

Full Length Research Paper

Factors affecting customer loyalty in Pakistan

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Customer loyalty always remains a prime concern for business organization. The purpose of this is to identify key factors which influence customer loyalty around the globe in general and in Pakistan in particular. This study investigates the correlation between these factors and customer loyalty through hypotheses testing. The study was carried out by taking a sample of 150 respondents. Data were collected through questionnaire containing 14 items and analyzed in SPSS. Results of the study indicate a positive relationship among customer satisfaction, customer relationship, image of the product, trustworthiness and customer loyalty. This study concludes that long-term success and sustainable reputation of an organization depends on customer loyalty. The study recommends that the 'customer is always right' is a golden principle to attain customer loyalty.

Key words: Customer satisfaction, customer relationship, product image, trustworthiness.

INTRODUCTION

Recent years have shown a growing interest in customer loyalty. The globalization of competition, saturation of markets, and development of information technology have enhanced customer awareness and created a situation where long-term success is no longer achieved through optimized product price and qualities. Instead, companies build their success on a long-term customer relationship. According to former studies, it can cost as much as 6 times more to win a new customer than it does to keep an existing one. Depending on the particular industry, it is possible to increase profit by up to 60% after reducing potential migration by 5%. Hence, we can see that the increase and retention of loyal customers has become a key factor for long-term success of the companies. The main emphasis in marketing has shifted from winning new customers to the retention of existing ones.

Customer loyalty is one of the most important issues organizations face today. Creating loyal customers has become more important due to significant increase in competition and concentrated markets. Businesses are

trying to attract and satisfy customers and to build long-term relationship through building loyalty among customers (Gremler et al., 1996). Developing a network of loyal and satisfied customers is critical for the survival of many corporations (Gould, 1995). Traditionally there are two approaches to treat customer loyalty. Some researchers have investigated the nature of different levels of loyalty; others have explored the influence of individual factors on loyalty. The starting point is to know the influence of factors including trustworthiness, product image, customer relationship and customer satisfaction on customer loyalty. In emerging markets like Pakistan it is more important to determine factors affecting customer loyalty due to the continuous influx of new players in potential industries (Hafeez et al., 2010). Massive privatization in Pakistan also triggered the need to analyze determinants of customer loyalty for long-term profitability (Afsar et al., 2010).

Significance of study

There are several companies in the country with profit oriented mindset whereas if go for customer oriented strategy they can be more profitable and sustainable in the long run.

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Objectives

The potential for establishing loyalty depends on the product, customer and market environment. Therefore objective of the study is to verify key factors that have impact on customer loyalty.

Problem statement

It has been observed that with the improvement of the technology there is decline in business – customer relationship. Online technical and sales support further deteriorated the situation. There is constant downturn in loyalty towards products and services due to several alternatives easily available to the consumers.

LITERATURE REVIEW

Segmentation based on customer loyalty

There are multiple approaches to customer loyalty. Theories of behavioral loyalty were dominating until 1970 considering loyalty as the function of the share of total purchases (Cunningham, 1956; Farley, 1964), function of buying frequency or buying pattern (Tucker, 1964; Sheth, 1968) or function of buying probability (Harary et al., 1962; McConnell, 1968; Wernerfelt, 1991). These approaches looked at brand loyalty in terms of outcomes (repeat purchase behavior) rather than reasons, until Day (2003) introduced the two-dimensional concept of brand loyalty, which stated that loyalty should be evaluated with both behavioral and attitudinal criteria. Contemporary researches consider and accent the psychological (mostly attitudinal and emotional) factor of loyalty (Jacoby et al., 1973; Oliver, 1999; Chaudhuri, 1995; Djupe, 2000; Reichheld, 2003). There are also approaches comparing loyalty with marriage (Hofmeyr et al., 2000; Lewitt, 1983; Dwyer et al., 1987). These different approaches allow distinguishing customers as whether behaviorally or emotionally loyal. Behaviorally loyal customers act loyal but have no emotional bond with the brand or the supplier whereas emotionally loyal customers do. Jones and Sasser call these two kind of loyalty accordingly false or true long-term loyalty (Jones and Sasser, 1995). Hofmeyr and Rice (2000) divide customers to loyal (behavioral) or committed (emotional). Emotional loyalty is much stronger and longer lasting than behavioral loyalty. It is an enduring desire to maintain a valued relationship. The relationship is so important for the customer that he or she makes maximum efforts to maintain it (Morgan et al., 1995; Reichheld 2003; Moorman et al., 1992). Highly bonded customers will buy repeatedly from a provider to which they are bonded, recommend those providers to others, and strongly defend these choices to others – insisting that they have chosen the “best” product or

service (Butz et al., 1996). Behaviorally loyal customers could be divided to sub segments by the reason of acting:

