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Service Tangibility and Customer Loyalty: Is there a relationship?

Master's thesis within Business Administration

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Jönköping May 2005



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Abstract

Background and problem: The service industry is steadily growing and is today contributing more to overall growth in Sweden than the manufacturing industry. Services are differentiated through being heterogenic, perishable, inseparable and intangible. As a result, they are more difficult for customers to assess on beforehand. This also affects marketing of services. A study suggested that the relationship between intangibility and loyalty would be interesting to investigate because to make services more tangible, loyalty may also be affected.

Purpose: The purpose of this thesis is to investigate if there exist a relationship between service tangibility and customer loyalty.

Frame of reference: In the frame of reference, theory concerning service characteristics, tangibility of services, service quality and loyalty will be presented.

Method: To fulfil our purpose, we have chosen a quantitative method. A questionnaire was carried out in Jönköping where 240 respondents participated. The results was then calculated employing the statistical program SPSS.

Conclusion: Our results show that there exist a significant relationship between service tangibility and loyalty in three of the six investigated service industries: dentistry, travel agency and restaurants. The relationships are negative meaning but deciding causality could not be done. In the others, hairdresser, banks and the Swedish employment agency, no significant relationship was found.

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1 Introduction

The introduction chapter describes the chosen problem, background and purpose of this thesis. Furthermore, a disposition of the study is presented.

1.1 Background

The importance of services has increased during the last decades in developed countries. Many factors underlie the change from a dominating manufacturing sector towards a society where services dominate. Globalisation, changing patterns in governmental regulation, privatisation, technological innovations and growth of franchising have all contributed to this dynamic movement (Lovelock, 1991).

In 2003, the Swedish service industry contributed more to growth than the manufacturing industry. This was, according to NUTEK's (The Swedish business development agency) general director, "*a paradigmatic shift and one of the largest revolutions in the Swedish economic history*" (cited in Petersen, 2005, p. 2). The Swedish service sector has indeed expanded rapidly in recent decades. Currently, 75 % of all employment is within this sector. Moreover, if adding services that are parts of the manufacturing and constructing sectors, service employees account for around 85 % of total employment in Sweden (Sweden.se, 2005). These figures also show the importance of the steadily growing field of service marketing. In addition, theorists mean that due to services' specific characteristics, it is necessary to use service oriented marketing approaches instead of creating and applying marketing theories that are based on tangible products (e.g. Grönroos, 2000; Rushton & Carson, 1989). The most frequently cited and widely used set of service characteristics are heterogeneity, perishability, inseparability and intangibility (e.g. Grönroos, 2000; Kotler, Armstrong, Saunders & Wong, 2002; Rushton & Carson, 1989).

It is argued by theorists that intangibility is the most critical and unique character for a service, because intangibility is affecting customers' as well as management's assessment of a service (e.g. Harte & Dale, 1995; Johns, 1999; McDougall & Snetsinger, 1990; Rushton & Carson, 1989; Santos, 2002). McDougall and Snetsinger (1990) make a clear distinction between the concepts of tangibility and intangibility by defining tangibility as "*the degree to which a product or service can provide a clear concrete image*" (p. 27) and intangibility as "*the lack of physical evidence*" (p. 28). They mean that customers respond and translate a service's intangibility as, for example, being riskier and difficult to evaluate. In turn, this acknowledgement denotes that intangibility has a direct influence on customers. McDougall and Snetsinger (1990) also imply that management addresses intangibility through stressing tangible cues and making communications more vivid. Thus, service providers are focusing on making services more tangible to influence consumers' decision-making so that they can grasp and evaluate a service on beforehand (Johns, 1999; McDougall & Snetsinger, 1990; Rushton & Carson, 1989). The concept of tangibility in service industry could then be considered as "*fundamental to the analysis and practice of service marketing*" (McDougall & Snetsinger, 1990, p. 39). Hence, to tangibilize the intangible service is to be considered as a key to success for service providers (Reddy, Buskirk & Kaicker, 1993).

In connection to a service's intangibility, it is recommended, as a further study, to investigate in the relationship between the level of a service's degree of tangibility and loyalty (McDougall & Snetsinger, 1990). This because not only is the service industry expanding, trends also indicate that customers are becoming increasingly sophisticated,

informed and demanding. Hence, customers are looking for better value in the services and the products that they purchase (Grönroos, 2000). Due to rapid technological development, firms are enabled to create services more easily, which in turn intensify competition. In addition, borders between countries are fading because of globalisation and trade liberalisation policies, which forces service companies to compete also on the global arena. There is an increased service competition, which means that it is not enough in today's market to compete with just the core solution of a service (Grönroos, 2000). In order to become competitive, there is a need to provide a total service offering (Grönroos, 2000). Hence, a customer's selection criteria are today based on both tangible and intangible entities (Harte & Dale, 1995).

To attract and retain customers, some companies choose to invest and boast their relationship with existing customers. According to Söderlund (2003), there has been a development within marketing; instead of putting customers in focus, a service organisation is now placing loyal customers in centre of attention. The importance of customer loyalty is further emphasised by Cook (1996) who means that "*if you can't keep the customers you have, you don't deserve any new ones*" (p. xi). This is a statement that coheres with Reichheld's (1997) notion that "*mutual, earned loyalty is a powerful, business-building force*" (p. 19). Hence, creating customer value is becoming the centre of any business strategy (Reichheld, Markey & Hopton, 2000).

1.2 Problem discussion

Because competition for customers is now fiercer than before, being able to market services properly is becoming increasingly important. Theorists indicate that companies could strengthen their service offer by attempting to decrease service intangibility and thereby making it easier for customers to evaluate and examine what has been bought (e.g. Johns, 1999; McDougall & Snetsinger, 1990; Rushton & Carson, 1989). Such strategies are needed in order to survive on the market and fulfil customers' expectations of the service. In addition, a service provider should also focus on increasing customer loyalty since this will increase revenues and profitability (Heskett, Jones, Loveman, Sasser & Schlesinger, 1994). To boost loyalty and to increase a service's degree of tangibility therefore ought to occur simultaneously within a service organisation. Derived from these ongoing trends, could it be there exist a relationship between these two important aspects of service marketing? If so, to enhance loyalty, service companies must also market their services with the purpose of making them more tangible. Could it be that increasing the degree of tangibility of a service will enhance customer loyalty or vice versa?

1.3 Purpose

The purpose of this thesis is to investigate if there exist a relationship between service tangibility and customer loyalty.

1.4 Previous Research

Derived from the problem discussion above, it is valid to claim that service marketing, with special focus on service intangibility, is currently being elaborated upon. In particular, three researchers have contributed to service tangibility and customer loyalty. Since this thesis is linking and making use of their developed surveys, the researchers and their studies will be

introduced below. The actual usage of the surveys will be further commented upon in section 3.2.2.

Two of the theorists that have made an input to the field of service marketing are Gordon H.G. McDougall, a Professor of Marketing in the School of Business and Economics at Wilfrid Laurier University in Canada and Douglas W. Snetsinger, an Assistant Professor of Marketing in Faculty of Management at University of Toronto (McDougall & Snetsinger, 1990). Their previous works have appeared in well-known academic journals such as *Journal of Marketing*, *Journal of Consumer Behaviour* and *Journal of Marketing Research* (McDougall & Snetsinger, 1990).

McDougall and Snetsinger (1990) made a study, which built on previous marketing prescriptions on managing service intangibility. This study made two distinctive contributions to service tangibility. First, it developed a system to measure the rate of tangibility. Second, it extended the value of tangibility to a more competitive level. By introducing a measurement system, McDougall and Snetsinger (1990) were able to place different kinds of products and services along a tangibility continuum. Their studies developed from considering only product classes to involve company level, brand level and segment level. McDougall and Snetsinger (1990) started their studies by generating a sample of items that could be used to measure tangibility. After preliminary tests, reliability of a tangibility continuum was of satisfaction and 9 statements were selected to measure tangibility. Using a quantitative method, a convenience sample, consisting of 55 respondents, was drawn to test the reliability of this proposed scale. Each of the respondents were asked to evaluate nine products and services at product class level. In accordance with what was expected, most services were rated toward the intangible end. These statements were later scaled down from 9 to 5, to simplify the continuum scale. Further, a second empirical study was made including 122 respondents employing a convenience sample. The new results proved that the reduced amount of statements also provided reliability and was consistent with previous results. It is suggested as further research, to investigate if there exist a relationship between service tangibility and loyalty.

In order to continue McDougall's and Snetsinger's (1990) study, this thesis also makes use of a survey that is created to measure customer loyalty, which was developed by Fred Reichheld. He is the founder of Bain & Company's Loyalty Practice, which helps clients to improve customer, employee, partner, and investor loyalty. His pioneer work has quantified the linkage between loyalty, profits, and growth. Reichheld is well known within his field of research. In 2003, the Consulting Magazine recognized him as one of the world's top 25 consultants. Reichheld created a tool to monitor and diagnose organisational relationships, which is called the Loyalty Acid Test Survey. This survey, using a quantitative method, has been administered to a large sample of customers and employees from loyalty-leading companies such as Vanguard, Harley-Davidson and SAS. (Bain & Company, 2005)

1.5 Definition of a Service Firm

Johns (1999) means that words are a medium in which concepts form and develop. Relating this notion to services, Johns (1999) states that "*the extensive use of the word 'service' demonstrates the importance of this elusive concept and suggests a rapid rate of evolution and development?*" (p. 959). Thus, it means that it is hard to provide a general description that coheres with all existing perceptions. However, it is required to provide a broad definition so that the purpose of the thesis can be fully understood. Within the theoretical framework, there will

be a more extensive discussion, which will touch upon different kinds of services and their characteristics.

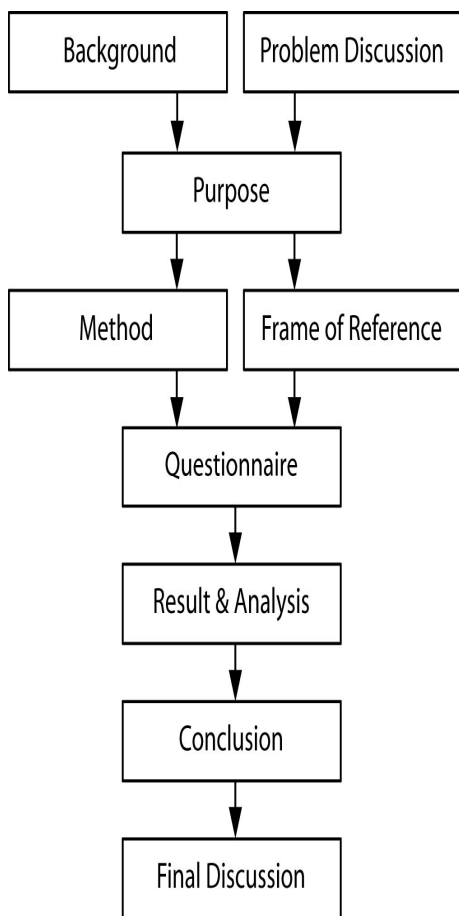
As will be further explained in section 2.2 when discussing service characteristics, products can have intangible attributes and service output can have tangible components, which makes it even more difficult to distinguish and define a service and a service industry. Therefore, to separate “service” and “manufacturing” industries it is necessary to look at the service and manufacturing ideas. The “service” idea focuses upon customer relationships and aims to meet markets through actions. The “manufacturing” idea focuses upon inputs and aims to meet markets through a tangible output (Johns, 1999).

Johns (1999) means that the word service is often used to denote an industrial sector that “*does things for you*” (p. 959). Hence, when further referring to service industries we will group service organisations that provide similar core services (see further chapter 2). For example, banks are in a service industry that provides financial services. According to Grönroos (1998), service firms do not have “*products in the form of preproduced solutions to customers’ problems; they have processes as solutions to such problems*” (p. 330). Service firm, service organisation, company and service provider will be used interchangeably.

1.6 Delimitations

Due to the number and diversity of service providers present in the service industry as a whole, we have chosen to limit our study to six service industries: restaurants, hairdressers, travel agencies, dentistry, banks and the Swedish employment agency. The reason for selecting these specific industries will be discussed in section 3.3.

1.7 Disposition



Above, the background and problem discussion have lead to the purpose of this thesis. In the following chapter, the theoretical framework for the thesis will be introduced. Within this chapter, services' distinct characteristics will be discussed with focus on their intangible feature. This will lead to a continuum that displays services' degree of tangibility. Different theorists' views of tangibility will also be presented. Further, service quality and its links to customer satisfaction and loyalty are being elaborated upon.

In chapter three, our choice of method is presented. Positivism and interpretivism are described in order to establish and motivate our choice of method. Reliability and related terms are linked to the study in order to prove quality of derived results. The use and formation of questionnaires will also be described and evaluated.

The results derived from questionnaires are displayed in chapter four. They are directly applied to the theoretical framework to form the analysis of the study. Finally, conclusions will be drawn and presented, which in turn will be followed by a final discussion that contains suggestions to further research on the subject.

Figure 1-1 Disposition.

2 Frame of Reference

The following chapter will present the frame of reference for this thesis. Firstly, by using different theorists' perspectives, a service is being defined in order to deepen the understanding for the subject and to display the complexity of services. To prove the variety of services, classification and characteristics are presented. Thereafter, services' intangible and tangible features will be discussed, since such a discussion leads to an understanding of the range of services within the service industry. There are certain links between tangibility, service quality, satisfaction and loyalty. Therefore, all these aspects are interesting with reference to the purpose of this thesis.

2.1 Service Definition

Marketing methods have historically been directed towards how tangible products best should be promoted towards the final customers. The reason for why services were not equally popular was that they were considered as “add-on” to the real product and thus added little value compared to tangible products (Grönroos, 2000). As the service sector has grown increasingly larger in developed countries, marketing research now includes many aspects of how services best should be marketed related to subjects such as service quality, experiences, design and delivery (Brown, Fisk & Bitner, 1994). Before moving deeper into service marketing research, it is proper to start with defining what a service is and how it differs from a tangible good. A service can be defined as “*any activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything*” (Kotler et al., 2002, p. 832). However, even though services are claimed to be intangible, there are different degrees of how intangible a service is. Grönroos (2000) adds that a service is “*a process consisting of a series of more or less intangible activities that [...] take place in interactions between customer and service employees*” (p. 46). Together these two service definitions provide a fuller view than each does separately. Hence, both Kotler et al.'s (2002) and Grönroos's (2000) views will be employed when further referring to services.

It is suggested that we can examine goods and services using the tangibility continuum where each good or service is placed along a horizontal axis based on intangible/tangible dominant aspects (McDougall & Snetsinger, 1990; Kotler et al., 2002). In between these extremes are services and products that consist of both tangibles as well as intangibles. The tangibility continuum will be further described in section 2.2.

