Journal of Business Research xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

ELSEVIER

Relationship between service quality and customer equity in traditional markets

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ARTICLE INFO

Article history:
Received 1 December 2014
Received in revised form 1 September 2015
Accepted 1 December 2015
Available online xxxx

ABSTRACT

This research is to understand how to improve traditional markets since a lot of practitioners in the retail industry conduct business in traditional markets. The research objectives are, first, to understand the relationships among service quality, customer equity drivers, and customer satisfaction in traditional markets; second, to find out how to improve the three drivers of customer equity through these variables mentioned above in traditional markets. In this study, the relationships among service quality, the drivers of customer equity, customer satisfaction, and customer lifetime value were studied based on the analysis of the data which were collected in traditional markets.

1. Introduction

The operating margins for traditional retail industries have been on a sustained downward trend as of 2008 to 2014; however, the operating margins for online-stores have been increased.[1] Online-stores such as Taobao or JingDong have had a significant impact on traditional retail industries. The ecosystem (especially in traditional markets) has been completely subverted. This research is to understand how to improve traditional markets since 92.5% practitioners in the retail industry conduct business in traditional markets.

Rust argues that business owners should transform management practices for goods, transactions, customer attraction, and product focus toward service, relationships, customer retentions, and customer focus (Rust, Zeithaml, and Lemon (2000). This research studies service quality, customer satisfaction, and customer equity to figure out the roles of customer equity in traditional markets.

Service quality is to measure service that customers receive from service delivery. Service quality has a beneficial effect on bottom-line performance of a firm. Customer satisfaction is a summary of affective response that varies in intensity. Responses occur at a particular time (generally limited in duration) that varies according to each situation. Brand association refers to what consumers believe a product does, how well it does it, and how likely they are to find it useful.

This study considers how to connect service quality to customer equity and how to use service quality to improve customer equity in traditional markets. The three factors of service quality (environment quality, outcome quality, and interaction quality) (Brady & Cronin, 2001) are especially applicable to development measurements for service quality in traditional markets. Sun, Kim, and Kim (2014) found that environment and social performance positively influence customer equity.

The objectives of this study are, first, to understand the relationships among service quality, customer satisfaction, and customer equity drivers in traditional markets; second, to understand how to improve the customer equity drivers through these variables mentioned above in traditional markets.

2. Literature review

2.1. Service quality

This study selected Brady and Cronin's (2001) to calculate the service quality in traditional markets. It was the first time that service quality has been explained as a summation of three kinds of quality which are interaction quality, environment quality, and outcome quality by Brady and Cronin (2001). Brady and Cronin's model is the most current service quality model. The measurements of this model include tangible factors, intangible factors, environment factors especially the communication factors.

2.1.1. A hierarchical approach of service quality

Brady and Cronin adopt Rust and Oliver's (1994) view that overall service quality perceptions are based on a customer's evaluation of three dimensions of the service encounter: (1) customer–employee interaction which was called as functional quality in Grönroos (1982, 1984); (2) service environment (Bitner, 1992); (3) outcome which was called as technical quality in Grönroos (1982, 1984). A framework that incorporates the three dimensions is justified due to increased

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[1] http://finance.southcn.com/f/2014-12/18/content_114556521.htm.

http://dx.doi.org/10.1016/j.jbusres.2016.04.007
0148-2963/

support to re-examine Grönroos's seminal conceptualization (Bitner, 1990; Lassar, Manolis, & Winsor, 2000). In addition, recent evidence suggests that service environments influence service quality perceptions (Baker, 1986; Wakefield, Blodgett, & Sloan, 1996). In Brady and Cronin's research model, they gave three subdimensions to each of interaction, environment, and outcome as below: (1) interaction quality: attitude, behavior, expertise; (2) environment quality: ambient conditions, design, social factors; (3) outcome quality: waiting time, tangibles, valence (Brady & Cronin, 2001).

2.1.2. Interaction quality

Services are inherently intangible and characterized by inseparability (Bateson, 1989); therefore, interpersonal interactions that take place during service delivery often have the most significant influence on service quality perceptions (Bitner & Lois, 1994; Hartline & Ferrell, 1996). Interactions have been identified as the employee–customer interface (Hartline & Ferrell, 1996) and the key element in a service exchange (Czepiel, 1990).

A review of the literature supports these factors as subdimensions of interaction quality. For example, Czepiel, Solomon, and Surprenant (1985) suggest that the attitude, behavior (in their term,"manifest" function), and the skill of service employees define the quality of delivered service and "affect what clients evaluate as a satisfactory encounter." Bitner and Booms (1990) also divide employee–customer interaction into three distinct aspects: demeanor, actions, and the skill of employees to resolve failed service incidents. Grönroos (1990) also suggests that the attitudes, behavior, and skills of employees are factored into service quality assessments. Finally, Bitner (1990) proposes that the attitudes and behavior of service personnel significantly influence the consumer perceptions of functional quality. She adds that a definition of service quality requires that perceptions are subsequently combined with customer technical quality evaluations and the service environment.