1. Forced to be loyal
2. Loyal due to inertia or
3. Functionally loyal

Customers are forced to be loyal when they have to be clients even if they do not want to. Customers may be forced to consume certain products or services offered by certain vendor e.g. when the company acts as a monopoly or the poor financial status of the customer limiting his selection of goods. Grönholdt, Martensen and Kristensen have found that companies with low price strategy had a much higher loyalty than expected from their customer satisfaction. On the other hand, companies that had used a lot of energy on branding indeed had a high customer satisfaction but they did not have a correspondingly high loyalty (Grönholdt et al., 2000). Forced loyalty could be established through creating exit barriers as well. Loyal behavior may also result from inertia. Inertia means customer does not move to another vendor due to comfort or relatively low importance. If the choice has low importance, there is no point to spend time and effort on searching for alternatives. Thus, based on his faith in the suitability of the current product, the customer continues to use it without checking alternatives. It is in accordance to Oliver’s approach of cognitive loyalty: the loyalty that is based on brand belief only. “Cognition can be based on prior or vicarious knowledge or on recent experience-based information. If the transaction is routine, so that satisfaction is not processed (e.g. trash pickup, utility provision), the depth of loyalty is no deeper than mere performance (Oliver, 1999).

Hofmeyr and Rice (2000) say that one of the reasons that customers do not switch brands is that when they are dissatisfied. They feel that alternatives are just as bad as the brand they are using or even worse. Inertia may be caused by lack of information about attractive characteristics of other brands (Wernerfelt, 1991). Functionally loyal customers are loyal because they have an objective reason to be. Wernerfelt (1991) points out “cost-based brand loyalty” where brand utilities have a positive influence on brand choice. Functional loyalty can be created by functional values using price, quality, distribution, usage convenience of a product or through different loyalty programs (points, coupons, games, draws etc.) giving a concrete reason to prefer certain product. Unfortunately competitors can easily copy functional values. Thus, creating functional value offers a fleeting competitive advantage: functional loyalty can not be very long lasting (Barnes, 2003). Jones and Sasser (1995) propose three measures of loyalty that could be used in segmentation by loyalty: customer’s primary behavior – recency, frequency and amount of purchase; customer’s secondary behavior – customer referrals, endorsements and spreading the word; customer’s intent to repurchase-

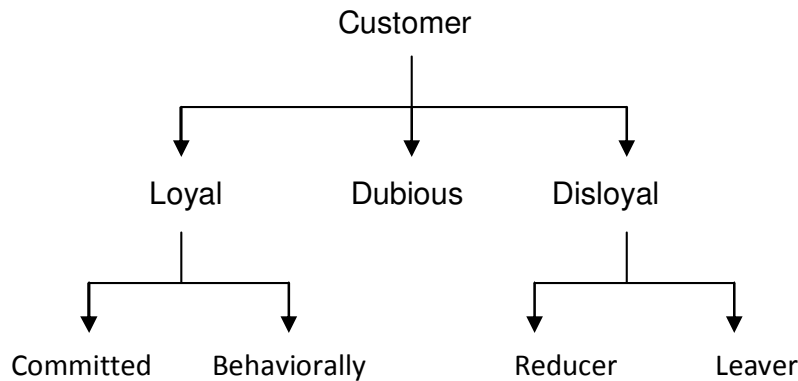


Figure 1. Customer loyalty.

is the customer ready to repurchase in the future? Based on the literature review customers could be segmented by their loyalty as follows (Figure 1).

1. Committed or emotionally loyal customers – these are active customers who use certain products or services and declare to use them in future and also recommend the same to others.
2. Behaviorally loyal customers – these are the customers who use certain products or services and declare that they will continue to use in future but do not agree to recommend to others.
3. Ambivalent or dubious customers – these are the customers who use certain products or services but do not know which products they will use in the future.
4. Disloyal reducers – customers who have reduced or will reduce the percentage of the product or the service in their usage.
5. Leavers – customers who declare, that they will certainly leave this product or the service.