Grönroos (2000) argues that the way service is defined is outdated in that services are viewed as something provided by a certain organisation. If looking at service in another way than the definition by Kotler et al. (2002) above it is arguable that customers do not buy goods or services at all but “*offerings consisting of goods, services, information, personal attention and other components*” (Grönroos, 2000, p. 3). Grönroos (2000) means that by adapting this definition, a service can be considered as something added to these offerings that creates value for costumers. Regardless of what a firm produces, it is crucial to make sure that customers engage in value-creating processes after they have purchased the sought-after solution. Before value is created, the service offer has not provided anything to anyone, thus, value cannot be created until after it is purchased.

2.1.1 Service Classification

As presented above, there are different ways to define what a service is. Grönroos (2000) distinguishes between three groups of services; core services, facilitating services and

supporting services. A core service is the reason for why a firm exists on the market. Nevertheless, simply offer a core service is not enough, further services have to be added referred to as facilitating services since they facilitate the use of the core service. If these are not present, core service cannot function properly. Lastly, supporting services are also additional but fulfil another purpose compared to facilitating services. They intend to increase the value of the service and, hence, make it more competitive.

Grönroos's (2000) way of classifying services, are derived from a firm's point-of-view. Taking the other perspective, from a customer's standpoint, a service can be classified differently. Stell and Donoho (1996) divide services into four different categories; convenience services, preference services, shopping services and speciality services. Convenience services are inexpensive, purchased frequently and with little involvement. Preference services differ from convenience service because they have been more differentiated through marketing activities. The two last categories engage customers in higher involvement when purchasing services (Stell & Donoho, 1996).

By displaying these different service classifications, it is clearer shown that the word service is diverse. Moreover, as seen above, services can be defined differently depending on what kind of service implied and which perspective taken (Grönroos, 2000; Stell & Donoho, 1996). Without going any further into these different kinds of classifications and perspectives, it is an acknowledgement to be aware of. Researchers have also attempted to distinguish services from products by bringing forth service characteristics.

2.1.2 Service Characteristics

Many characteristics of services have been discussed in the literature. These discussions have mainly evolved from comparison with tangible goods. Stell and Donoho (1996) argue that as many as 19 attributes have been used when attempting to classify services. The most frequently discussed are service intangibility, heterogeneity, perishability and inseparability (e.g. Grönroos, 1998; Kotler et al., 2002; Rushton & Carson, 1989). Intangibility means that services can neither be touched nor evaluated before consumption as with tangible goods. Moreover, depending on who consumes the service, it will be perceived and experienced differently. This leads to the characteristics of heterogeneity. A service perishes after consumption and it can neither be produced nor stored before consumption, hence, it is being consumed and produced simultaneously (Rushton & Carson, 1989). This leads to the problem of unused capacity and the reverse problem if demand exceeds supply when no inventories can be stored as a backup (Lovelock, 1991). Transferring of ownership cannot take place when purchasing a service because of its intangibility aspect (Grönroos, 2000). Intangibility and heterogeneity are not just specific for services while perishability and inseparability derives from the most important characteristic of services; the process nature (Grönroos, 1998).

Lovelock (1991) adds some further characteristics of services: personnel, time and distribution channels. He says that people are a part of the product in that they do not simply come in contact with the service personnel but also with other customers. Time also play a crucial role in service delivery because customers have to be present for the service to be delivered, thus, waiting times cannot be too long. Furthermore, services employ different distribution channels compared with physical goods. Because of the intangible characteristic, electronic channels are used largely it can also be that service factory, retail outlet and point of consumption are bundled together into one channel. (Lovelock, 1991)

Grönroos (1998, 2000) argues that services are produced in processes consisting of series of activities where customers interact with production resources, which lead to a solution to the customer's problem. As a result, consumption of services is a process rather than outcome consumption since consuming the service does not involve any direct outcome in the same way as when a more tangible good is purchased. Conversely, consuming services is a process of producing the service and the customer act as a participant. Adapting this view of services also leads to other characteristics of the marketing mix of services. Rust, Zahorik and Keiningham (1996) state that the marketing mix for services adds three P's to the existing 4 (product, price, place and promotion); people, physical evidence and process. People refer to the inseparability aspect in that personal interaction has to take place between the customer and the employee. Physical evidence addresses the tangible features of services such as physical surroundings and other visible cues in the service environment.

Service intangibility is the characteristic that has been most widely discussed (e.g. Harte & Dale, 1995; Johns, 1999; McDougall & Snetsinger, 1990; Rushton & Carson, 1989; Santos, 2002). Grönroos (1998) argues that even tangible products can have certain intangibility features connected to them, hence, it is said that intangibility is not exclusively a service characteristic. The difference is that products can have more or less tangible features attached to them and that the proportion of intangibles versus tangibles differs (Rushton & Carson, 1989). Despite this, intangibility is connected to how pure goods and pure services differ from each other.

Intangibility leads to problems when communicating to potential customers what the service can offer. Thus, by focusing on marketing tangible cues to customers, the insecurity connected to intangibility can be reduced (Rust et al., 1996). Intangibility differs a lot between different services and therefore this problem poses greater challenges for some but less for others. Santos (2002) argues that few products are completely tangible or intangible. Thus, a distinction between manufactured products and services becomes less clear. Therefore, the statement from Payne (1993) that a service has a *tendency* towards intangibility, heterogeneity, inseparability and perishability. From similar ideas, the "tangibility" continuum was developed, which will be further described in the next part.

2.2 The Tangibility Continuum

As mentioned above, there is a belief that products as well as services have certain elements of intangibility and tangibility (Grönroos, 1998; Levitt, 1981; Santos, 2002). Levitt (1981) adds that having a higher proportion of tangibles will reduce risk when trying to communicate the service towards prospective customers. Harte and Dale (1995) agree with this notion and mean that tangibility and intangibility features are weighted differently, depending on what kind of service or product that is concerned. Hence, viewing a service as purely intangible and a product as tangible is not a sufficient distinction. Shostack (cited in Santos, 2002) developed a tangibility continuum (see figure 2-1) based on this idea. It was formed to be able to classify various industries from tangible dominant to intangible dominant. It also displays that the service industry itself is not a homogenous group, it does exist a variation in their intangible features (Johns, 1999).

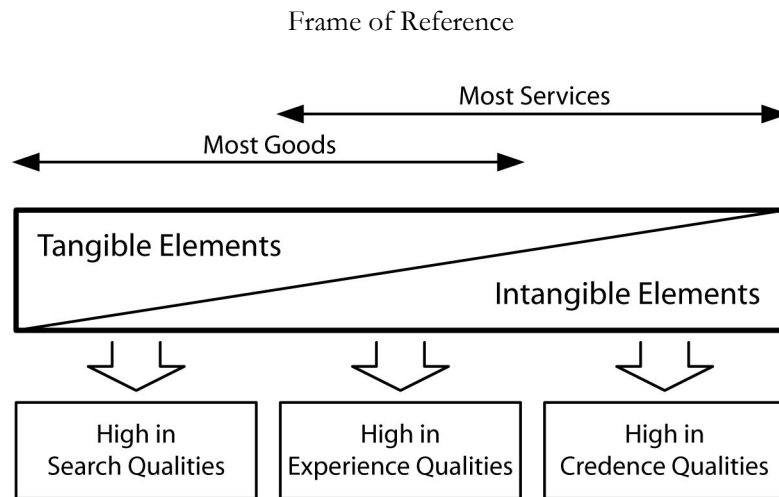


Figure 2-1 The tangibility continuum and customer evaluation (Rushton & Carson, 1989).

In addition to the continuum thoughts, theorists mean that services and products each contain a certain number of search, experience and credence qualities (see figure 2-1), which in turn contribute to the degree of tangibility (e.g. McDougall & Snetsinger, 1990; Moorthia, 2002; Zeithaml, 1991). Hence, these qualities indicate that it is not possible to make a complete separation of products and services.

Search qualities refer to a service's ability to be seen, touched and tasted. For this reason, these are attributes, which can be determined before the actual purchase (Zeithaml, 1991). Experience qualities are more intangible than search qualities. Because of the higher level of intangibility, services or goods with experience qualities cannot be assessed until they have been purchased. Credence qualities consist of the most intangible features, which might not be evaluated even after the actual purchase. Thus, what might differentiate a service from a tangible product in this case is that a service contains less search qualities (Moorthia, 2002).

2.3 Tangibility of Services

According to McDougall and Snetsinger (1990), tangibility is defined as “*the degree to which a product or service can provide a clear concrete image*” (p. 27). They investigate in the definition further and state that tangibility has both a physical and a mental component. Early discussions were more concerned with the physical component because theorists were more interested in a customer's examination and evaluation before purchasing a service. The mental component refers to customers' ability to grasp mentally what they will receive if they purchase the service. In turn, tangibility within the continuum (see figure 2-1), is referring to what extent a service can provide a clear and concrete image. (McDougall & Snetsinger, 1990)

It is also claimed that there is a need to make a distinction between the terms tangibles and tangibility. Tangibles are defined as “*the physical evidence of the service*” (McDougall & Snetsinger, 1990, p. 31) and tangibility features focus more on the ability to visualise the service. In addition to McDougall's and Snetsinger's (1990) tangible definition, Rushton and Carson (1989) mean that there are two kinds of tangibles; the tangible surrogate features and the tangible benefits. The tangible surrogate is the surrounding of the intangible service and the tangible benefits could be seen as the physical result, which the customer receives from the service performance. However, derived from Rushton's and Carson's (1989) research, this division is not clear for practitioners in the service-marketing field.

The above-mentioned tangibility definition will be used within this thesis. However, using this definition does not mean that services' tangibles will be neglected. Because it is claimed that tangibles have an influence on customers' ability to create a mental picture of a service on beforehand. McDougall and Snetsinger (1990) mean that tangibles contribute in part to the overall tangibility of the service. Consequently, they are influencing customers' evaluation of a service prior purchase.

There is a general notion that key to success is to make the service intangibility more tangible (Reddy et al., 1993). By knowing the degree of a service's tangibility, firms can become aware of their competitive position in the market. Derived from this understanding, the company can focus more thoroughly on strengthening the service offer (McDougall & Snetsinger, 1990).

By making the service more tangible, the customer is able to make an evaluation of it before and after the purchase (Rushton & Carson, 1989; McDougall & Snetsinger, 1990). Hence, there seems to be a general understanding that customers focus their assessment of a service upon a service's different kinds of tangible features. This coheres with the statement that "*the tangible aspects act as signifiers of service quality and that intangible service aspects can be assessed through them*" (Johns, 1999, p. 962).

2.4 Service Quality

Before making a service more tangible, an organisation should identify customer expectations regarding desired service quality (Reddy et al., 1993). This because there is a certain trade-off between an ideal service level and costs involved in providing such levels of service. On the one hand, to give exemplary treatment to a patient in a hospital can be too costly and impossible due to lack of skilled personnel. On the other hand, offering basic services without any additional extras might perpetuate a negative image of a company, which in turn could lead to market failure (Reddy et al., 1993). Therefore, being aware of what customers expect give organisations opportunities to invest the right amount of resources to provide services of good quality.

The relationship between service value and tangibility is found in studies by Santos (2002). Derived from her empirical findings, it was concluded that the degree of tangibility or intangibility does have a significant effect on consumers' perception of service quality. The intention with Santos's (2002) research was to test the hypothesis that there exist a positive relationship between tangibility and perceived value. This hypothesis was put forward because tangibles can be seen as "*a direct exposition and explicit presentation of service quality*" (Santos, 2002, p. 295). By making reliable questionnaires concerning service quality and investigations in managerial implications through qualitative interviews, Santos (2002) came to accept the hypothesis.

Santos (2002) further argues that consumers might actually recognise the tangible aspect of the service as more important than the actual consumed service. The researcher supports this notion by presenting a restaurant example, where tangibles (such as food) might be considered more important than the actual intangible service. It is also stated that the more tangible components a service has, the more do the tangibles contribute to service quality (Santos, 2002). However, Santos (2002) also detected that the opposite is equally true, when services involve actions, which are directed towards intangible assets such as insurances, consumers might perceive value of a service as more important.

2.5 Service Quality Model

Service quality could be defined as “whatever the customer perceives it to be” (Grönroos, 2000, p. 63) or as “one form of value consumers receive in consumptions events” (Oliver, 1993, p. 67). Whichever definition that is preferred; the customer’s role in the quality assessment is emphasised. There are also indications that services’ characteristics (inseparability, perishability, intangibility and heterogeneity) make quality of a service unique to the customer (Grönroos, 2000). In turn, this means that all customers experience services differently and all have different expectations on services’ outcome.

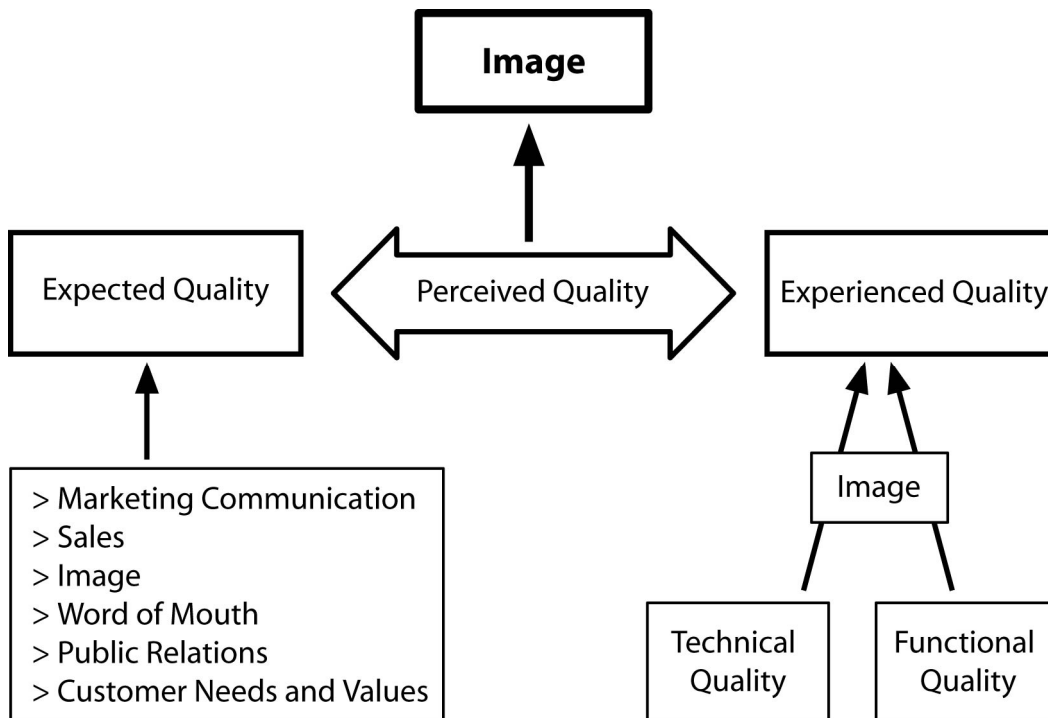


Figure 2-2 Total perceived quality (Grönroos, 2000).

