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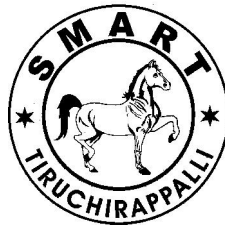
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RELATIVE STRENGTH OF FACTORS INFLUENCING CUSTOMER LOYALTY IN THE AUTOMOBILE SERVICE INDUSTRY : A STUDY

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Abstract

Contemporary service marketing literature has focused a great deal on the importance of Service Quality. The SERVQUAL Model has been widely used to measure this construct. The SERVQUAL Model is a measure of the quality of the process, personnel and physical evidence of services. The gap in service literature seems to be in examining the relative effectiveness of the other significant construct- Customer Satisfaction on Customer Loyalty. While Service Quality is a laudable goal, it must be seen as an input to the end result, which is Customer Loyalty. Customer Loyalty is defined as the customer's willingness to patronize the service for extended periods, recommend the service to others, continue to patronize it even if there is a marginal increase in price and pay a premium over competing offerings. If there is another more effective way to achieve Customer Loyalty, that should certainly be examined. The other way could be Customer Satisfaction, defined as the outcome of service and the perceived fairness of pricing. The experimental study indicates that the correlation between Customer Satisfaction and Customer Loyalty, is greater than the correlation between Service Quality and Customer Loyalty. This finding could lead to an approach to managing services which is different from the one advocated in much of contemporary service literature.

Key Words : *Service Quality, Customer Satisfaction, Customer Loyalty*

JEL CODE: *M1, M3*

1. Introduction

Customer Loyalty has long been established as one of the most critical factors contributing to long term profitability of a company. For most companies, customer loyalty is emerging as the most important goal. Retaining a customer is much more economical than acquiring a new customer. An existing customer is more economical to serve than a new customer and less sensitive to price increases or is at least less likely to negotiate for price reduction. (Patterson & Spreng 1997).

There is clearly a need to understand what can be done to improve customer loyalty. One school of service researchers has held that the key to customer loyalty is cost reduction and service quality (T.Velnamby & S.Sivhesan 2012), (Berry et al. 1988), (Parasuraman, Berry, et al. 1991) and developed a model for measuring Service Quality. The instrument was called SERVQUAL, a multiple item scale designed to measure Service Quality along five dimensions- Reliability, Responsiveness, Assurance, Empathy and Tangibles. The terms are described as follows:

1. Reliability: The ability to perform a set of functions dependably and accurately.
2. Responsiveness: The ability to provide service promptly and as per customer's requirement.
3. Assurance: The ability of service personnel to inspire confidence in the customer, by the knowledge and courtesy of service employees.
4. Empathy: The ability of service personnel to inspire confidence in the customer, by the knowledge and courtesy of service employees.
5. Tangibles: The physical appearance of facilities, equipment, personnel as well as uniforms, signage and promotional materials.

Each of the above service quality dimensions can be incorporated in an organization's functioning but there is a significant cost involved by way of acquiring and retaining the personnel with the right competencies and values (**K.Mangayarkarasi & M.Jayakumar 2012**), providing training in customer facing roles and in maintaining their commitment levels and motivation to encourage them to focus on immediate customer needs (**B.Saranya & K.M.Chinnadorai 2014**).

In the new climate of accountability for marketing related expenditure, it is important to know the effect of the measures to improve Service Quality.

Service Quality, as the dimensions indicate, is essentially a measure of process and personnel quality of services. This study aims to examine the impact of service quality and customer satisfaction on customer loyalty. Customer Satisfaction is defined differently across industries (**Christopher 2013**). In this study, it is defined as a measure of outcome quality and fairness of prices charged for services.

The outcome quality of services is measured based on the quality of work done and timeliness of delivery. The price perception is measured by whether the price was

satisfactorily explained to the customer and whether the price charged was found to be reasonable.