Factors effecting customer loyalty

The impact of satisfaction on loyalty has been the most popular subject of studies. Several studies have revealed that there exists a direct connection between satisfaction and loyalty: satisfied customers become loyal and dissatisfied customers move to another vendor (Heskett et al., 1994). The primary objective of creating American Customer Satisfaction Index (ACSI) in 1984 was to explain the development of customer loyalty. In ACSI model customer satisfaction has three antecedents: perceived quality, perceived value and customer expectations (Anderson et al., 2000). In the European Customer Satisfaction Index (ECSI) model perceived quality is divided into two elements: “hard ware”, which consists of the quality of the product or service attributes, and “human ware”, which represents the associated customer behavior towards the product/service (Grönholdt et al., 2000).

In both models increased satisfaction should increase customer loyalty. When the satisfaction is low customers have the option to exit (e.g. going to a competitor) or express their complaints. Researchers have shown that 60 to 80% of customers who defect to a competitor said they were satisfied or very satisfied on the survey just prior to their defection (Reichheld et al., 2000). So it is clear that there are some other factors beside satisfaction that have a certain impact on customer loyalty. Image of brand or supplier is one of the most vital factors. It affects loyalty at least in two ways. Firstly, customer may use his preferences to present his own image. That may occur both in conscious and subconscious level. According to the Belk’s theory of extended self, people define themselves by the possessions they have, manage or create (Belk, 1988). Aaker (1999) has shown how consumers prefer brands with personality traits that are congruent with the personality traits that constitute their (malleable) self schemas. Kim, Han and Park have researched the link between brand personality and loyalty. They did get positive support to hypothesis that the attractiveness of the brand personality indirectly affects brand loyalty (Kim et al., 2001). Tidwell and Horgan (1992) have showed that people use products to enhance self-image.

Secondly, according to social identity theory, people tend to classify themselves into different social categories. That leads to evaluation of objectives and values in various groups and organizations in comparison with the customer’s own values and objectives. They prefer partners who share similar objectives and values (Ashforth and Mael, 1989).

Fournier (1998) states that consumer-brand relationships are more a matter of perceived goal compatibility. Brands cohere into systems that consumers create not only to aid living but also to give meanings to their lives. Oliver (1999) argues that for fully bonded loyalty the consumable must be part of the consumer’s self-identity and his or her social-identity. Trustworthiness of the partner is a factor that has certain impact on the establishment

of loyalty – nobody expects a long-term relation with a partner that cannot be trusted. Trustworthiness is one criterion for measuring the value of the partner (Doney et al., 1997). Spekman (1988) calls trust a cornerstone of the strategic partnership. Morgan and Hunt (1994) posit that trust is a major determinant of relationship commitment: brand trust leads to brand loyalty because trust creates exchange relationships that are highly valued. Chaudhuri and Holbrook (2001) have showed that brand trust is directly related to both purchase and attitudinal loyalty. Many authors have accented that trust is important in conditions of uncertainty (Moorman et al., 1992; Doney et al., 1997; Dwyer et al., 1987; Morgan et al., 1994). Uncertainty may be caused by dependence or large choice. Many definitions describe loyalty as a desire to retain a valuable or important relationship (Morgan et al., 1994; Moorman et al., 1992). Therefore establishment of loyalty is predetermined by the importance of relevant relationship or selection. Weiss (2001) points out three aspects that may increase the importance of the relationship:

1. Strategic importance of a product,
2. High risks involved in the transaction or
3. Costs incurred by cancellation of contracts

Hofmeyr and Rice (2000) point out that the more important the relationship is to a person, the more willing that person is to tolerate dissatisfaction in favor of trying to fix it. By contrast, when a relationship does not matter, then even the perfectly satisfied consumer can switch on a whim. A relationship can also be made important by personal approach. Various authors have compared loyalty with marriage (Levitt, 1983; Dwyer et al., 1987; Gummesson, 1998; Hofmeyr et al., 2000). Marriage is one of the most personal and important relationships. That means intimacy is one determinant for importance of relationship. Levitt (1983) has considered the role of salesman as important factor in making relationship more personal.