The quality that the customer perceives consists of technical and functional quality (see figure 2-2). Technical quality is “what” the customer receives in the interaction with the service provider and functional quality is “how” the customer receives the service. These two dimensions are claimed to affect experienced service quality. The company’s image is acting as a filter between the two quality dimensions and the experienced quality and can therefore affect the perception of quality. Grönroos (2000) means, on the one hand, that if the company for example makes a minor mistake, can a favourable image lessen the damage. On the other hand, if an image is negative, the mistake can have a greater impact on the experienced quality than it otherwise would have. Moreover, an organisation, which is competing with a technical quality strategy, is only successful if no competitor is able to copy the same technical solution. This is difficult, since many organisations are able to produce similar kind of technical quality. Hence, an organisation must focus on how the actual service is delivered. By developing a service’s functional quality, the organisation adds some extra value to the customer, which increases its competitive edge. (Grönroos, 2000)

In addition to Grönroos’s (2000) notion of perceived service quality, Santos (2002) findings also prove that the degree of tangibility is influencing customers’ evaluation of service

quality. In turn, this would mean that by making services more tangible, service providers could make an impact on the expected or experienced service quality. For example, being aware of how technical and functional quality can appear more tangible might influence customers' service evaluation.

Grönroos's (2000) perception of service quality has been further elaborated upon by for example Bitner (1992). Bitner (1992) wishes to add "where" to the two service quality dimensions; "what" and "how". She means that the physical environment, in which the service is delivered and consumed, has an impact in customer's view of the service experience. Bitner (1992) labels this dimension as the "servicescape".

The division of experienced and expected quality indicates that if the customer has no presumptions concerning the service, technical and functional quality will form the perceived quality. However, a customer, who is being influenced by different channels on beforehand, is expecting some kind of quality. Marketing communication, sales, image, word of mouth, public relations and customer needs and values are, according to Grönroos (2000) affecting expected quality. Total perceived quality is therefore the link between experienced and expected quality (Grönroos, 2000). Grönroos (2000) means that "*the level of total perceived quality is not determined simply by the level of technical and functional quality dimensions, but rather by the gap between the expected and experienced quality*" (p. 68).

The perceived service quality model also indicates that there is a certain balance between what service the customer actually receives and what service the customer expected. So, if promising for example excellent quality through different kinds of communication channels this is what the customer is expecting. In turn, this would then mean that if the company cannot fulfil the promised level of quality, the expectation of the service is not met and the customer will perceive low quality (Grönroos, 2000). This could be linked with the so called "gap model", explored by Zeithaml, Berry and Parasuraman (1988). It shows that there is a gap between the expected and experienced service if they are not consistent. The result of this gap could be negatively confirmed quality, bad word of mouth, negative impact on corporate or local image and lost business (Grönroos, 2000). Bergman and Klefsjö (2003) think that this determination of good and bad quality is even more complex. They mean that if a customer was expecting low quality, a company that succeeds in meeting the customer's expectations would still provide low quality. However, if succeeding to fulfil customers' expectations by providing quality of satisfaction, customer loyalty can be enhanced (Heskett et al., 1994).

2.6 Customer Loyalty

A general definition of loyal customers is "*those who rebought a brand, considered only that brand, and did no brand-related information seeking*" (Oliver, 1999, p. 2). Oliver (1999) criticizes such definitions, he means that they suffer from the problem of recording what the consumer does and do not go further into the psychological meaning of loyalty, which is equally important. While referring to a widely stretched concept of loyalty, Söderlund (2003) agrees with Oliver's (1999) notion that it is not easy to define. Söderlund (2003) explores the concept of loyalty further and means that there are certain denominators of loyalty. Firstly, loyalty is derived from an actor with a will. Secondly, loyalty is assuming some kind of object that the actor directs towards. Finally, loyalty is concerned with a relationship over time. Söderlund (2003) means that this relationship is detected in two different worlds; the physical and the mental. In the physical world, an individual's behaviour in relation to the

object can be observed. In the mental world, an individual's attitudes and intentions in relation to the object are concerned.

Oliver (1999) captures in his loyalty definition, the above-mentioned reflections and perspectives of loyalty. He defines it as *“a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behaviour”* (Oliver, 1999, p. 2).

2.6.1 The Service Profit Chain

Organisations, which are acting on free markets, are encountering intense competition and demanding customers (Grönroos, 2000). To be able to survive and create a long-term growth and profit, it is acknowledged by theorists that organisations need to build and nourish mutual and earned loyalty (e.g. Grönroos, 2000; Reichheld, 1997; Reichheld et al., 2000; Söderlund, 2003).

To prove that loyalty is indeed something for organisations to invest resources in, there are certain linkages between customer satisfaction and loyalty (see figure 2-3 link 1) and between customer loyalty and profitability (see figure 2-3 link 2) that need to be investigated. Söderlund (2003) supports this notion by claiming that profitability is one of the most central reasons for why organisations focus on customer loyalty. In addition, these linkages are being identified in a so-called service-profit chain developed by Heskett et al. (1994). This chain includes many variables and linkages and stretches from internal to external conditions; from employees to customers. One of the reasons for creating the service-profit chain was to prove the importance for service-oriented organisations to put customers and employees first. Heskett et al. (1994) mean that when organisations manage to prioritize these two stakeholders, a shift will occur in the way they manage and measure success.

The service-profit chain establishes relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity. Thus, it is claimed that profit and growth are stimulated by customer loyalty, which in turn is a result of customer satisfaction. Satisfaction depends on the customer's perception of service value. Moreover, since it is employees together with customers that are producing and creating service value, their satisfaction, loyalty and productivity are also influencing the value generating process.

Within this section, more focus will be put on the external aspects of the chain; the relationships between an organisation and its customers (see figure 2-3). Therefore, the chain is not shown in total. This is done since the purpose of the thesis is partly to study customer loyalty not employee loyalty. Even though the internal employee-oriented linkages are not being further examined, it is important to be aware of their existence because they are influencing the external customer-oriented linkages (Heskett et al., 1994).



Figure 2-3 A remodelled service-profit chain (Heskett et al., 1994).

2.6.2 Customer Satisfaction and Customer Loyalty

Satisfaction is closely related to service quality. It has even been claimed that the two concepts are so entangled that there is actually no difference between them (Grönroos, 2000). Oliver (1993), contrastingly, means that in order for customers to be able to evaluate satisfaction, it has to be experienced, which distinguishes satisfaction from quality. Another factor that separates the two terms is that setting standard for satisfaction is harder compared to quality. Gustafsson, Nilsson and Johnson (2003) state that satisfaction is the customer's overall evaluation of the consumption experience. This coheres with Kotler's and Armstrong's (2004) definition of satisfaction. They propose that customer satisfaction with a purchase depends on how well the service's performance lives up to the customer's expectations. Being able to customize the service to the needs of the customer can increase satisfaction (Gustafsson et al., 2003). They imply that employee management, process orientation and customer orientation are together influencing customers' satisfaction. A manager must therefore understand customers' needs and expectations to make an impact on satisfaction.

Two distinct factors drive customer loyalty. First, there are factors that satisfy customers' needs and thereby enhance their desired relationship. Secondly, factors that limit a customer's alternatives to the chosen supplier drive customer loyalty (Söderlund, 2003). This division coheres with Butscher's (1998) statement that "*the only way to build long-term relationship is to establish real relationships based on emotions and trust, by offering uniqueness and high perceived value in your loyalty program*" (p. 4). Hence, the customers who are most satisfied are the ones who stay loyal (Grönroos, 2000; Söderlund, 2003). Moreover, if outcome of a service is more favourable than expected, satisfaction can increase (Grönroos, 2000). Linked to quality, it is necessary for a company to realise that a customer could be satisfied with low quality because this could also lead to customer loyalty. In turn, this would mean that disloyal customers are discontent with the service. However, there are cases where customers, despite dissatisfied with the supplier, stay loyal. This state of loyalty is referred to as "false loyalty" (Söderlund, 2003, p. 74) and exists due to different kinds of barriers such as budget restraints and information barriers. Thus, the connection between high satisfaction and high loyalty is questionable, since there are customers who are satisfied but yet switch between suppliers (Söderlund, 2003).

Customers that will stay loyal are those that give satisfaction top scores (Grönroos, 2000). According to Heskett et al. (1994), leading companies are currently trying to quantify customer satisfaction. An analysis, performed by a service organisation called Xerox, found that the relationship between scores and actual loyalty differed greatly depending on whether customers were very satisfied or satisfied (Heskett et al., 1994). It was further detected that customers who gave satisfaction top scores were six times more likely to repurchase (Heskett et al., 1994). Derived from this study, a graph was developed that displayed the relationship between satisfaction and loyalty. It indicated that there is a positive relationship between the two variables, which means that if satisfaction increases so will loyalty and vice versa. Very satisfied customers that held a 100-percentage loyalty are considered as apostles and the ones who are most dissatisfied with the service are considered as terrorists, which refer to customers that are so discontented that they speak badly of the service. In between the two extremes is the so-called "zone of indifference" (Grönroos, 2002; Heskett et al., 1994). As the label indicates, customers within this zone are neither to be considered as apostles nor as terrorists.

2.6.3 Customer Loyalty and Profitability

As previously mentioned, a major reason for investing in different kinds of customer loyalty programmes is the notion that loyalty leads to profitability (Söderlund, 2003). In addition, most executives view profitability as the most important factor in survival of their business (Reichheld et al., 2000). It is claimed that companies, which do not realise the importance of loyalty, are “*doomed to an uphill struggle against low-growth economics of disloyalty and perpetual churn*” (Reichheld, 1997, p. 19). Söderlund (2003) means that the customer’s willingness to return to the supplier and its accumulation of knowledge and experience of the organisation and its offerings, are factors that also strengthen the connection between loyalty and profitability. There are estimations, which proves that a “*5 percent increase in customer loyalty can produce profit increases from 25 percent to 85 percent*” (Heskett et al., 1994, p. 639). This means that companies should consider their quality of market shares as much as the quantity of market shares, when measuring customer loyalty.

Furthermore, it seems as the average profit per customer actually grows over the first years of a company’s and a customer’s relationship (Grönroos, 2000). The reasons for this increase can be explained by referring to the economic effects of customer loyalty; acquisition costs, revenue growth, cost savings, referrals and price premiums (Grönroos, 2000). Reichheld et al. (2000) also detected the linkages between customer loyalty, value and profits. The first effect is between loyalty and retention rate. According to the researchers, loyalty reliably measures whether superior value has been delivered. Next, loyalty initiates economic effects such as revenue and market share growth, customer acquiring costs decrease and employee retention rate increases. The third effect implies that when costs go down and revenues up, profit increases.

2.7 Theory Summary

There are aspects that theorists seem to emphasize and agree upon, when trying to establish what actually separates a service from a tangible product. The most frequently discussed features are services’ heterogeneity, perishability, inseparability and intangibility (i.e. Grönroos, 1998; Kotler et al., 2002; Rushton & Carson, 1989). Service definitions, classifications and characteristics have evolved, been modulated and been evaluated upon. Bringing up these kinds of discussions in the thesis will, therefore, give a deeper understanding for services’ complexity and diversity.

Intangibility has been most emphasized and is the characteristic that separates pure products from pure services. Inserting this specific characteristic in a continuum scale, display services wide range. The tangibility continuum also distinguishes services with credence, experience and search qualities.

Moreover, it has been accentuated within the theoretical framework that pure intangible services can neither be touched nor evaluated before consumption. This challenges marketers, since already established marketing approaches, focusing on pure tangible products, need to be reformed to suit services (Grönroos, 2000). In addition, trying to make a service more tangible could facilitate evaluation of perceived quality; thus, narrow the gap between experienced and expected quality (Grönroos, 2000; Santos, 2002; Zeithaml et al., 1988). Studies performed by Santos (2002) indicate that there is indeed a positive relationship between tangibility and quality. Hence, service providers could choose to focus on making services more tangible and thereby influencing either expectations or experiences of a service. The perceived quality model outlines what is influencing a customer’s service quality perception. If using these factors to make services more tangible,

the customers become more aware what to expect from the service and can easier evaluate the experienced service. In turn, service quality can be reached since customers' expectations are fulfilled.

In turn, satisfaction and quality are closely intertwined (Grönroos, 2000). Connecting this notion to the service-profit chain creates an understanding for the linkages between customer satisfaction, loyalty and profitability. It also provides an understanding for why profit-oriented service organisations should focus on loyal customers as well as creating good quality services. Striving after loyalty also points to that organisations should establish what customers wish for and fulfil such requests (Grönroos, 2000).

3 Methodology

This chapter describes positivism and interpretivism in order to motivate the choice of method. It is important to adopt methods according to what is being studied. Moreover, the purpose of this thesis should determine the choice of method. It should therefore carefully be considered when evaluating whether to use a qualitative or quantitative method.

3.1 Positivism and Interpretivism

Depending on what perspective employed when conducting research, different results can be reached. Therefore, it is important for every researcher to clearly state his or her view of the world. It can be assumed that people observing the same thing would come to the same conclusion but it is not the case (Chalmers, 1999). This is because we interpret things differently depending on our glasses used. We will here discuss the most frequently employed glasses, positivism and interpretivism, and thereafter state which one we will make use of when conducting our research.

Positivism was first developed from the philosopher Comte's thoughts (cited in Egidius, 1986). He argued that scientific knowledge should be derived by using mathematical methods and through this method enabling production of objective data (Egidius, 1986). Positivism rests on three basic principles; the social world exists externally and should therefore be observed objectively, research is value-free and the researcher is independent from the object under study (Blumberg, Cooper & Schindler, 2005). In positivism, theory is generated by firstly stating hypotheses concerning fundamental laws and by observations either support or reject the hypotheses. Research is done through observing the external world objectively and thereby sees how a fundamental law fits with society. The aim is to generalise findings so that they are applicable to the rest of the world. Research is value-free because facts are external and remain uninfluenced by the researcher. Thus, researchers examining simultaneously the same phenomenon should arrive to the same conclusion (Blumberg et al., 2005). Criticism against positivism has pointed at weaknesses such as the fact that organisations and groups are social units which cannot fully be investigated by only using numbers to describe how factors are affecting people's behaviour in certain situations. Critics, such as Popper and Kuhn (cited in Egidius, 1986), argued that this leads to alienation of humans since they are not treated as people but more like data without beliefs or opinions. As a result, interpretivism developed as a substitute for positivism.

Unlike the positivistic researchers, interpretivists hold the view that the social world cannot be investigated by employing the same methods used in natural science and, hence, propose another way to conduct research. Interpretivists view the world as socially constructed and it is only given meaning by people interacting in this social world. Further, researchers must be part of the social world under study, thus, interact with people in the situation rather than simply observing. As opposed to positivistic researchers, interpretivists are largely driven by interest (Blumberg et al., 2005). Their arguments against positivism are that simply employing fundamental laws is not enough for understanding a complex phenomenon. Given that people construct their social world, the researcher has to engage in it in order to understand it properly. If research was to be repeated, it would not necessary generate the same result because people might do various interpretations. Instead, research will develop and deepen when understanding of a certain phenomena increases (Egidius, 1986).