2. Need of the Study

Customer Loyalty is defined as the customer's willingness to continue to patronize the firm's services, to recommend the company to others, the willingness to continue to patronize the company's services even if the prices are increased slightly, and the customer's willingness to pay a premium over prices charged by competitors (**Basu & Dick 1994**).

Service organizations need to know, with a reasonable degree of certainty, in which area efforts should be concentrated in order to improve customer loyalty. It is necessary to understand the effect of process and personnel quality of services as measured by SERVQUAL and Customer Satisfaction as measured by outcome quality and perceptions of price fairness on Customer Loyalty.

3. Statement of the Problem

Passenger car maintenance service centers need to examine ways by which customer loyalty can be improved because a small increase in customer loyalty can lead to a disproportionately high impact on profitability. (**Reichheld 1996**).

Customer Loyalty is defined as

1. Customer Preference Loyalty: The willingness to patronize the service for extended periods and recommend it to others
2. Customer Price Tolerance Loyalty: The willingness to pay a price premium and continue to patronize the service even if prices are increased somewhat.

Every approach to improving Customer Loyalty calls for significant resource commitments on the part of the service provider. In this study, two approaches were examined. The Service Quality Approach, which seeks to improve Service Quality, defined as Reliability,

Responsiveness, Empathy, Assurance and Tangibles. The other approach is Customer Satisfaction, defined as Outcome Quality, Outcome Timeliness, Price Fairness and Price Reasonableness. The problem can therefore be stated as follows:

1. To understand the relationship between Service Quality and Customer Loyalty of Passenger Car Maintenance Centres.
2. To understand the relationship between Customer Satisfaction and Customer Loyalty of Passenger Car Maintenance Centres.

4. Objectives of the Study

An understanding of the relationships mentioned earlier, would provide a basis for making resource commitments in order to improve customer loyalty. The results would indicate whether management must focus on process and personnel quality or outcome quality, outcome timeliness, price fairness and price reasonableness.

The objectives of the study are as follows:

1. To study the correlation between Service Quality and Customer Loyalty of Passenger Car Maintenance Centres.
2. To study the correlation between Customer Satisfaction and Customer Loyalty of Passenger Car Maintenance Centres.
3. To study the correlation between Service Quality and individual dimensions of Customer Loyalty of Passenger Car Maintenance Centres
4. To study the correlation between Customer Satisfaction and individual dimensions of Customer Loyalty of Passenger Car Maintenance Centres.

The hypotheses of the study were framed as follows:

H₀1: The correlation between Service Quality of PCMCs and Customer Loyalty of PCMCs is higher than the correlation between Customer

Satisfaction of PCMCs and Customer Loyalty of PCMCs.

H₁1: The correlation between Customer Satisfaction of PCMCs and Customer Loyalty of PCMCs is higher than the correlation between Service Quality of PCMCs and Customer Loyalty of PCMCs.

H₀2: The correlation between Service Quality of PCMCs and Customer Loyalty- Preference Dimension of PCMCs is higher than the correlation between Customer Satisfaction of PCMCs and Customer Loyalty- Preference Dimension of PCMCs.

H₁2: The correlation between Customer Satisfaction of PCMCs and Customer Loyalty-Preference Dimension of PCMCs is higher than the correlation between Service Quality of PCMCs and Customer Loyalty- Preference Dimension of PCMCs.

H₀3: The correlation between Service Quality of PCMCs and Customer Loyalty-Price Tolerance Dimension of PCMCs is higher than the correlation between Customer Satisfaction of PCMCs and Customer Loyalty-Price Tolerance Dimension of PCMCs.

H₁3: The correlation between Customer Satisfaction of PCMCs and Customer Loyalty-Price Tolerance Dimension of PCMCs is higher than the correlation between Service Quality of PCMCs and Customer Loyalty-Price Tolerance Dimension of PCMCs.