Theoretical framework

In increasingly competitive markets customer loyalty is seen as the key factor in winning market share and developing sustainable growth for over longer period of time (Afsar et al., 2010). The dependent variable of this study 'customer loyalty' is influenced by the four independent variables namely image, satisfaction, importance of relationship and trustworthiness. Success of the organization depends on the image of the product she offers. Image of the product has been found to have a profound affect on customer loyalty (Afsar et al., 2010). Image is the focal point where the customers first attract and contribute to purchase. The image depicts the standard of the company and the quality of the product. Image is the key factor that provides satisfaction to the customer

regarding attributes of the product; for example the image of Nokia guarantees the user-friendly features of the cell phone.

Customer satisfaction is the most important factor that affects customer loyalty (Hoq et al., 2010). It is an important theoretical as well as practical issue for most marketers and consumer researchers (Jamal et al., 2003). If customer is satisfied he/she buys the product again and again. It is one of the very important factors that affect customers. Satisfaction is an element which fulfills the need of the customer associated with that product: e.g. Lux soap is positioned as beauty care product thus can only satisfy the customer if it enhances fairness of the skin of a user. Unsatisfied customers tend to convey their negative impression to other consumers. Consequently customer dissatisfaction leads to decrease in loyalty (Lewis, 1991; Newman, 2001). This implies that customer satisfaction and customer loyalty are highly related (Hoq et al., 2010). Trustworthiness determines reliability of the product to meet customer expectations; thus becomes important antecedent of customer loyalty (Reichheld et al., 2000). Trustworthiness is the degree of confidence the customer has in exchange options (Zeithaml et al., 2000). Trustworthiness means the ability of the product to deliver the core benefits to the customer. Customer attracts towards the product due to their trustworthiness on its features. For example Neutrogena soap is for acne treatment and hand n shoulder shampoo is for dandruff; customers can only be loyal to these products if they will deliver these benefits to their users.

Nature of relationship between customer and the product determines customer loyalty. It has been identified that good customer relationship leads to customer loyalty (Hoq et al., 2010). Thus good relationship bond between the customer and the product can guarantee customer loyalty for the product (Figure 2).

Hypotheses

H₁: Customer loyalty is affected by customer satisfaction, both positively and significantly.

H₂: Customer loyalty is influenced by the image of the product, directly and positively.

H₃: Customer loyalty is related to – positively and directly – trustworthiness of the brand in the customers' mind.

H₄: Customer loyalty depends upon the relationship between the company and the customer.

METHODOLOGY

Investigation of this study is based on correlational analysis. In this correlational study the researchers are interested in delineating the association of independent variables with dependent variable. These correlations are explained through hypotheses testing (Sekaran, 2004). Usually a correlational study is conducted in the natural environment with minimum interference by the researcher with the normal flow of work. Since researchers are working in a normal flow and not interfering in the environment, therefore the

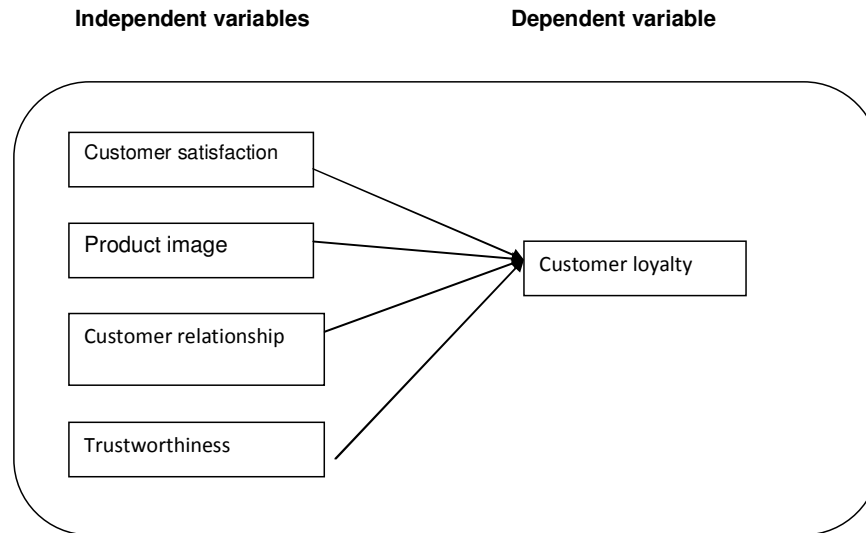


Figure 2. Relationship between customer and the product determines customer loyalty.