The reason for discussing these different approaches is that how research is conducted will depend on which perspective that is chosen. If deciding on positivism, research focuses on investigating objective facts and in practice construction is usually done by employing quantitative methods (Blumberg et al., 2005). Research conducted from an interpretive angle would put more emphasis on interpretations and subjective meanings in order to detect what is going on in the investigated situation.

Our standpoint will be somewhere in between the discussed views. By applying a quantitative method, we will gather data concerning many people's views without doing any deeper investigation on a smaller sample. However, since collected data will derive from people's beliefs and attitudes, we can argue that we do not apply positivism to its extremes. Blumberg et al. (2005) state that the realism view is somewhere in between positivism and interpretive view. Principles are taken from both views, the statement that research can be conducted as within social science is taken from positivism. Realists also hold the view that in order to understand people's behaviour we have to acknowledge the subjectivity inherent in humans which derives from the interpretive view. Thus, we will conduct our research from a realism point of view because we are neither fully positivists nor interpretative.

3.2 Method for data gathering

Method is a broad definition, which can be seen as a framework for how to engage with empirical material (Alvesson & Deetz, 2000). As stated above, we have decided to employ the quantitative method for our primary data collection. A qualitative method is often employed when interpretations and non-statistical data is available (Ghauri, Gronhaug & Kristianslund, 1995). Contrastingly, quantitative methods offer better conditions for strict scientific testing (Ruyter & Scholl, 1998). Quantitative method is used when data is collected and processed analytically. Data is numerically coded and the researcher is forming statistical results (Lekvall & Wahlbin, 2001). The quantitative method is appropriate to use when there is a need to generalise and apply the sample data to the population in order to find patterns and trends (Davidsson & Patel, 2003). Because the purpose of our thesis is to generate theory by surveying people's opinions concerning service tangibility in connection to customer loyalty, we have chosen to investigate a larger sample rather than just a few, and believe that the quantitative method is most suitable for our purpose.

In order to collect secondary data, we have conducted a literature review. Blumberg et al. (2005) mean that an accumulation of previous knowledge within the field of interest is of importance so that the study can be embedded in the context of current research. In accordance with the suggestion from Blumberg et al. (2005), we have searched for literature within databases where academic articles can be found and in textbooks. By using prior research, we have found a method for how we, by using existing theories, can generate new theory in order to fulfil our purpose.

3.2.1 Survey Method

In order to conduct an investigation with scientific value, it is important to choose a suitable method to assure that correct data will be gathered for the chosen purpose (Backham, 1998; Eriksson & Wiederheim-Paul, 1999; Evjægård, 1996; Lundahl & Skärvad, 1982). What data to use, which method to use for collecting data and how it should be analysed are important decisions, which will be discussed in the following paragraphs.

The most suitable method for primary data gathering was the survey method, applied from a quantitative perspective. Employing the survey method for primary data gathering can involve different ways of conducting the questioning. Depending on what kind of information is required, desired data type and the characteristic of the sample unit will decide how the survey is conducted (Blumberg et al., 2005). The main strength of surveys for collecting primary data is its versatility; it can be performed in a number of ways. Cooper and Schindler (2003) state that when researching opinions or attitudes about something, surveying gives the best results. The two most frequently employed survey methods are communication and observation. Due to time restraints, we chose to survey people's attitude using the communication approach. It requires less time and effort compared to the observation method (Blumberg et al., 2005). Communication with sampled units can be done either through personal interviews, phone interviews or self-administered questionnaires (Cooper & Schindler, 2003). Because time as well as costs is limited, the most beneficial method for us to use is self-administered questionnaires, which are handed out to the sampled respondents. It gives us advantages such as rapid data collection, possibility to reach respondents otherwise unreachable and the costs involved are low (Cooper & Schindler, 2003). Self-administered questionnaires can be delivered to respondents both electronically or personally. The interviewer usually distributes the questionnaires personally in a pre-determined environment (Cooper & Schindler, 2003), which was the procedure we chose.

3.2.2 Questionnaire Design

In order to gather and compare data in an efficient way, a highly standardised and structured questionnaire with close-ended questions and answers was constructed. This is in line with Andersson (1995), who states that close-end questions are appropriate to use in a questionnaire. Additionally, close-ended questions tend to have a higher response rate than open-ended ones. All questions except one are rating questions. This is suitable when collecting data concerning opinions (Saunders, Lewis & Thornhill, 2003). The first question, relating to gender and age, is more of a category question since the respondents are asked to choose the category to which they belong.

The questionnaire consists of 3 parts and 16 questions¹. We aimed at keeping the number of questions as few as possible to facilitate collection of responses and to keep the respondent's interest throughout the questionnaire. Still, the questions are in line with McDougall's and Snetsinger's (1990) and Reichheld's (Bain & Company, 2005) used tests. Firstly, we wanted to collect some information about the respondents. This is done to facilitate for the respondents to answer the initial questions and capture their interest (Andersson, 1995; Christensen, Andersson, Engdahl & Haglund, 2001). Respondents were asked general questions concerning gender and age. Because questioning a person's age can be perceived unpleasant for some people, it is suggested to create classes of age in order to make it easier for the respondents to answer the question (Trost, 2001). However, since the aim is not to exactly know age of each respondent, we believe it facilitates for the respondents if age was divided into pre-determined classes (see section 3.3).

The second part is related to intangibility of services and the third relates to loyalty. We have used questions suggested by theorists working in these areas. McDougall and Snetsinger (1990) conducted a study concerning intangibility of services by using different

¹ See Appendix 1 and 2

statements (see section 1.4). Respondents were asked to choose the statement which best fitted with the service they were asked to evaluate. Five different statements were used on a so-called "tangibility scale" (Rushton & Carson, 1989). This is in line with the suggestion from Saunders et al. (2003) not to include more than 5 categories to choose among. In the questionnaire, the statements have been directly translated. Some problems occurred for the respondents regarding how the statements should be interpreted. Due to the complexity of the subject under investigation, we expected this and therefore assisted them by explaining the meaning of "tangible" and "intangible" to facilitate for the respondents. Tangibility is in the questionnaire cohering with McDougall's and Snetsinger's (1990) definition mentioned in section 2.3.

In the third part, where loyalty was the main topic, we used the Loyalty Acid Test (see section 1.4) developed by Reichheld (Bain & Company, 2005). Because we are not investigating a specific company, we decided to exclude one question that we thought was too hard for the respondents to answer. "Company has a winning strategy" was the question we decided to exclude due to the difficulty involved in answering this question. Apart from that, the test was applicable to our survey. How many alternatives to include in a questionnaire is one question to consider when respondents are asked to rate statements. Reichheld (Bain & Company, 2005) included 10 alternatives in his loyalty test and we have decided to adapt to this since we want to change the test as little as possible. By giving the respondents 10 alternatives, they were obliged to choose side. We also deliberately decided to exclude alternatives such as "no opinion" to compel the respondents to state their opinion. Acknowledging that this may also be a disadvantage if some questions are perceived hard to answer by the respondents but they have to provide an answer anyhow. Despite this, we decided not to include the "no opinion" alternative. For each respondent, we calculated a mean loyalty value based on the questions in the third part. In addition, a mean was also calculated on some specific questions to highlight certain aspects of loyalty and intangibility in the analysis part. Both physical and mental world of loyalty, discussed by Söderlund (2003), will be referred to in the questionnaire. The physical world relates to individual's behaviour while the mental world is concerned with attitudes and intentions (Söderlund, 2003).

Before the questionnaire is conducted, it is important to do a pilot study (Saunders et al., 2003). The purpose of this is to refine and test the questions so that they are fully understandable and ensure that proper data is collected. For smaller research studies, a sample of 10 is suggested to be enough for a pilot study (Saunders et al., 2003). Thus, we handed out a draft of our questionnaire to 10 persons and asked for feedback. This resulted in some small language corrections to facilitate understanding of the questions. We also changed the intangibility/tangibility arrow and added some fading features to facilitate further the understanding of tangible and intangible, aware that these are complex terms. Furthermore, a pilot study also gave the possibility to test the data in the statistical program, SPSS, to check if the variables were adequately chosen. A test of our 10 collected samples did not result in changes with SPSS.

3.3 Sampling

When the goal is to determine and investigate something specific concerning a population, a sample is usually made (Lind, Marchal & Mason, 2001; Trost, 2001). It is preferred to include all the elements in the population in order to produce true results about the population. However, due to problems such as the impossibility to check all elements in the population, time restraints and costs involved, it is more convenient to draw a sample

(Swift, 2001). The result from the selected sample is assumed representative for the whole population and hence conclusions can be drawn from the calculated sample estimators (Cooper & Schindler, 2003). However, it is important to acknowledge the fact that when sampling the population we cannot tell *exactly* what the population thinks but rather *estimate* features of the target population (Swift, 2001). The main advantages with using sampling involve lower costs and a faster way of collecting data (Cooper & Schindler, 2003).

When referring to the population, we imply the “*total collection of elements about which we wish to make some inference*” (Cooper & Schindler, 2001, p. 163). Thus, in this thesis, the population consists of all people in Sweden that have used a service from one of our selected service industries. We also chose to limit the population and only include persons between 18 and 79 years old. The lower bound was set because this is when persons in Sweden are becoming of age. The upper bound was set because of getting proportionate groups of 15 year intervals in each age group.

When selecting what services to use, we employed the tangibility and intangibility continuum discussed in chapter 2.2 and shown in figure 2-1. We wanted to have services that were considered high in experience or credence qualities. The reason for not including services with search qualities is that these are more similar to tangible products than services. We also believe that respondents would have been confused about the difference between products and services characteristics in these cases. In addition, it was decided that all services connected to the selected service providers was to be used. This because our intention was to investigate the relationship between tangibility and customer loyalty and thus separating services would make results more difficult to interpret. This also coheres with the Loyalty Acid Test, which consider all services within a service industry (Bain & Company, 2005).

Examples of services with experience qualities are restaurant meals, holidays, haircuts and childcare (Rushton & Carson, 1989). From this section, we have chosen to include restaurant meals, holidays and haircuts because these are services that most people have experienced. However, we are referring to restaurants, travel agencies and hairdressers to capture all services provided. If including childcare, the population would have decreased substantially, which is why it was decided not to investigate this sector. Services with credence qualities include television repair, legal and financial services, dentistry, car repair and medical diagnosis. We have selected dentistry and financial services from this category. Again, the reason for this is that we believe that most people have been in contact with these services compared to television repair, car repair, medical diagnosis and legal services, which will thus facilitate sampling of the population. As above, we will refer to banks instead of financial services.

In addition, we have also decided to include the Swedish employment agency because we found it interesting to include a service company, which is monopolistic and state-controlled. We believe this will add a further dimension to our study since it provides us with the opportunity to investigate a service provider that differs from the others in the study. Another way to conduct the study could have been to simply investigating for instance the banking industry and look at the different services they offer. However, we decided to look at different service industries to see if there are similarities in the relationship between tangibility and customer loyalty. The fact that not all respondents might refer to the similar service may lead to less validity. The same questionnaire was used in all chosen service sectors even if some questions were less relevant for some sectors. However, since we used tests developed by prominent researchers within the investigated areas, it was decided more correct not to change the test between the sectors.

Systematic probability sampling was used when sampling the population. This entails selecting samples at regular intervals from the sampling frame (Saunders et al., 2003). Since we are not aware of exactly how large the total population is, we are not able to calculate the sampling fraction, which would have decided how large proportion of the total population we would have to select. Instead, we asked every 10th person to avoid biases in the sampling. When collecting samples for banks, hairdressers, travel agencies, dentistry and restaurants, we decided not to go to a specific bank or restaurant since this would have led to biases in our results. Thus, we decided to sample in a more general environment, where we could find respondents that had visited different types of service providers. The largest shopping centre in Jönköping, A6, was decided to be the best place for conducting our survey. It was conducted between the 14th and 18th of April during daytime and on the same place on all occasions. When sampling respondents that have been using services from the Swedish employment agency, we decided that it was best to do the sampling there due to the potential unpleasantness involved if asking people elsewhere. Since the population there was relatively small, we decided that because of time restraints not to sample every 10th person but instead every person entering the employment agency. This is instead a convenient sample since we included everyone who was convenient for our study. Trost (2001) states that this sample method is used to gain a strategic sample. The sampling was done on the 15th and 18th of April.

How many samples to draw from each selected industry also had to be decided. Because our study is quantitative and more towards positivism, the aim is to make generalisations rather than more deeply inquiring a smaller sample. Aczel and Sounderpandian (2002), state that a survey consisting of more than 30 respondents is considered a large sample. Before conducting the survey, we had determined to have a fixed number of respondents in each service industry. It was agreed upon that 40 was an adequate number and thus we sampled 240 questionnaires. We found it difficult to appreciate how many respondents that would be reluctant to answer but we valued 240 answers to be enough for our statistical analysis. Because we wanted to make comparisons between industries, we sought to have fixed number of respondents in each class.

3.4 Non Response

Non-response occurs when a sampled element does not respond to the request of participating in a survey (Groves, Dillman, Eltinge & Little, 2002). This is one of the potential errors, which can occur when conducting a survey and can lead to less reliable result if the non-response percentage is too large. Because our survey was conducted in a stressful environment, some approached respondents declined to participate, mainly because of time restraints. However, we decided not to calculate the number of people neglecting to take part in the survey. Persons neglecting to take part in the survey did probably not hold views significantly different from those that decided to take part. This because gender as well as age is of less importance. Instead, the population is all people that have used a service from one of our selected service industries. Moreover, even if they did hold significantly different views, we had no opportunity to survey the people neglecting to respond afterwards. The main reason for declining answering was not due to lack of interest but lack of time and at the Swedish employment agency some did not have any previous experience with their services.

3.5 Data handling

When analysing collected data, our aim was to find if a relationship exists between tangibility and loyalty. Thus, we could only have one value of each variable. Tangibility already consisted of one value while loyalty was decided using several questions. Therefore, we had to calculate a single value from the questions relating to loyalty. It was decided that neither mode (the most frequently occurred value) nor median (the middle value in the data) was adequate for our data analysis. Mode gives no indication of central tendency and median is the middle value, which can be misleading depending on how the other values in the series are (Swift, 2001). To calculate the average value, mean is frequently employed and we considered that the mean would give us the most adequate value when adding the loyalty questions. In addition, Reichheld (Bain & Company, 2005), McDougall and Snetsinger (1990) used mean in their data analysis. A sample mean was calculated as an unbiased estimator of the population mean, μ . However, due to the number of means employed (240), we decided not to calculate spread around each of these mean values. Because of this decision, some statistical errors may be included in the mean calculation. Nevertheless, we do not consider this to affect our results substantially since the range was only between 1 and 10.