5. Literature Review

The rise of the service sector across several fields such as hospitality, telecom, travel, healthcare, tourism, media, entertainment, retail, transportation, logistics, financial services, IT services, maintenance services, education and several others has happened on such a scale that academics have not been able to keep pace with it (Berry & Parasuraman 1993), (Buttle 1994), (Parasuraman, et al., 1991). Services marketing differs from product marketing

because services are produced and delivered simultaneously and are co-produced by customers. In many situations, services are provided by individuals with minimal supervision. The importance of customer satisfaction in business has been widely acknowledged but not many businesses have attempted to make customer satisfaction a strategic goal (**Jonathan et al. 1992**), (**Raithel et al. 2011**), (**Pollack 2009**). As a result, strategic planning is often seen to be focused on market development and customer acquisition and not as much on customer satisfaction. Service organizations must systematically research factors that contribute to customer satisfaction and make these factors a part of their strategic goals.

Customer Satisfaction is often equated with Service Quality (**Dahlsten 2003**), (**Seth et al. 2004**), (**Woodside et al. 1989**). This is not necessarily right because Service Quality is often internally focused – fixing what has gone wrong as opposed to creating what can be the best for customers. Customer satisfaction is externally focused and is directed at those aspects of service that result in a positive customer experience.

Customer satisfaction surveys must be combined with studies of how customer satisfaction translates into customer behaviors. They must try to gain an understanding of how satisfied are customers and how they are likely to behave if they are satisfied.

Service providers are also looking at aspects of service which may not necessarily be core to the service but become important as differentiators with competing services (**Disney 1999**). For example, in supermarkets, while assortment, price and location may be core to the service, the differentiator could be the length of queues at the checkout counters or plentiful parking facilities. Another insight concerning price is that today consumers are seeking the best value for money as opposed to the lowest price.

“Manufacturers will win and lose in the

service area of the business. We are trying to make customers aware that our dealers are competitive”-Says General Motors head of service operations. Ford Motors sends questionnaires to customers nine months after purchase to check on the service experience (**Sullivan & Anderson 1993**). Nissan offers bonuses to dealers whose customers indicate high level of customer satisfaction.

What are the important factors that lead to customer satisfaction? (**Zeithaml & Leonard L. Berry 1985**), (**Boulding et al. 1993**). This is a question that service providers must constantly examine. Sometimes service providers try to research certain aspects in depth when those aspects may not be the most critical aspects customers are seeking. Before committing efforts to research, service providers must first examine which aspects should be studied.

Service Quality is seen as a composite of “Interaction Quality”, “Physical Quality” and “Corporate Quality”. The third dimension, namely “Corporate Quality” is the rub off effect the company’s reputation has on the perception of service quality.

(**Gronroos 1988**), (**Taylor & Cronin 1992**) suggested two dimensions of Service Quality- Technical or Output Quality and Functional or Process Quality.

Customer Loyalty is composed of “Relative Attitude” and “Patronage Behaviour”. Another aspect of loyalty is “Cognitive Loyalty” which is a higher order dimension which involves a customer’s rational decision-making process.

A study conducted on car purchases through major car dealerships in Germany found that the correlation between price inconsistency causing an inequitable or unfair customer satisfaction judgments was 0.50. The correlation between expectation and satisfaction was found to be 0.27 (**Gelb et al. 2007**). This shows that price fairness has a greater effect on customer

satisfaction than closing the gap between expectation and perception. Advocates of the SERVQUAL based Service Quality Model believe that Customer Satisfaction can be enhanced by closing the gap between expectation from, and perceptions of service. It is important to note here that it is not the absolute price that leads to customer satisfaction or dissatisfaction but the perception of fairness of the price charged.

One of the questions service providers face is whether they should identify key factors that influence customer satisfaction and focus on them (Stowe 2003), (Raithel et al. 2011). The study shows that service experience involves a large number of independent transactions/tasks or customer touch points. Each of these tasks must be executed at the highest level.

One of the key assessments service providers need to make is the service levels that need to be maintained to justify a specific price point (Bernstein & Federgruen 2004), (Zeithaml 1987). Service providers must identify the core aspects of the service against which no compromise can be made irrespective of price levels charged. For other “optional” features, prices can be charged at different points.