extent of interference is minimal. Because in correlational study, an individual has to develop a theoretical framework, collect the relevant data and analyze them to come up with the findings. Correlation studies are invariably conducted in noncontrived (natural not artificial) settings. Researchers also conducted this study in noncontrived settings to obtain results through hypotheses testing. Unit of analysis of this study is individual respondents. This is cross sectional study. Data was collected once a time.

Representative samples mean asking the right people in the population of interest. It has less to do with the right sample size than with the right target (Sauro, 2010). Most of the respondents are university students representing almost every major city of Pakistan, thus making it a right sample to get the information from almost every important place of the country. For single-shot surveys when no comparisons are being made (e.g., to prior surveys or benchmarks) sample size is all about how precise researchers want to be. More precise estimate needs more people to be included in the survey. The calculation is basically a backwards confidence interval. Confidence intervals are made up of a confidence level and a margin of error. The margin of error determines the precision of the findings. In rating scale sample size more than 100 is reasonable to estimate the findings with +/- 10% of margin of error (Souro, 2010). Researchers collected data from 150 respondents. Researchers used convenience sampling to form a sampling frame of 150 respondents representing almost every major city of Pakistan.

Researchers developed the instrument containing 20 items with the help of previous studies in the same segment of investigation including Jamal et al. (2003); Alam et al. (2006); Afsar et al. (2010); Hafeez et al. (2010); Hoq et al. (2010). Researchers collected the data through questionnaire developed in the light of findings of these studies containing 5 points Likert scale ("1" for strongly disagree and "5" for strongly agree).

Data analysis

Data were analyzed using descriptive statistics such as percentages and frequencies to present the main characteristics of the sample (Table 1). Correlations were calculated to measure the association between independent variables and dependent variable (Table 2).

Frequency distribution

There are 66% male respondents in this study and 34% female. Most of the respondents are between the ages of 21 to 30 years; therefore findings of this study would be of significant importance because this age group can play important role in repeat purchases of any brand. Of the subject 61% are graduates and most of the respondents are students.

Correlations

Results of correlational analyses of hypotheses of this study are given in Table 2.

H₁: Customer loyalty is affected by customer satisfaction, both positively and significantly. Finding of this study suggests that there is significant relationship between customer satisfaction and customer loyalty with the product / service as shown in Table 2 where ($\gamma = 0.324^{**}$ at $p < 0.05$). This result complements the view of Heskett et al. (1994). Customer satisfaction is the key to retain them for longer period of time and to influence for repeat purchases. Satisfied customers become ambassadors of brands. They recommend and advocate those brands to others; thus play important role in the success of the organization.

H₂: Customer loyalty is influenced by the image of the product, directly and positively. Result of the correlation analysis of product image and customer loyalty suggests that there is significant and positive correlation between these two variables ($\gamma = 0.186^*$ at $p < 0.05$). This result is consistent with previous studies e.g. Belk (1988) and Aaker (1999). Image of the brand is important for different reasons e.g. to promote one's own image, to satisfy one's own esthetic satisfaction or to attain certain comfort

Table 1. Frequency distribution

Variable	Category	Frequency	Percent	Cumulative percent
Gender	Male	99	66.0	66.0
	Female	51	34.0	100
	Total	150	100	
Age	20 or less	50	33.3	33.3
	21-30	91	60.7	94.0
	31-40	9	6.0	100
	Total	150	100	
Qualification	Intermediate	57	38.0	38.0
	Graduation	91	60.7	98.7
	Post-Graduation	2	1.3	100
	Total	150	100	
Profession	Student	148	98.7	98.7
	Teacher	2	1.3	100
	Total	150	100	

Table 2. Correlational analyses of hypothesis

Variable	Loyalty	Trustworthiness	Image	Relationship	Satisfaction
Loyalty	1				
Trustworthiness	0.218**	1			
Image	0.186*	0.276**	1		
Relationship	0.392**	0.432**	0.314**	1	
Satisfaction	0.324**	0.221**	0.268**	0.363**	1

** Correlation is significant at the 0.01 level, * Correlation is significant at the 0.05 level.

associated with the brand. This study suggests that among Pakistani consumers image of the product / service is positively associated with brand loyalty.