After calculating the mean value of loyalty, we had one value of tangibility and loyalty for each respondent. Graphically, we wanted to see if there were any patterns in the data and decided to employ scatter plots. This is a sketch of data on two variables, which facilitates visualising trends and patterns in data (Aczel & Sounderpandian, 2002). Scatter plots are suggested to be most suitable when data occurs in pairs and we wanted to plot the pairs as co-ordinates on a graph. By displaying our data in a scatter plot graph, we could easier decide if the two variables appeared to be correlated (Swift, 2001). Sample correlation is measuring the strength of a relationship between two variables and lies in between -1 and +1. A correlation coefficient of +1 indicates a straight line with a positive slope while -1 shows a negative line where all data are exactly on the line (Swift, 2001). The closer the correlation coefficient value is to any of these extremes, the stronger positively or negatively correlated they are. It is assumed that both variables are random and normally distributed (Aczel & Sounderpandian, 2002). The sample correlation coefficient is denoted by r , which is an estimate of ρ , also referred to as the Pearson product-moment correlation coefficient (Aczel & Sounderpandian, 2002). In addition to this, correlation can also be done on data, which is not normally distributed. Spearman rank correlation coefficient can be employed when data is not normally distributed and data pairs are in forms of ranks from smallest to largest. It is similar to Pearson's correlation coefficient but adjusted for ranked data. Given these explanations, we found it most appropriate to apply Pearson's correlation to our data since we did not rank our data and assumed normal distribution.

To find out if the calculated correlation variable was significant or not, we had to choose what level of significance to utilize. Significance level is used in statistical hypothesising to decide if values are statistically significant or not. The significance level is denoted by α and to reject the null hypothesis, H_0 , the p -value has to fall below α (Aczel & Sounderpandian, 2002). The hypotheses are stated as follow:

$$H_0: r \neq 0$$

$$H_A: r = 0$$

If we accept H_0 , no correlation exists and vice versa, if rejected, we can conclude that the variables are correlated.

The p -value is a sort of “credibility rating” of the null hypothesis. A value of i.e. 32 % implies that there is roughly a chance of 32 % that H_0 is true. If we set α to 5 %, H_0 will be rejected when the p -value is below 5 % and we can conclude that the correlation value is significant. In our data analysis, we will employ a significance level of 5 % and thus we can be 95 % confident that H_0 is false before we reject it. A significance level of 5 % is according to Aczel and Sounderprandian (2002) one of the standard values.

Neither intangibility nor loyalty can be said to depend on the other, which is why a regression analysis was seen as unsuitable. However, by calculating Pearson correlation, we could see if a linear relationship existed without the intention of deciding which variable is dependent or independent.

3.6 Validity and Reliability

Validity refers to whether findings really are about what they appear to be about (Saunders et al., 2003). In addition, it explains to what extent the estimators of the population are a true value or not and how good the precision is in what we are supposed to measure. The quality of validity depends on how the sample, data collection, data analysing was done and to what extent errors are included or not (Christensen et al., 2001). Robson (cited in Saunders et al., 2003) lists some threats to validity including ambiguity about causal relationship, maturation, testing and history. If, for example, research is done after a big change has occurred in an organisation this history may influence validity. Ambiguity concerning relationship refers to when relationships are investigated between two variables and it is difficult to decide if either of them causes the other. Maturation involves participants in a study dropping out during a longer investigation and testing can reduce validity if the respondent acts differently because of being tested.

We can differ between external and internal validity. The external validity of research findings refers to the ability to generalise data across the target population. Internal validity is to what extent a research instrument measure what it is supposed to measure (Cooper & Schindler, 2001; Collis & Hussey, 2003). In this research, when we are employing a quantitative method, we are also interested in testing statistical validity (Welman & Kruger, 2001). We want to know if the relationship between loyalty and intangibility is statistically valid. This is done by examining the level of significance, discussed in 3.4.

Reliability is concerned with the findings of the research (Collis & Hussey, 2003). It can be evaluated by answering the following questions: Will the measures give the same result if redone? Will others studying the same subject reach the same results? Is there transparency in how sense was made from raw data? (Saunders et al., 2003). If a study is claimed to have high reliability, replication of the study should generate same results. Threats against reaching high-quality reliability are for instance participant error, participant bias, observer error and observer bias. Participant error can exist if it matters *when* people are asked to fill in the questionnaire. Biases of participants can arise if participants feel that somebody want them to answer in a certain way for example if surveying in a authoritarian office where the respondents answer in a way they think their boss would have liked them to answer. Observer error and bias exist if many different people are conducting interviews and thus biases can rise since different people will interpret answers differently (Saunders et al., 2003).

Validity and reliability are connected concepts since for a research to be valid; the reliability also has to be of first-rate (Christensen et al., 2001). However, a study can have high

reliability and simultaneously low validity (Collis & Hussey, 2003). When evaluating reliability and validity, it is essential to consider potential errors and systematically identify them and estimate how they affect validity and reliability (Christensen et al., 2001).

3.7 Criticism against used method

When critically evaluating if our results are valid and reliable, we examine if sampling, data collection and data analysing was correctly done without the existent of any biases, which would affect our results. A larger sample would have made generalisations more valid, however, as mentioned earlier, time restrictions made it unfeasible. In turn, we did not specify *which* service in each service industry that each respondent referred to when filling in the questionnaire. Thus, we cannot make generalisations to different services within the investigated service sectors, which affect external validity. However, this was not the purpose of this thesis and thus not regarded to be a problem in this specific case. If a replication will lead to the same results or not is dependent on which service the respondents were considering when filling in the questionnaire. Hence, the reliability of our results is slightly questionable because of participant error. If respondents are asked to participate at another time, when they have experienced another service within the sector, their results may be different. The fact that all, except for the Swedish employment agency, questionnaires were conducted at the same place during different times is believed to raise the possibility of getting a representative sample of the population.

One factor that might have affected the validity of our results is the stressful environment where the data collection was conducted. Some respondents appeared to be stressed and gave less thought when filling in the questionnaire. Another factor, which might have influenced validity, could be that the respondents were asked to recall their last experience from the investigated service provider. Hence, they were more familiar with the service than they would have been if not previous experience was required. Our reason for this method is that it facilitated for the respondents to fill in the questionnaire. If scenarios of specific services were to be used instead, it is assumable that the respondents would have referred to their last experience anyway.

The reason for including six service industries was to get a wider picture. We could also have chosen to look only at one industry but we decided that it was more interesting to include several in order to find differences between them.

Given the purpose of this thesis, to investigate if there exist a relationship between services' intangibility and customer loyalty, the quantitative method was most suitable since it enabled us to achieve results that could to some extent be applied to the whole population. If instead employing a qualitative method, we would have been provided with deeper insight in people's mind concerning this subject but we would only have had the possibility to survey a few respondents. Therefore, we believe that given our purpose, we applied the most appropriate method even if validity as well as reliability could have been enhanced by specify what service the respondents referred to. However, our intention was to get an overall view in the attempt to generate new theory within this area. From this, elaborations can be done by performing the same study in another way.

4 Empirical Findings and Analysis

This chapter presents the result derived from the survey. It also connects the theoretical framework presented in the second chapter with the empirical findings to form an analysis. The relationship between tangibility and loyalty will be evaluated and investigated.

4.1 Method of Analysis

Before presenting and analysing the results derived from the empirical findings, the method for analysing is discussed. Empirical findings will be linked to the theoretical framework. However, to make the analysis more graspable and clear, some assumptions are made based on common knowledge. This is done because relating complex concepts such as tangibility and loyalty to practical examples will facilitate reading this chapter. The choice of including such assumptions in the analysis instead of in the final discussion is made because the analysis will be more interesting to take part of.

In the analysis, services are not separated into the classifications mentioned in section 2.1.1. This is because the survey refers to all services provided and not to any specific service. Hence, core services, facilitating services and supporting services mentioned by Grönroos (2000) are grouped together. Moreover, convenience, shopping, preference and specialty services are not differed in between. As mentioned in the method chapter, this was not in line with the purpose of this thesis. The service industries were distinguished based on the core service provided. However, it is significant to be aware of that the respondents could be referring to different kinds of services when asked to recall the previously experienced service.

To deepen the analysis part and to detect similarities between service industries, we also decided to include comparisons between the selected service industries. By separately analysing tangibility and loyalty within restaurants, hairdressers, travel agencies, dentistry, banks and the Swedish employment agency, the chapter will be more structured.

4.2 Restaurants

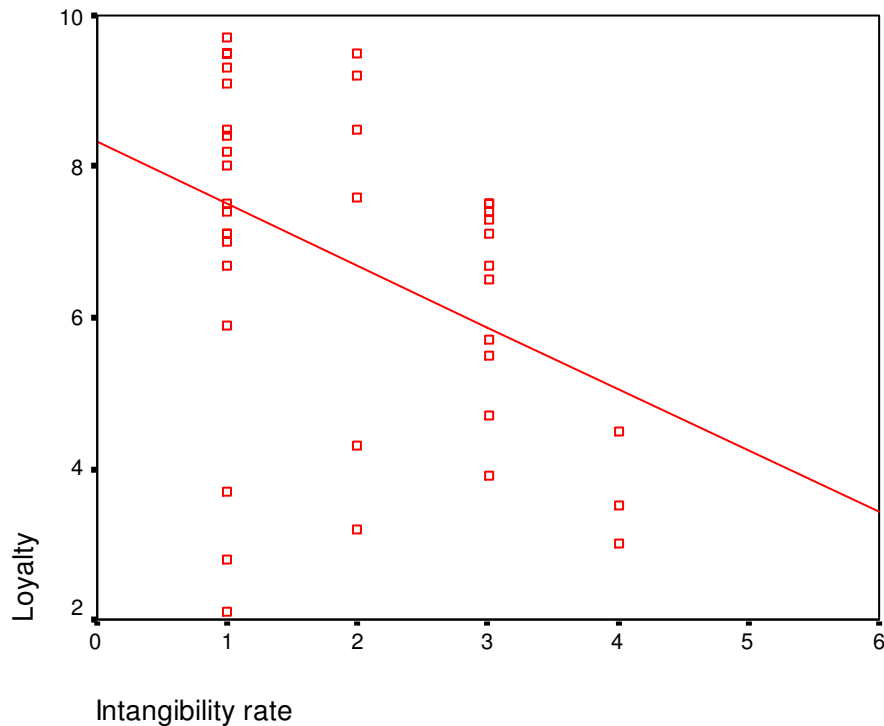


Figure 4-1 Restaurants' loyalty and intangibility rate.

Examining the results from restaurants, the Pearson indicator is -0.394^2 , which proves a negative correlation between loyalty and intangibility ratio. Further, the significant value for restaurants is 0.012^2 , which is well below the significant level of 0.05. This figure indicates that the relationship between loyalty and intangibility ratio is significant. The negative relationship is viable when considering the downward sloping line in the graph displayed above (see figure 4-1). Negative correlation means that if loyalty towards a restaurant increases, intangibility of the service will decrease and vice versa. In other words, if a restaurant's services become more tangible, the loyalty ratio is expected to increase. However, important to consider is that the Pearson correlation coefficient implies that neither loyalty nor intangibility is dependent on the other.

4.2.1 Tangibility

The mean tangibility ratio of restaurants is 1.9. Using the tangibility continuum, this figure indicates that restaurants' services are more tangible than intangible (McDougall & Snetsinger, 1990). Thus, in a scale ranging from 1 to 5, where 5 is purely intangible and 1 purely tangible, these kinds of services are more towards the tangible side. Restaurants are considered experience goods; hence, they have more experience qualities than search or credence qualities (McDougall & Snetsinger, 1990). The figure 1.9 indicates that respondents are in between having a clear picture of the service and being able to picture the service immediately. The more search qualities a service consists of, the easier it is to

² See Appendix 3

assess (Rushton & Carson, 1989). Based on this notion, it could be that a restaurant's customers find it easy to evaluate the service provided since tangibles enhance customers' pre-purchase assessment (McDougall & Snetsinger, 1990). The degree of tangibility also affects service quality (Santos, 2002). Thus, quality could be argued as being highly perceived in this service industry. The rather low degree of intangibility could indicate that customers know what to expect from the service on beforehand. This assumption can be drawn from the notion that the more tangible a service is, the easier can a customer evaluate the service before and after consumption (McDougall & Snetsinger, 1990; Rushton & Carson, 1989). Hence, restaurants have succeeded in making intangibility of their services more tangible (Reddy et al., 1993).

There are different kinds of tangibility features that theorists mean that one should take into consideration. McDougall and Snetsinger (1990) mean that it is important to make a distinction between tangibles and tangibility. In the questionnaire, respondents were asked how well the service provided a clear and concrete image, this is according to McDougall and Snetsinger (1990), referring to both the physical and mental component of the service. In turn, this means that when picturing a service received from previous experience with a restaurant, physical evidence of the service as well as the mental picture of the service was taken into consideration. Moreover, the tangibility rate of 1.9 captures both tangibility of surroundings and tangible result of the service, since tangibility is influenced by tangibles (Rushton & Carson, 1989). Hence, when measuring tangibility of services, taste of the food being served, milieu and location of the restaurant and many more features could have influenced evaluation of service's tangibility. This notion coheres with Gustafsson et al.'s (2003) claim that satisfaction is the customer's overall evaluation of the consumption experience.

4.2.2 Loyalty

Getting expectations of the service fulfilled prove that services' perceived quality is of satisfaction. However, this depends on what expectations a customer had before consuming the service and what the customer is comparing it to. Hence, it is important to be aware of that evaluation of the previous experienced service is depending on what preferences and experiences customers had on beforehand (Grönroos, 2000).

Satisfaction is closely connected to quality (Grönroos, 2000). Mean satisfaction of restaurants' services is 7.6. This number is derived from question 4, which asks how satisfied the respondent was with the service. In turn, satisfaction is related to the degree of loyalty (Gustafsson et al., 2003). Therefore, the mean of satisfaction could imply that the restaurants' customers are rather loyal. However, when looking at the answer to question 1, which asks how great the probability of continuing buying the service from the same organisation, the mean is 6.8. This lower figure supports Grönroos's (2000) claim that it is only customers that give satisfaction top scores, who are truly loyal. Hence, it is not sufficient simply to analyse the mean of satisfaction, one must also consider the top scores. Six respondents of 40 give satisfaction a ten, which means that, if accepting Grönroos's statement, 15 % of the respondents are truly loyal. A possible reason for the two different figures could be that factors are limiting the customer to a specific service or restaurant by which the respondent is not fully satisfied with (Söderlund, 2003). For example, if expecting high quality of certain dish but is not receiving what is expected, the customer might be dissatisfied but may continue being a customer if the restaurant is the only provider of that specific dish. This coheres with the result derived from question number 1 that asks about the probability of continuing buying the service from the previous visited

restaurant. 13 out of 40; 32.5 % mean that it is highly likely and gave a top score to the likelihood.