6. Methodology

The first step of the research was to identify appropriate scales to be used to measure the constructs of Service Quality, Customer Satisfaction and Customer Loyalty.

Service Quality Scale: Measurement of service quality was done by using the SERVQUAL Scale, developed by Berry et. al. (1988). The Scale was considered appropriate because it was developed and tested on services provided by a bank, credit card service, automobile repair and maintenances and long distance telephone service. As explained previously, Service quality dimensions are Reliability, Responsiveness, Assurance, Empathy

and Tangibles. These five dimensions are measured by using twenty two items on a seven point Likert scale, ranging from Strongly Agree to Strongly Disagree.

Customer Satisfaction Scale: The customer satisfaction scale used here was developed by Walter Achiem et al. (2000). The scale measures customer satisfaction with outcomes, namely, quality of work done and timeliness of delivery.

The Scale also measures whether the invoice was appropriately explained to the customer and whether the charges were reasonable. The Scale was tested for reliability and validity and recorded a Cronbach Alpha index of 0.76.

Customer Loyalty Scale: Customer loyalty was measured by using a scale called SERVLOYAL, developed from discussion with service providers and their customers. Servloyal is conceptualized as an interaction between attitude and behaviour where behaviour is determined by the strength of the relationship between attitude and repeat patronage. The scale has two dimensions – Preference Dimension and Price Tolerance Dimension. The preference dimension measures customer’s willingness to continue to patronize the service and the customer’s willingness to recommend the service to others. The Price Tolerance Dimension is defined as willingness to pay a premium over competitor’s prices and willingness to patronize the services even if prices are increased marginally.

Three questionnaires were administered on customers of passenger car service centres of six leading automobile brands. The service centres chosen were attached to the corresponding dealerships in the City of Mumbai. The sample size was 125 respondents. The sample was drawn from students of a MBA program for working professionals and their friends/colleagues comprising of working executives in the age group of 28 to 40 years.

Only those individuals were chosen to be respondents who had a personal firsthand experience of availing of the services of passenger car service centres over a period of at least three years. All the respondents were based in the City of Mumbai and all the service centres for which responses were given, were based in the City of Mumbai. The time period during which the study was conducted, was two months. Responses were examined to identify invalid or incomplete responses. The responses were tabulated for further processing.

7. Analysis of Data

The findings were analyzed as follows:

Service Quality: Average values of responses were computed for each of the five dimensions of Service Quality. Average scores were also computed across the twenty two items used to measure the five dimensions of Service Quality (Table 1).

Customer Satisfaction: Average scores were computed across the four items used to measure Customer Satisfaction (Table 2).

Customer Loyalty: Average scores were computed for the two dimensions of Customer Loyalty – Preference Dimension and Price Tolerance Dimension (Table 3, 4 & 5).

Correlation Analysis

The one tailed Pearson Correlation was computed for the following: (Table 6, 7, 8, 9, 10 & 11).

1. Service Quality (22 statements) and Customer Loyalty - 4 statements
2. Customer Satisfaction (4 items) and Customer Loyalty (4 items)
3. Service Quality (22 statements) and Customer Loyalty – Preference Dimension (2 items)
4. Service Quality (22 statements) and Customer Loyalty – Price Tolerance Dimension (2 items)

5. Customer Satisfaction (4 items) and Customer Loyalty – Preference Dimension (2 items)

6. Customer Satisfaction (4 items) and Customer Loyalty – Price Tolerance Dimension (2 items)

The analysis of data yielded the following results:

1. Correlation between Service Quality (22 items) and Customer Loyalty (4 items) was found to be 0.609. The correlation is significant at the 0.01 level (1 Tailed)
2. The Correlation between Customer Satisfaction (4 items) and Customer Loyalty (4 items) was found to be 0.673. It was significant at the 0.01 level (1 tailed)
3. Correlation between Service Quality and Customer Loyalty – Preference Dimension was found to be 0.584 and the Correlation was significant at the 0.01 level (1 tailed).
4. Correlation between Service Quality and Customer Loyalty – Price Tolerance Dimension was 0.532 and it was significant at the 0.01 level.
5. Correlation between Customer Satisfaction and Customer Loyalty – Preference Dimension was found to be 0.690 and the Correlation was significant at the 0.01 level (1 tailed).
6. Correlation between Customer Satisfaction and Customer Loyalty – Price Tolerance Dimension was 0.651 and it was significant at the 0.01 level.

