and customer satisfaction ($F_{(1,380)} = 158.17$, $P < 0.001$). This means that a customer with a more positive perception of value of the products and services their bank offers has greater satisfaction levels. With $R^2 = 0.294$, the model indicates that 29.4% variation in customer satisfaction could be explained by variations in customer value. However, the model failed to explain 71.6% of the variation which is an indication that there are other factors associated with customer satisfaction such as customer care and complaint management that were not fitted in the model. The model equation is therefore $Y1 = 1.924 + 0.530CV + \varepsilon$ where Y is customer satisfaction and CV is customer value. $\beta$ was also significant ($\beta = 0.542$, $t = 12.557$, $P < 0.001$) indicating that with one unit increase in customer value, customer

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satisfaction increases by about 0.542 units. With P value $< 0.05$, $H0_1$ was rejected and the study concluded that customer value and customer satisfaction are positively and significantly related.

**Table 4. Regression Results for Customer Value on Customer Retention**

| Model Summary | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | |
| 1 | .496[a] | .246 | .244 | .72934 | |

| ANOVA[a] | | | | | |
|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| | Regression | 65.943 | 1 | 65.943 | 123.967 | .000[b] |
| 1 | Residual | 201.604 | 379 | .532 | | |
| | Total | 267.547 | 380 | | | |

| Coefficients | | | | | |
|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 1.859 | .173 | | 10.744 | .000 |
| | X2E | .532 | .048 | .496 | 11.134 | .000 |

a.   Dependent Variable: Customer Retention

b.   Predictors: (Constant), Customer Value

## 5. Discussions

Given that today's customers have a variety of choices for their financial needs, banks in Kenya must become providers of value, and must do it differently from each other. Customer value enables banks to sustainably differentiate themselves, satisfy and retain their customers and increase their future possibilities of survival. As revealed by the results of the current study, there is a considerable positive relationship between customer value and both customer satisfaction and customer retention. The findings establish that both customer retention and customer satisfaction can be generated through commitment to providing customer value in a way that is superior to competition. This study concurs with Portolan (2015) that adding value to a product by managing components that make it specific and differentiatable, contributes to a higher level of competitive advantage thus increasing the chances of satisfying and retaining customers. The results also explain the growing importance of adding both tangible and intangible value components to services through aspects such quality, convenience, accessibility, embracing technology, fair interest rates timely communications and excellence in customer care.

Consistent with Tournois (2013), this study reveals that a stronger relationship exists between customer value and customer satisfaction than there is between customer value and customer retention. This implies that some satisfied customers may still switch in the event that they get better services from competition. As such, commercial banks in Kenya will be required to put in extra efforts to enhance retention of even the satisfied customers. This could be done through loyalty programs that contribute to customers' perceived value, excellence in customer service and efficient complaint management; the three were identified as some of the most valued components that bank customers expected from their service providers.

## 6. Conclusion

The current study concludes that there is a statistically significant relationship between customer value and customer satisfaction. The study also asserts that customer value and customer retention are significantly and positively related. Further, the study observes that in most banks, service quality offered by banks was not very satisfactory to most customers and this could have affected the strength of relationship indicated above. A previous study by Roig et al. (2006) demonstrated quality of products and services as the most important dimension of value from the customers' perspective.

## 7. Implications

This study recommends as follows: Commercial Banks in Kenya should endeavor to continuously improve on their efforts to offer customer value as customer needs are dynamic; what is value today might not be value tomorrow. It is important to consider consumers' perspective of value using their needs, desires and preferences as the starting point. Banks should continuously monitor and research on customers' perception of value as successes in competing on superior customer value lies in understanding what customers perceive as value, in translating it into products and services and in responsive delivery of the same. Secondly, banks in Kenya need to find ways of influencing and increasing their customer's perception of value so as to increase their satisfaction levels. Marketing communications is one of the tools that could be used to influence customer perception of value thus managing their expectations on what the banks may or may not be able to offer. To avoid losing even the satisfied customers, this study recommends that banks must differentiate themselves by offering customer value in a way that customers will consider superior to competition; customer service and effectiveness in complaint management have been identified as good value addition aspects that are not easy to copy. Finally Commercial Banks should also commit to improving the quality of service offered to their customers. With a mean of 3.648 the findings of this study indicate customers were not very happy with standards of quality. Quality has been found to be one of the dimensions of value that are not easy to imitate and which customers regard as most important and therefore provides the bank with a sustainable competitive advantage.

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