H₃: Customer loyalty is related to – positively and directly – trustworthiness of the brand in the customers' mind. Global development demands trustworthiness. It is not possible for corporations to continue with maximizing shareholders' value without ensuring trustworthiness in organizational procedures and practices. Organizations must demonstrate trustworthiness (Vogl, 2003) in order to fully share in the benefit of international business development. This study also proposes that there is positive correlation between trustworthiness and customer loyalty ($\gamma = 0.218^{**}$ at $p < 0.05$). Result of H₃ is coherent with previous studies e.g. Doney et al. (1997) and Spekman (1988).

H₄: Customer loyalty depends upon the relationship between the company and the customer. Correlation between customer relationship and customer loyalty is quite significant according to the results of this study where ($\gamma = 0.392^{**}$ at $p < 0.05$). Strong relationship bond between end users and the product / service providers is

vital for the long-term success of the organization. Findings of the current study also provide evidence that customer loyalty is greatly dependent on customer relationship. In Pakistani markets this plays even more important role where people are traditionally and culturally knitted closely with each other. Result is consistent with previous studies like Levitt (1983); Dwyer et al. (1987); Gummesson (1998); Hofmeyr et al. (2000).

Conclusion

Customer loyalty is of prime importance for business organizations. Results of current study conclude that factors such as customer satisfaction, customer relationship, product image and trustworthiness of organization play very important role in strengthening customer loyalty. Long-term success and sustainable reputation of an organization depends on customer loyalty. This study supports the view that customer relationship and customer satisfaction should remain prime focus for the organization to maintain market share in today's competitive

business environment. The business whose customers are not loyal with them cannot enjoy a respectable position in the market. There are some factors that affect customer loyalty. These factors are: lack of after sale services and compromise on the quality of the product.

From the data analysis we can conclude that today customers have much awareness of whether a product is giving some sort of value to them or not. To retain the customer for longer period businesses should focus on how to increase the loyalty of their customers. A customer who is satisfied with the offerings and services would be the most loyal customer of the company. Companies should create an atmosphere where if customer shifts to the products of other company he/she should not feel satisfaction as before; thus returns back to the product which he/she used initially. Trustworthiness of the firm also plays important role in building loyalty towards products / services provided. Business which gives importance to relationships with customers always enjoys long term customer retention. Image of a particular firm in the market also plays significant role in promoting customer loyalty.

This study concludes that if a business wants to enjoy good profits globally in general and in Pakistan in particular, it should work hard to increase customer loyalty through customer satisfaction, customer relationship, trustworthiness and better image in the market place. It will help the business to increase customer retention and decrease the customer defection.

RECOMMENDATIONS AND IMPLICATIONS

After sale services and warranties affect the purchasing decisions of the customers. Therefore companies should account for the importance of after sale services and warranties if they want their customers to be loyal with them. Special discounts on special events give extra value to the customers. So the company should make such arrangements that would give extra value to the customers. This would make the customer loyal with the company.

In order to make the customer loyal, the businesses should adopt the strategy of 'customer is always right'. This attitude will tell the customer that he and his suggestions have valuable importance for the company. Quality of the product is the most important factor in increasing customer loyalty. Quality seeking customers are more profitable for the business in the long run. So the company should be focused on the quality of the product in order to sustain the loyalty of their quality seeking customers. Customer seeks respected attitude from the company. A company should give respect to each and every customer whether he/she is new or old. A humble and respected attitude towards customer builds the image of the company in return.

Probability of customers to switch to other products always exists; which leads to termination of relationship and loss of income, profit and growth. Results of this study

suggest that organizations should always remain alert to take appropriate measures to enhance customer satisfaction and relationship and product image and trustworthiness. Results of this study show highest correlation of customer loyalty with customer relationship and satisfaction. Some previous studies e.g. Chakravarty et al. (2004) and Hoq et al. (2010) also suggest that poor customer relationship and satisfaction leads to decline in customer loyalty. Therefore organizations operating in Pakistan should give prime focus to these two elements to earn long-term loyalty of their customers.

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