8. Findings and Suggestions

The results indicate that

1. The correlation between Customer Satisfaction and Customer Loyalty (0.673) was higher than the Correlation between Service Quality and Customer Loyalty (0.609).
2. The correlation between Customer Satisfaction and Customer Loyalty-Preference Dimension (0.690) was higher

than the correlation between Service Quality and Customer Loyalty- Preference Dimension (0.584).

3. The correlation between Customer Satisfaction and Customer Loyalty-Price Tolerance Dimension (0.651) was higher than the correlation between Service Quality and Customer Loyalty-Price Tolerance Dimension (0.532).

Hence all three Null Hypotheses are rejected. It is, therefore, suggested that Passenger Car Maintenance Centres could improve their customer loyalty on both dimensions of Preference as well as Price Tolerance. If they improve their Service Quality, Customer Satisfaction will increase. Moreover, the importance of Customer Satisfaction appears to be relatively higher than Service Quality.

However, a strong and positive relationship between Service Quality and Customer Loyalty as well as between Customer Satisfaction and Customer Loyalty at a 99% confidence level, was found.

9. Conclusion

The SERVQUAL Scale was used to measure service quality with a great deal of success. Businesses need to constantly upgrade their service quality and measure it in order to maintain their competitive position. However, businesses need to realize that improving service quality can be a necessary but not a sufficient condition for achieving high levels of customer loyalty.

The more effective driver of customer loyalty is Customer Satisfaction. This means that service providers need to monitor the performance of the vehicle in the event of a repeat of occurrence of a problem which has been attended to previously. The provider needs to establish organizational processes which ensure that any repetition of a service requirement is escalated to an appropriate level and attended to with the necessary rigour.

The study reveals high degree of price sensitivity. Hence it is necessary to communicate fairness in the invoicing process. In case of passenger car maintenance, a large part of the cost is made up of spare parts used. The prices of spares are determined by the automobile company. Customers, therefore, need to be sensitized to the fact so that they understand that the service provider is not responsible for that part of the cost. The service advisors should be careful to explain to customers why certain jobs had to be performed and the consequences of not performing those jobs. If greater attention is paid to Customer Satisfaction aspects, Customer loyalty is likely to increase which in turn will have a major impact on the profitability of the service provider.

10. Limitations

The study was conducted in a single location, namely, the City of Mumbai. The profiles of the respondents were somewhat identical and did not represent a wide cross section of society. Although all major automobile brands were covered, the number of service centres covered was not uniform and could be potentially a cause of bias. The model was applied to cars in the middle and lower price ranges and did not include premium brands and models where the service levels and also customer expectations are likely to be substantially higher.

11. Scope for Further Research

The research can be extended to a larger sample of dealerships and across more cities and towns. The findings of the research can be the subject of in-depth research which could be conducted using focus groups, customer panels and ethnographic studies. Also the perceptions of the service provider organization can be researched to understand the issues involved in enhancing service quality and customer satisfaction levels. A survey of service providers could also reveal other factors that could contribute to customer satisfaction and service quality.