There are many aspects to take into consideration when evaluating the relationship between tangibility and loyalty. As mentioned above, not only are there many tangibility features that could affect perceived quality of services, there are also different perspectives of loyalty that needs to be reflected upon. Despite many influencing factors, the graph displayed in figure 4-1 points to the fact that as tangible features of restaurants' services increase, loyalty increases and vice versa. This support and linkage theories of for example Grönroos (2000), that is relating tangibility to quality and theories of Heskett et al. (1994) that relate quality satisfaction with loyalty.

It can be concluded, after reviewing the results derived from restaurants' services, that loyalty and tangibility are significantly negatively correlated. Hence, attempting to get more loyal customers, restaurants could focus on making services more tangible. The high tangibility rate might imply that customers find it easy to evaluate the service before and after consumption, since they find it easy to picture the service. Since the probability of continue buying services is graded lower than satisfaction, there are few customers, which are found truly loyal. This might indicate that even though tangibility and loyalty are negatively correlated, there are other factors than features of tangibility that are influencing a customer's choice of restaurant.

4.3 Hairdressers

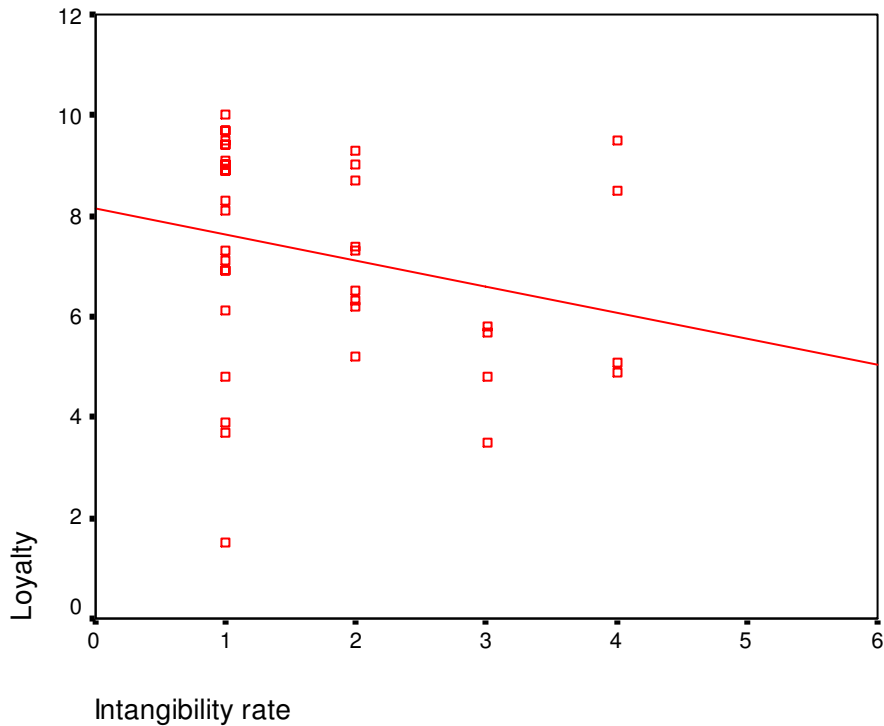


Figure 4-2 Hairdressers' loyalty and intangibility rate.

The scatter plot derived from surveying hairdressers' intangibility and customer loyalty shows a downward slope in the figure above (see figure 4-2). Hence, a negative relationship between loyalty and intangibility rate can be assumed. The graph's appearance is supported by a Pearson correlation coefficient of -0.246^3 . However, because the value 0.126^3 is rising above the significant level of 0.05, correlation between the two factors is insignificant. Hence, there is no valid correlation between loyalty and intangibility rate in this service industry.

4.3.1 Tangibility

Mean tangibility ratio for hairdressers is 1.7. Placing this figure in the tangibility continuum indicates that services provided by hairdressers are more tangible than intangible (McDougall & Snetsinger, 1990). As mentioned above, respondents of the questionnaire are not restricted to any specific features of tangibility when rating services' perceived tangibility. Despite different perspectives of tangibility, a rate of 1.7 proves that the respondents had a clear image of the physical or mental components (McDougall & Snetsinger, 1990). One reason for invalid correlation could be that the tangibility feature of a service does not influence loyalty to a hairdresser since hairdressers provide the same core service. This also support Grönroos' (2000) claim that technical quality of a service (what a customer receives) is often similar within the same industry and is therefore hard to compete with. Hence, key to success is not only being dependent on tangibility of the service as Reddy et al. (1993) point out. The same goes the other way around, for example,

³ See Appendix 3

increasing loyalty does not necessarily make a hairdresser's services more tangible. Santos (2002) found that degree of intangibility/tangibility does have a significant effect on customer's quality perception. It could be that that quality is perceived as high because of a low degree of service intangibility.

Moreover, theorists (i.e. McDougall & Snetsinger, 1990; Rushton & Carson, 1989) claim that the more tangible a service is, the easier it is to evaluate the service before and after its consumption. Hence, expectations and experiences of a service are influenced by a service's tangibility. The rather low intangibility that hairdressers' services receive could therefore mean that customers find it easy to know on beforehand what they are buying.

4.3.2 Loyalty

The insignificant correlation might also indicate that satisfaction or loyalty of the service is not high enough. According to Grönroos (2000), a customer perceives bad quality if expectations of a service are not being met. Hence, if satisfaction of a service is low, customers easily swap service provider and loyalty decreases. The insignificant correlation between tangibility and loyalty might indicate that tangibility is not influencing service evaluation. Yet, this does not reject the claim that satisfaction of the service is related to loyalty, as the service profit chain indicates (Heskett et al., 1994).

If accepting Grönroos's (2000) theory concerning apostles, only the ones who are most satisfied will stay loyal. The mean satisfaction of hairdressers' services is 8.1. However, considering Grönroos's (2000) notion, this relatively high figure does not prove high loyalty. 12 of 40 respondents did however give their overall satisfaction of the hairdressers' services top score. Thus, hairdressers have indeed some loyal customers, but this is not correlated to tangibility ratio according to the Pearson's correlation coefficient. Since satisfaction is linked to service quality and since quality is linked with tangibility, it could imply that quality is not evaluated with reference to the tangibility of hairdressers' service (Grönroos, 2000; Santos, 2002). This is questioning Santos's (2002) assumption that the more tangible components a service has, the more do tangibles contribute to service quality.

It can be concluded, summing up the results derived from hairdressers, that the relationship between tangibility and loyalty is insignificant. Hence, it is not valid to claim that there exists a correlation between the two variables. This result indicates that loyalty might not influence tangibility. A reason for that could be that customers are able to picture a hairdresser's services but since most hairdressers provide the same kind of core service, tangibility is not influencing loyalty. Another reason for the insignificant result could be that respondents do not relate satisfaction to a service's tangibility. Hence, other factors than tangibility might influence loyalty. In turn, it could be that quality, which is closely intertwined with tangibility, is not evaluated upon when ranking satisfaction.

4.4 Travel Agencies

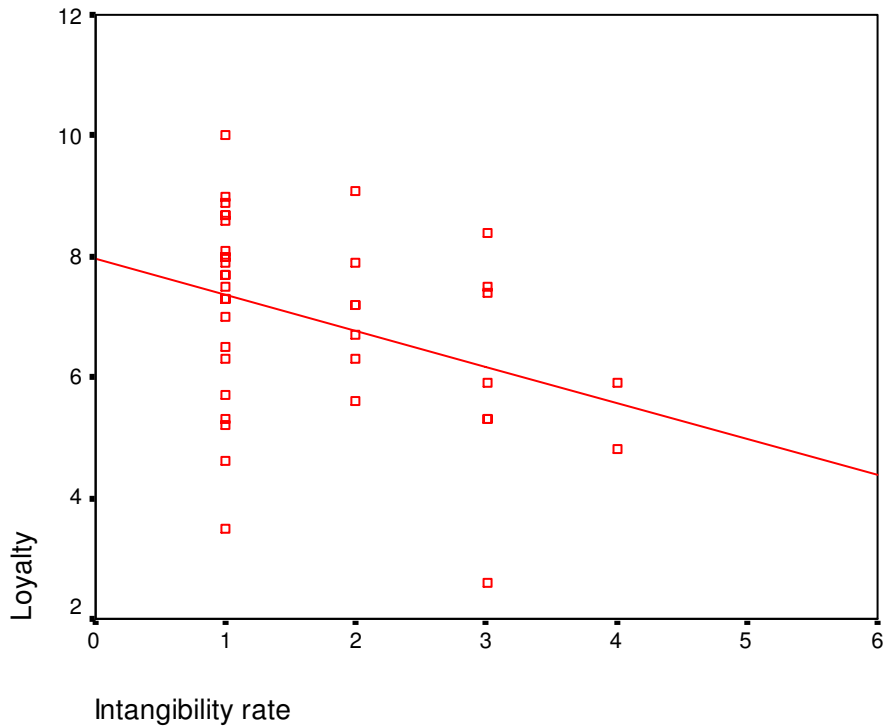


Figure 4-3 Travel agencies' loyalty and intangibility rate.

The significant value of 0.026⁴ is below the significant level in Pearson correlation test, which in turn indicates that the relationship between loyalty and intangibility rate is significant. The Pearson correlation coefficient is -0.352⁴, which points to an increase in loyalty will decrease the intangibility rate and vice versa. The downward sloping line in the graph above (see figure 4-3) further displays the negative relationship between the two variables. As mentioned before, it is important when interpreting the result derived from Pearson's correlation test not to claim that one variable is dependent on the other. Hence, it is not valid to claim that any causality exists between the variables.

4.4.1 Tangibility

The mean tangibility ratio of the services provided by the travel agencies is 1.7. Placing this figure in the tangibility continuum proves that the services are tangible dominant (McDougall & Snetsinger, 1990). In turn, this means that customers of travel agencies are able to picture the service they received, which coheres with McDougall's and Snetsinger's (1990) definition of service tangibility. Furthermore, it might be valid to state that travel agencies have succeeded in making their services' intangibles tangible.

Travel agencies are considered, according to theory, to have more experience qualities than search and credence (McDougall & Snetsinger, 1990). However, when placing travel agencies in the tangibility continuum they seem to contain more search qualities than experience. Since theory presented by Rushton and Carson (1989) indicates that travel agencies should be high in credence qualities, it has an unexpected placement in the

⁴ See Appendix 3

tangibility continuum. This could be explained by the questionnaires' formulation. It is referring to the previous experienced service received from the travel agencies, which in turn could lead respondents to think about the previous taken travel. Hence, emotional factors and experiences of travelling might then have influenced the service evaluation. For instance, if the destination or weather of the specific journey did not fulfil expectations, the service provider might suffer from low satisfaction results even though the actual service was perceived as good. However, in this specific case, if the service had been marketed accurately customers might not have had such high expectations and would then rank satisfaction higher. This reasoning coheres with Grönroos (2000) notion that service providers jeopardize service quality, if building up too high expectations that cannot be fulfilled.

4.4.2 Loyalty

Taking into consideration the notion that a service's tangibles are a direct presentation of service quality would mean that the rather high tangible scores make travel agencies' services of satisfactory quality (Santos, 2002). In turn, since tangibility and loyalty are significantly correlated, it is valid to accept Grönroos's (2000) notion that satisfaction is closely linked with quality. In addition, Heskett et al.'s (1994) belief that satisfaction often leads to loyalty is in this case adequate. According to Grönroos (2000), there are other quality aspects to take into consideration as well. He states that service quality is individually evaluated and that each customer experience services uniquely. In turn, customers' presumptions about different kinds of services are influencing judgment of whether or not the experienced service quality is perceived as good (Grönroos, 2000; Zeithaml et al., 1988). Functional quality as well as technical is also influencing experienced quality of services. In the questionnaire, the referral to the previous experience with a travel agency's services will capture both of these aspects. Hence, technical and functional quality of the service, are to be reflected in the questionnaire's subsequent questions.

Derived from the questionnaire, overall satisfaction ratio of travel agencies services is 7.9 and 10 of 40 respondents gave satisfaction top scores. This means that, if accepting Grönroos's (2000) and Söderlund's belief that it is only customers who give top scores that are truly loyal, 25% of travel agencies' customers are to be considered as truly loyal. Being loyal means, that customer will continue buying the service from the same service provider (Oliver, 1999). The result derived from question 1, which concerned the probability of continuing buying services from the same service provider, proves that this loyalty definition is acceptable in the case of travel agencies. This is an important question to enlighten since loyalty is concerned with a relationship over time (Oliver, 1999). The mean probability was 7.3, which is not far from the result of overall satisfaction.

To conclude, the results derived from the travel agency industry prove that there is a significant relationship between loyalty and tangibility. Hence, there exists a valid negative correlation, which means that an increase in one variable will lead to a decrease in the other. In turn, this means that if a service becomes more tangible, loyalty will increase and vice versa. Moreover, what further point to this relationship is the similar rating of overall satisfaction and probability to continue buying the service. This since loyalty indicate that a customer is returning to the same service provider and since satisfaction indicate that travel agencies have succeeded to narrow the gap between service expectations and experience.

4.5 Dentistry

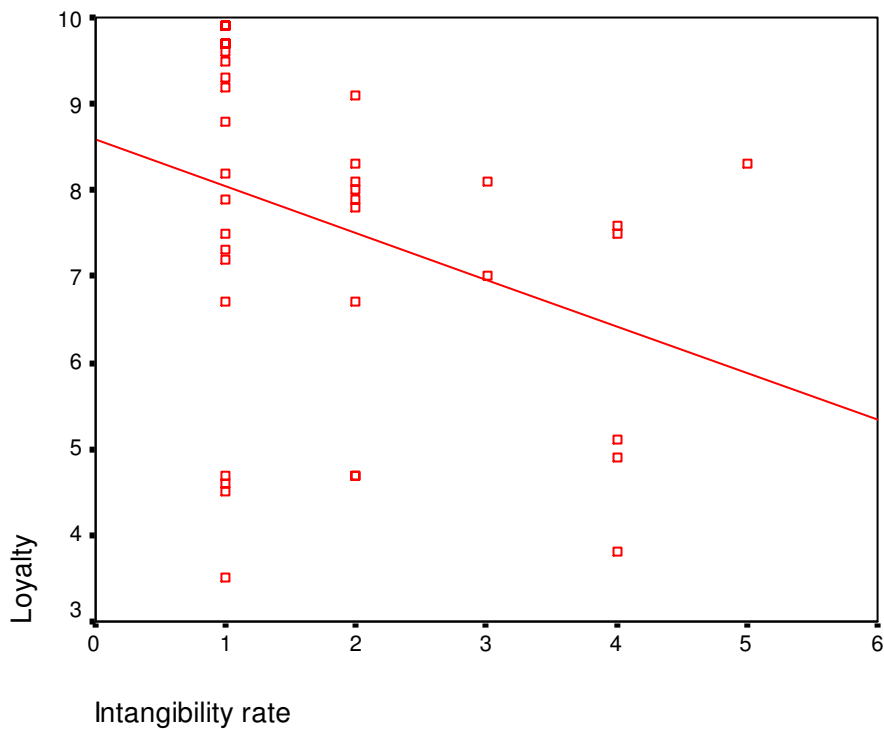


Figure 4-4 Dentists' loyalty and intangibility rate.