2.1.3. Environment quality

Parasuraman, Zeithaml, and Berry (1985) helped to initially identify several environmental considerations. A study of restaurant patrons by Rys, Fredericks, and Luery (1987) found that customers infer quality based on perceptions of physical facilities. A cross-sectional qualitative study by Crane and Clarke (1988) reported that the service scape influenced perceptions because customers in four different service industries listed in the service environment as a consideration factor for service quality evaluations. The prominence of the service delivery environment indicates that service scape is salient for service quality perceptions. This study revealed that three factors (ambient conditions, facility design, and social factors) influence the perceived physical environment quality. Ambient conditions and design factors (Bitner, 1992) are supported by prior research (Baker, 1986; Baker, Grewal, & Parasuraman, 1994; Bitner, 1992). Ambient conditions are composed by intangible things such as temperature, smell, and music (Bitner, 1992). Environmental design is useful to improve customer perceived quality (Lee, 2012). Bitner (1992) suggests that "social cues" refer to the "signs, symbols, and artifacts" evident in service settings that influence customer perceptions. With a better service environment, the employee's work would be better and the customer perceived service would be more (Siddiqi, 2014).

2.1.4. Outcome quality

A past research suggests that the technical quality influences customer perceptions of service quality significantly (Carman, 2000). Grönroos (1984) defines outcome quality as "what the customer is left with when the production process is finished." Czepiel et al. (1985) refer to the technical outcome as the "actual" service and argue that it helps to assess the quality of a service encounter. Rust and Oliver (1994) refer to a service outcome as a "service product" and suggest it as a relevant feature that customers evaluate after service delivery. McAlexander, Kaldenberg, and Koenig (1994) refer to a service outcome in health care industries as "technical care" and show that it is a primary determinant for the service quality perceptions of patients. de Ruyter and Wetzels (1998) also include service outcomes in their health care investigation and show a direct link to service quality. The literature and this qualitative study (as well as its pragmatic appeal) indicate that it is reasonable to expect outcome qualities to influence perceived service quality. Taylor and Claxton (1994) suggest a positive relationship where more favorable waiting time perceptions are associated with enhanced outcome quality perceptions. Tangible elements are another influence on service outcome perceptions that represent half the factors cited by respondents in a qualitative study. Theory suggests that customers use tangible service outcome evidence as a proxy to judge performance (Hurley & Estelami, 1998; Parasuraman et al., 1985). The third factor of valence captures attributes that control if customers believe a service outcome to be good or bad regardless of an evaluation of other aspects of the experience.

2.2. Customer equity

Since collecting particular inside business data is really difficult in traditional markets, Lemon's et al. (2001) customer equity concept and measurements are selected in this research. Customer equity is from value creation based on profit, costs, cash flow, customers, and customer relationships. There is a clear definition of customer equity as the sum of customer lifetime value. Customer equity is a value concept that emerges in the course of maintaining lifetime relationships with customers based on the introduction of the concept of time where a customer's lifetime value is added to current value (Blattberg & Deighton, 1996). This concept focuses on maximizing direct marketing benefits and the advance of marketing technology. Berger and Nasr (1998) defined customer equity as the value of profits acquired from customers minus corporate costs. Lemon, Rust, and Zeithaml (2001) defined it as the sum of a customer's discounted lifetime value. The discounted lifetime value comprehensively expresses concepts such as acquisition and retention of customers, profits, and costs (mentioned by earlier researchers from a financial perspectives) and is a term often used in subsequent studies. Rust, Lemon, and Zeithaml (2004) also defined customer equity as the total of discounted lifetime values with current and potential customers of a firm.

2.2.1. Value equity

A study by Lemon et al. (2001) defined value equity as the customer's objective assessment of the utility of a brand based on perceptions of what is given up for what is received. Improving customer equity was suggested to be in marketing strategy for retailing markets (Kim, Park, Kim, Aiello, & Donvito, 2012). Value is the key point between a customer and the firm. A strong brand strategy and relationships are inadequate to satisfy customers when customer needs not satisfied by the products and services of a firm. The three elements that form the value equity are quality, price, and convenience.

Based on Lemon et al. (2001), value equity reflects the relative opinions of target consumers toward products or services and is considered unilateral equity based on the product or service competence of a company. They also suggested that value is recognized through rewards that a consumer provides to acquire something. Accordingly, value can be enhanced by realizing customer needs or reducing consumers cost rewards. A company can apply price, quality, and convenience as the elements of value equity to achieve this goal (Lemon et al., 2001).

2.2.2. Brand equity

Brand equity is built through image and meaning to fulfill the vital roles (Lemon et al., 2001). First, brand equity plays an important role to attract consumers and allows them to evaluate brands or offset value equity through brand perception or brand recognition. Second, it helps consumers continuously make purchases by reminding them.

Please cite this article as: Wang, H., et al., Relationship between service quality and customer equity in traditional markets, *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2016.04.007