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Table 1: Service Quality Assessment Frequency Distribution

Value	Frequency	Percentage
1	0	0
2	1	0
3	22	4
4	74	14
5	238	46
6	165	32
7	10	2

Source: Summary of Primary Data

Table 2: Customer Satisfaction Assessment Frequency Distribution

Value	Frequency	Percentage
1	0	0
2	8	2
3	22	4
4	86	17
5	180	35
6	188	37
7	26	5

Source: Summary of Primary Data

Table 3: Customer Loyalty Assessment Frequency Distribution

Value	Frequency	Percentage
1	0	0
2	39	8
3	68	13
4	90	18
5	117	23
6	165	32
7	31	6

Source: Summary of Primary Data

Table 4: Customer Preference Loyalty Assessment Frequency Distribution

Value	Frequency	Percentage
1	0	0
2	29	6
3	31	6
4	59	12
5	110	21
6	224	44
7	57	11

Source: Summary of Primary Data

Table 5: Customer Price Tolerance Loyalty Assessment Frequency Distribution

Value	Frequency	Percentage
1	20	4
2	65	13
3	83	16
4	77	15
5	107	21
6	135	26
7	23	4

Source: Summary of Primary Data

Table 6: Correlation between Service Quality and Customer Loyalty

		SQ Average 22 statements	CL Average 4 statements
SQ Average 22 statements	Pearson Correlation	1	0.609**
	Sig. (1-tailed)		0.000
	N	510	510
CL Average 4 statements	Pearson Correlation	0.609**	1
	Sig. (1-tailed)	0.000	
	N	510	510

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Analysis of Primary Data using SPSS

Table 7: Correlation between Customer Satisfaction and Customer Loyalty

		CS Average 4 Statements	CL Average 4 statements
CS Average 4 Statements	Pearson Correlation	1	0.673**
	Sig. (1-tailed)		0.000
	N	510	510
CL Average 4 statements	Pearson Correlation	0.673**	1
	Sig. (1-tailed)	0.000	
	N	510	510

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Analysis of Primary Data using SPSS

Table 8: Correlation between Service Quality and Customer Loyalty- Preference Dimension

		SQ Average 22 statements	CL Preference Average 2 statements
SQ Average 22 statements	Pearson Correlation	1	0.584**
	Sig. (1-tailed)		0.000
	N	510	510
CL Preference Average 2 statements	Pearson Correlation	0.584**	1
	Sig. (1-tailed)	0.000	
	N	510	510

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Analysis of Primary Data using SPSS

Table 9: Correlation between Service Quality and Customer Loyalty- Price Tolerance Dimension

		SQ Average 22 statements	CL Price Tolerance Avg. 2 statements
SQ Average 22 statements	Pearson Correlation	1	0.532**
	Sig. (1-tailed)		0.000
	N	510	510
CL Price Tolerance Avg. 2 statements	Pearson Correlation	0.532**	1
	Sig. (1-tailed)	0.000	
	N	510	510

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Analysis of Primary Data using SPSS

Table 10: Correlation between Customer Satisfaction and Customer Loyalty- Preference Dimension

		CS Average 4 Statements	CLP2stmavg
CS Average 4 Statements	Pearson Correlation	1	0.690**
	Sig. (1-tailed)		0.000
	N	510	510
CLP 2 Stm avg	Pearson Correlation	0.690**	1
	Sig. (1-tailed)	0.000	
	N	510	510

** . Correlation is significant at the 0.01 level (1-tailed).

Source : Analysis of Primary Data using SPSS

Table 11: Correlation between Customer Satisfaction and Customer Loyalty- Price Tolerance Dimension

		CS Average 4 Statements	CLPT2stmavg
CS Average 4 Statements	Pearson Correlation	1	0.651**
	Sig. (1-tailed)		0.000
	N	510	507
CLPT 2 Statements avg	Pearson Correlation	0.651**	1
	Sig. (1-tailed)	0.000	
	N	507	507

** . Correlation is significant at the 0.01 level (1-tailed).

Source: Analysis of Primary Data using SPSS

Table 12: Co-efficient of Correlation between constructs studied

Service Quality and Customer Loyalty	0.609	Customer Satisfaction and Customer Loyalty	0.673
Service Quality and Customer Loyalty- Pref. Dimension	0.584	Customer Satisfaction and Customer Loyalty- Pref. Dim.	0.690
Service Quality and Customer Loyalty- PT Dimension	0.532	Customer Satisfaction and Customer Loyalty- PT Dimension	0.651

Source: Tabulation of results of analysis of primary data