Results from surveying services related to dentists show that a relationship between loyalty and intangibility exists (see figure 4-4). Pearson correlation gives a negative value of -0.32^5 , which means that as intangibility decrease, loyalty increases. The relationship can also be reversed; higher loyalty leads to lower rate of intangibility. The level of significance is 0.044^5 , which imply that the negative relationship is significant. Hence, it is arguable that in the dentistry industry, there exist a negative relationship between loyalty and intangibility.

4.5.1 Tangibility

Mean level of tangibility for the respondents in this group is 1.8, which implies that most respondents would agree with the statement that they have a clear image of this service. However, it is not clear if this created image is positive or negative, in turn this means that both could be related to the service. Nevertheless, in the case of this service industry, a possible negative picture will not disappear by changing to another service provider, since the core service and the technical quality is similar (Grönroos, 2000).

According to theorists, dentistry is considered high on credence qualities, meaning that the service consists mainly of intangible features that cannot be evaluated before the purchase (e.g. Moorthia, 2002; Rushton & Carson, 1989; Zeithaml, 1991). Therefore, it was expected that the intangibility rate would be higher than 1.8. Locating this figure in the tangibility continuum indicate that the services provided by dentists have more tangible than intangible features. However, the degree of tangibility depends on what service is

⁵ See Appendix 3

conducted at the dentist. Most people have experienced a regular examination while it can be assumed that a more complex service may be perceived as intangible if the respondents have not been in contact with it.

It has been stated that service providers can benefit from making their services more tangible (Reddy et al., 1993). It is argued that this would facilitate evaluation for the consumer *before* the purchase is done and thus expected service quality would increase. Depending on what service we consider, the amount of previous experience can differ. Some are first experienced at young age while others are not encountered until later in life (i.e. bank services). Dentistry could be an example of a service used from early age, which thus could make it easier to evaluate since many persons have experienced it during a longer time.

Tangibility consists of both a physical and a mental component where the physical part is the evidence of the service (McDougall & Snetsinger, 1990). Tangibles in this discussed example are improved teeth but can also be the dentist's surgery and how the consumer perceives the service. Rushton and Carson (1989) refer to these kinds of tangibles as surrogate features, since it is not a tangible that is derived from service performance but rather a complement to the actual service. However, for the overall experience, it is equally important to have physical surroundings that adds to the overall service quality. Thus, to make dentistry more tangible, focusing on enhancing the environment is also of importance.

4.5.2 Loyalty

The mean loyalty value for dentistry was 7.7 out of 10. Thus, it can be concluded that loyalty in this service industry is rather high. As previously highlighted, loyalty is often interlinked with satisfaction meaning that if a consumer of a service is satisfied, the degree of loyalty should in general be higher. In question 4, the respondents were asked how satisfied they were with this particular service; which led to a mean of 8.2. Thus, satisfaction was higher than overall loyalty. Satisfaction is also interlinked with service quality (Grönroos, 2000). If satisfaction is high, it is assumable that the experienced quality also is considered high.

Despite the high scores on satisfaction, Grönroos (2000) argues that it is only customers who give satisfaction the highest score, who will be fully loyal. Hence, even if a consumer scores high on the scale, it is not valid to claim that they are completely loyal to that service provider. Heskett et al. (1994) state that customers ranking satisfaction highest are six times more likely to repurchase the service than those scoring lower on the scale. Therefore, service providers must strive towards receiving high satisfaction scores. In our survey, 42.5 % ranked the highest score on the satisfaction question. Customers with a bad service quality experience are referred to as terrorists since they tend to speak badly about their experience (Grönroos, 2000; Heskett et al., 1994). To avoid this bad word-of-mouth, satisfaction must be raised for dentists that get low on satisfaction. To do this, it has been suggested that both employee management as well as customer orientation has to be improved since both these affect satisfaction (Gustafsson et al., 2003). The importance of being service minded is equally important as performing a high quality service. Within dentistry, many respondents expressed that they always went to the same dentist and had done so for several years. Thus, it might be harder for service providers in this industry to attract new customers since many of them are already attached to a specific dentist and might be reluctant to change.

Empirical Findings and Analysis

Summing up, it is to be concluded that a significant relationship between service tangibility and customer loyalty was found. The main part of the respondents rating loyalty high, also rated the service to be low on the intangibility scale. Hence, by making the service more tangible, loyalty is expected to increase. Possible reasons for high levels of loyalty and tangibility is that most people have a long experience from these types of services and that many have used the same service provider for many years.

4.6 Banks

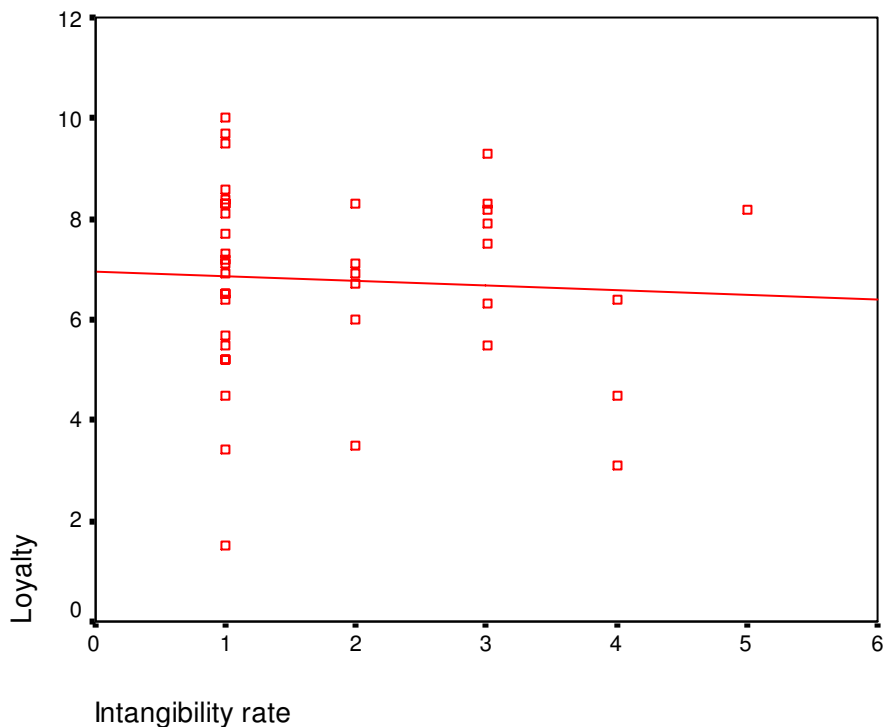


Figure 4-5 Banks' loyalty and intangibility rate.

Results from surveying bank customers show a very small negative correlation between intangibility and loyalty of -0.024^6 (see figure 4-5). However, the level of significance is 0.883^6 , which implies that our results are insignificant. Therefore, it cannot be argued that a relationship exists in this service industry. The scatter plot displays a wide spread of answers and a wide spread of loyalty.

4.6.1 Tangibility

Mean level of tangibility is 1.8, which thus mean that the respondent's picture of the service is more tangible than intangible. This is not in line with theory suggesting that financial services consists mainly of credence qualities and should thus be rated high on intangibility (Moorthia, 2002). Contact with financial services might differ between the respondents. Since they were asked to think about the *last* visit to a bank and not a specific service, this might have affected the result. If instead surveying a specific bank service, the results might have looked differently. If going to the bank for simple transactions, such as money transactions or depositions, a lower degree of intangibility could be a result than if other services were used. However, this was not in line with the purpose of this thesis and thus not further examined into.

Tangibles are defined as being the physical evidence of the service and affect tangibility (McDougall & Snetsinger, 1990). In the case of banking, tangibles could for example include employees, environment and money. However, when banks are directing their

⁶ See Appendix 3

customers towards using internet for some services previously conducted in bank offices, contact with the bank is decreasing which may lead to higher degrees of intangibility in the future when tangibles are not experienced in the same way as before. Thus, even bank services such as transactions and depositions may be intangible in the future when performed at home and not in bank offices. Thus, future lack of tangibles might influence customer examination and evaluation of service quality. In turn, this may affect customer loyalty in the future (Heskett et al., 1994; Santos, 2002). Customers will have less contact with tangibles and may therefore evaluate banks on other criteria than today.

4.6.2 Loyalty

Mean value of loyalty was calculated to 6.8, which is a relatively low value of loyalty. When questioning how satisfied the respondents were, the mean was 7.7.

As mentioned in the theoretical framework, loyalty is hard to define and people can often refer to different things when talking about loyalty. Söderlund (2003) states that loyalty can be both of a physical and of a mental nature. In the physical world, individual's behaviour is highlighted while their attitudes and intentions are focused on when talking about the mental world. Thus, the behaviour of bank customers might differ with their attitudes. Customers may be loyal in their behaviour towards the bank but disloyal when examining their attitudes towards the same bank. This could be a case of when customers are engaged in "false loyalty" (Söderlund, 2003). They may continue employing the same bank without being completely loyal in the mental world. However, since changing service provider in this industry can be assumed more complex than in other, dissatisfied customers are less prone to change despite engaging in false loyalty. Customers might find it hard to spot differences between banks. Banks offer services that are more or less the same and all try to maintain a high quality environment where services are delivered. This coheres with Grönroos's (2000) notion that a service organisation find it hard to compete with functional quality.

Butscher (1998) suggested that loyalty must be built through real relationships based on emotions and trust by offering high-perceived value. In the banking industries, where many services are now conducted through the internet; building and maintaining loyalty in the way Butscher (1998) suggestions might be less feasible in the future. To keep customers loyal, simply using the internet as a tool for increasing loyalty will be difficult.

Grönroos (2000) argues that only respondents giving the highest mark will stay completely loyal to the service provider. Based on this statement, 32.5 % of the respondents are fully loyal to their bank. However, few will probably change bank due to the complexity involved. Still, banks have to work continuously with attempting to attract new customers and trying to increase loyalty and satisfaction with the existing ones. The service-profit chain displays the importance of increasing loyalty since it affects revenue growth (Heskett et al., 1994). It is claimed that satisfaction leads to loyalty and thus higher profits. In the banking industry, it is perhaps easier to maintain customers since many people use the same bank through their life than trying to increase loyalty with the existing customers. Hence, effort has to be put on customers, who are about to choose bank for the first time. However, it might be assume that people from the same family generally use the same bank, which renders difficulties when trying to attract new customers. As a result, increasing market share in this industry can be considered harder compared to other service industries.

Empirical Findings and Analysis

To conclude, our results from the banking industry did not point towards any relationship between intangibility and loyalty. The answers were largely spread and respondents having a clear picture of the service differed in loyalty. Thus, it cannot be concluded that a lower degree of intangibility would necessary lead to higher degree of loyalty. This may be because people in this service industry are less likely to change provider in spite of dissatisfaction with the bank.

4.7 The Swedish Employment Agency

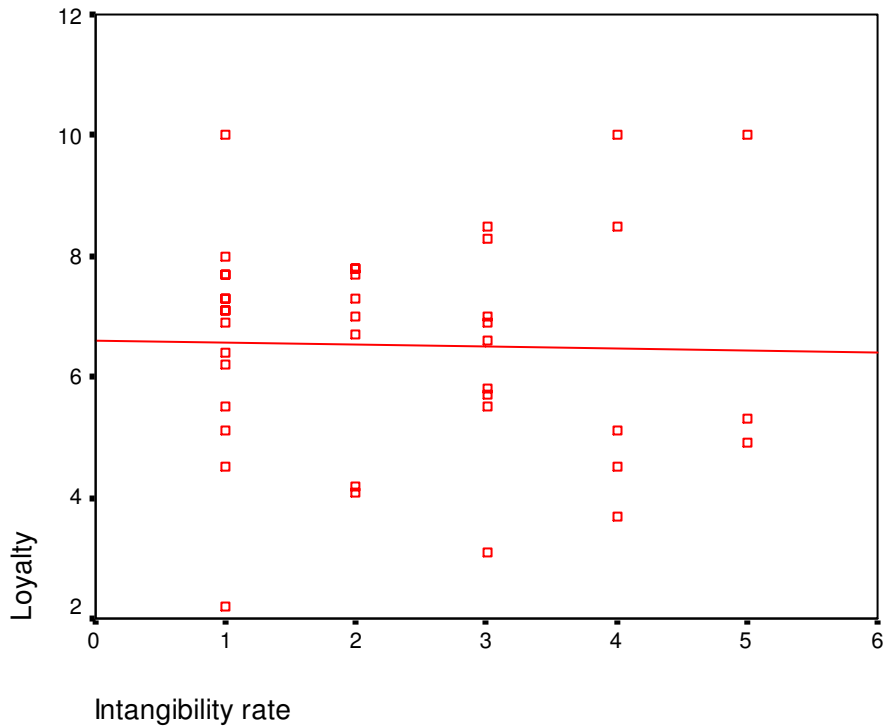


Figure 4-6 The Swedish Employment agency’s loyalty and intangibility rate.

The last service provider differs from the others in that it is a public authority with state funding. Thus, the profit motive existing in the other industries is not present here. In addition, they are less involved in competition with other service providers. However, arising job agencies on the Swedish market have given the Swedish employment agency some competition. Still, if people become unemployed, they have to notify the Swedish employment agency in order to get access to unemployment compensation. Despite these differences with the other investigated service industries, it is interesting to survey people using these kinds of services to see if it differs and if a relationship can be found between tangibility and loyalty.

The results show that correlation is slightly negative with a value of -0.024^7 . The level of significance is however very high, 0.883^7 implying that the negative correlation is not valid and thus it cannot be decided if a relationship exists between tangibility and loyalty. Answers are spread and both people with a clear picture as well as unclear picture of the service have rated both high and low on loyalty (see figure 4-6).

4.7.1 Tangibility

Mean level of tangibility is 2.3, which shows that the respondents in this category have a less clear picture of the service provided by the Swedish employment agency. Exactly what service the respondents used was not investigated. Thus, depending on what service the jobseeker used when answering our survey probably also influenced the answers.

⁷ See Appendix 3

It was not known on beforehand whether the Swedish employment agency consisted of mainly experience or credence qualities when trying to place it on the tangibility continuum (Moorthia, 2002). Evaluating the results, it can be concluded that it is probably somewhat more intangible and consist of mainly credence qualities since many respondents evaluated the service to be less clear. Perhaps this is a result of ambiguity involved in the service. Is it the potential provided job that is the service or is it education, help or compensation that is the core service? On the one hand, if considering the main service to be provision of a job, then intangibility would probably be higher since the picture of this will be very unclear before employment has started. On the other hand, if the service *before* employment starts is considered the core service, it is probably more clearly perceived. Tangibility of the service will be higher in this case compared with the first mentioned view because it consists of more physical evidence (McDougall & Snetsinger, 1990).

Santos (2002) has suggested that if a service is more tangible, perceived value will be higher. Thus, in this case perceived quality should be low. However, this may also be hard to claim due to the specific features of this service provider. The undesired aspect of this service can lead to lower perceived quality than in other industries. It may also be linked with the characteristics of services being inseparable, perishable, intangible and heterogenic (Grönroos, 1998). Because of these characteristics, each person perceives services differently and thus, perception of quality will differ.

Developed theory concerning service marketing and problems deriving from the intangibility aspect has been developed with profit-making organisations in mind (Heskett et al., 1994). Therefore, the suggestion to make a service more tangible in order to increase profits is less applicable on the Swedish employment agency. Since they are not dependent on profits for survival, they might be less prone to develop strategies to make the service more tangible. Moreover, before customers have been provided with a job, it can be harder to evaluate the results from the service provided by the Swedish employment agency. Asking people now employed how they perceived the service would probably have led to a lower mean of tangibility since they can easier evaluate the results.

4.7.2 Loyalty

Loyalty will also be different compared with other service providers since customers do not have the choice in the same way as with other services. Lately, there are more job providers on the Swedish employment market than before. Yet, all unemployed people are more or less obliged to have some contact with the Swedish employment agency, if requesting unemployment compensation.

The mean value of loyalty was calculated to be 6.1, which can be argued to be quite low. Considering that the number of service providers in this industry is few, the loyalty value would have been expected to be higher. Maybe it is a result of the service involved being sensitive and unwanted. Most likely, people are not satisfied with being unemployed, which automatically lead to giving the Swedish employment agency low ratings in the survey.

People are loyal when they repurchase the same brand without any consideration of buying another (Oliver, 1999). However, in the case of the employment industry, adapting this definition is not feasible since there are not many brands to choose from and the service is not purchased in the same way as other services. Jobseekers will remain loyal as long as they are unemployed and thereafter be completely disloyal, referred to as terrorists by Grönroos (2000).

Loyalty has been connected with satisfaction and is strived after due to its affect on profitability (Grönroos, 2000; Heskett et al., 1994). These are also more applicable to profit-making industries. The Swedish employment agency will not try to increase loyalty because they want to increase profits. Instead, they have the reverse wish, if people become employed and thus less loyal, their goal has been fulfilled. Hence, it can be argued that job seekers at the Swedish employment agency are engaged in false loyalty (Söderlund, 2003). It has been argued that loyalty is strongly interlinked with satisfaction (Grönroos, 2000). However, even if customers are completely satisfied with a service, they may change provider. Conversely, dissatisfied customers do not necessarily change service provider (Söderlund, 2003). Applying this on the Swedish employment agency, customers might be dissatisfied but continue using their services. However, this behaviour can take place in profit-making organisations as well but may be more common when providers are few.

Reviewing the results from the Swedish employment agency, there is no relationship to be found between the level of intangibility and loyalty. Thus, attempting to make this service more tangible would probably not increase loyalty. It is likely that the results are affected by the ambiguity involved in job seeking. People using this service have not yet experienced the result in form of being employed, consequently, the service is perceived to be intangible. Loyalty is also viewed differently since the wish from the service provider is that people should become less loyal. If so, their primary goal has been reached, to decrease unemployment in Sweden.

4.8 Overall Service Analysis

4.8.1 Loyalty and Intangibility Graph

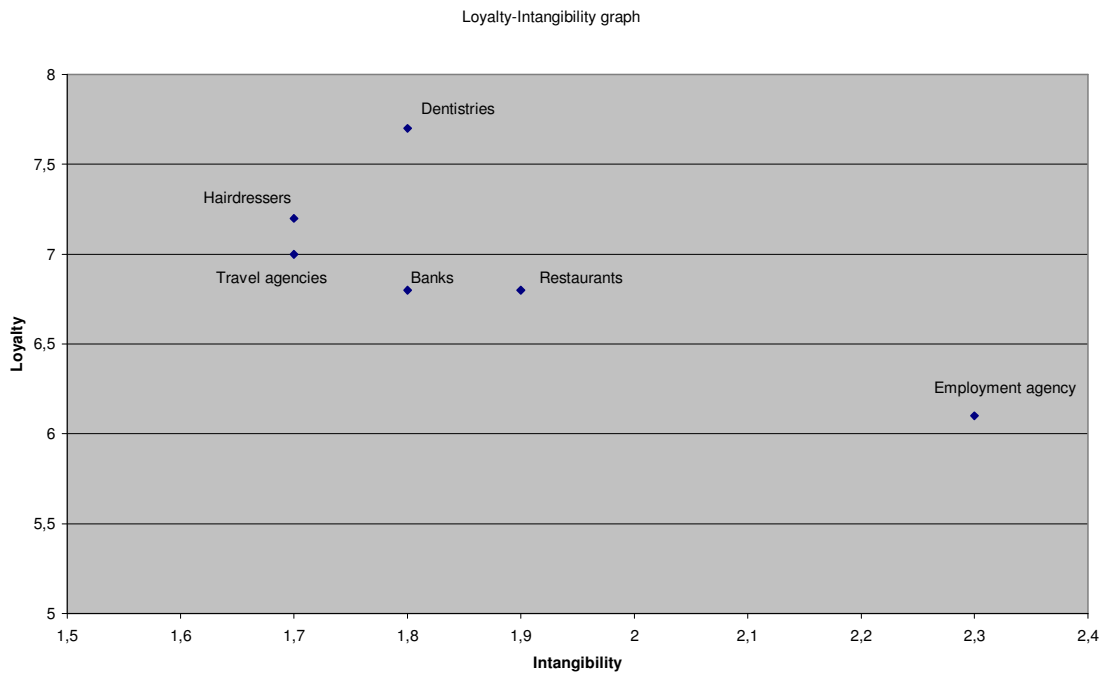


Figure 4-7 Loyalty and Intangibility Graph.

To enable comparison between the investigated service providers, we calculated a mean value from intangibility and loyalty in order to get one point for each industry. By displaying the values in a diagram (see figure 4-7), it can be discovered whether differences exist. However, the relationship between loyalty and intangibility is not shown here.

Loyal customers have been defined as those who repurchase the same brand consistently without considering other brands (Oliver, 1999). According to Grönroos (2000), it can only be argued that customers giving loyalty top scores will be completely loyal. In the survey, loyalty value ranges in between 6.1 to 7.7. The Swedish employment agency got the lowest loyalty result while dentistry received the highest. Hairdressers got the second highest rate of 7.2. Banks, travel agencies and restaurants got close rates and the differences cannot be claimed to be very large.

As argued, customer loyalty leads to higher profitability, which most service providers strive after (Heskett et al., 1994; Söderlund, 2003). If loyalty is not in focus, Reichheld (1997) argues that companies will experience a struggle to uphold growth. The Swedish employment agency lacks the goal of increasing profitability compared to the other service providers. However, what is interesting is that the national dental health service also lacks the monetary goal. Since the respondents were not asked if they were visiting a private dentistry or not, it cannot be decided to what extent the goal of profitability is present or not. It can be argued that banks, hairdressers, travel agencies and restaurants always are driven by profitability and the results shows that they also received about the same loyalty values.

Low loyalty value received by the Swedish employment agency might be explained by the strong connection between service quality, satisfaction and loyalty (Grönroos, 2000). It is however not necessary that service quality must be high as long as it surpasses expectations from the customer (Grönroos, 2000). Customers at the Swedish employment agency may perceive quality as low and thus satisfaction will decrease as well. Nevertheless, if expectations were low from the start and surpassed, satisfaction will be higher than expected. Satisfaction might not occur until after the goal of employment has been achieved. Thus, to ask people after they have been employed would probably have led to higher loyalty results.

Service intangibility is one characteristic leading to problems when marketing and assessing services. Marketing through employing similar strategies as with tangible product marketing is not feasible and instead Rust et al. (1996) propose three P's; people, physical evidence and process. Personal interactions and the surroundings where interactions take place are important when marketing services. In this thesis, the respondents were asked to consider the last time they made use of a specific intangible service. Intangibility/tangibility ratings varied between 1.7 and 2.3, which all are more towards tangibility than intangibility. This could be a result of the service already being experienced and thus people having a clearer picture of people, physical evidence and processes. Services experienced at the hairdresser and the travel agency were perceived as most tangible while the Swedish employment agency got the highest value of 2.3. Bank and dentistry got a mean of 1.8 and restaurant 1.9 that can be claimed to be very close to hairdressers and travel agencies.

McDougall and Snetsinger (1990) argue that tangibility has both a physical and a mental component. Applying this on the Swedish employment agency, the physical and mental picture of a potential job might be blurred and not as clear as with the other services. The service also differs from the others in that it is not purchased but used as a means to reach something. Looking at the other extreme of hairdresser and travel agency, people's picture of the service is clearer when they think about the last journey or haircut purchased.

Summing up the results received when calculating a mean of both loyalty and intangibility/tangibility on all investigated service providers, small differences were found. All the providers, which have a profitability goal, are grouped together and only small differences exist. The only provider with results that differs is the Swedish employment agency (see figure 4-7). The reason for this can be that the service provided is vaguer than the others are since the respondents had not yet experienced the result as within the other industries. If asking people that had received a job through using the Swedish employment agency's services, the results might have differed.

4.8.2 Tangibility Continuum

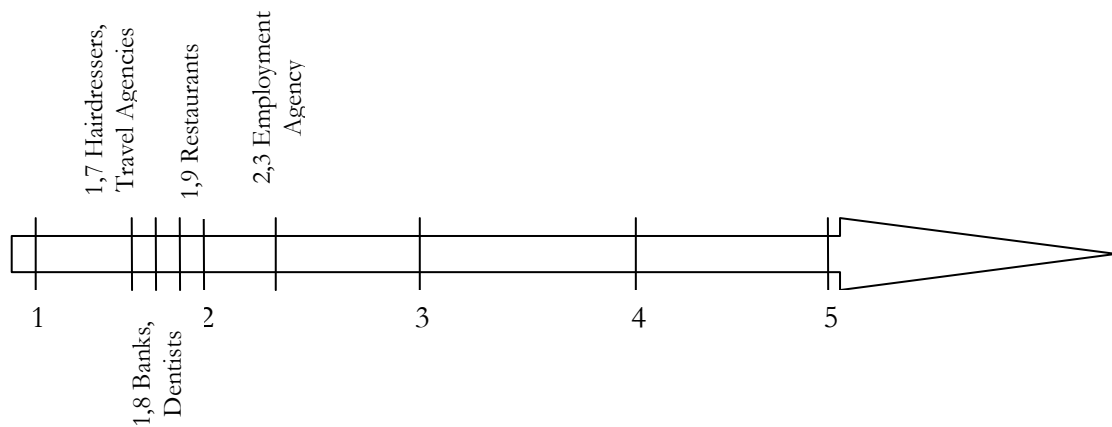


Figure 4-8 Tangibility Continuum.

Intangibility is the service characteristic that has been most extensively brought up to discussion by theorists (e.g. Harte & Dale, 1995; Johns, 1999; McDougall & Snetsinger, 1990; Rushton & Carson, 1989; Santos, 2002). It is also argued that services should not be seen as a homogenous group and that the intangibility feature does not clearly separate services from products (Johns, 1999; Levitt, 1981; McDougall & Snetsinger, 1990; Santos, 2002). Derived from these discussions, it is interesting to elaborate further with the analysis and to place the selected service industries along the tangibility continuum in order to detect any possible similarities or differences (see figure 4-8).

There are indications that the more search qualities a service has, the more tangible the service is (Harte & Dale, 1995; Rushton & Carson, 1989; Zeithaml, 1991). The same goes the other way around, the more credence qualities a service has, the more intangible it is. Furthermore, intangibility forces service marketing to part from traditional marketing and to develop new marketing practises, which are more in line with services distinct characteristics (Grönroos, 2000). Since a service-oriented organisation should strive towards tangibilize services through marketing, it could be claimed that the service industries investigated have succeeded with their marketing approach (Reddy et al., 1993).

According to Rushton and Carson (1989), services provided by restaurants, travel agencies, and hairdressers, are considered high in experience qualities while dentists and banks are high in credence qualities (Rushton & Carson, 1989). Hence, it was expected that the chosen service industries would be located more in the middle and upper half of the tangibility continuum. However, neither did the study provide such results nor did it separate experience dominant from credence dominant services. Restaurants were in fact ranked more intangible than both banks and dentists, which do not support Rushton's and Carson's (1989) grading. This means that the respondents found it in general relatively easy to picture the service. In turn, there are indications that hairdressers, travel agencies, banks, dentists and restaurants in general possess service attributes that can be evaluated before the actual purchase (Zeithaml, 1991). When it comes to the Swedish employment agency, there were no such expectations. However, due to its services nature (for example that it provides advices for job seeking) there were indications that if not being more credence dominated it would be more experience dominated. Such beliefs cannot be accepted when considering the low intangibility rate.

Empirical Findings and Analysis

When evaluating a service degree of tangibility the respondents could have considered many aspects. Due to the questionnaire's design, it is neither possible to draw any conclusions from what kind of tangibility each service industry is generating nor what kind of service that each respondents is reflecting upon. However, since tangibility is a concept that does take into consideration the tangibles' influence on tangibility and its physical and mental components, it is still interesting to compare the different service industries tangibility ratings (McDougall & Snetsinger, 1990; Rushton & Carson, 1989).

5 Conclusions and Final Discussion

This final chapter will present conclusions derived from the analysis. A final discussion will display thoughts concerning the study made. There will also be suggestions of areas for further research.

5.1 Conclusions

The purpose of this thesis was to investigate if there is a relationship between services' tangibility and customer loyalty. In order to examine such matters, graphs that visibly display any possible relationships, have been presented and so have results from Pearson's correlation test. Due to the variety of results derived from different service industries, it cannot be concluded that there is a relationship between services' tangibility and customer loyalty in the service industry as a whole. However, when analysing different services industries separately, three have a significant relationship between the two variables and three have not.

When reviewing results from the six chosen service industries, it can be concluded that there are differences in Pearson correlation coefficients' significant levels between loyalty and tangibility. Hence, it is necessary to look at each service industry separately and not as a homogenous group. While the Swedish employment agency, banks and hairdressers had an insignificant relationship between loyalty and tangibility, the dentists, travel agencies and restaurants had a significant relationship between the two variables. The first group's significant values range from 0.012 to 0.044 while the second group has values that range from 0.0126 to 0.883; figures which are well above the chosen significant value of 0.05.

The significant correlations are all negative. Restaurants had a correlation of -0.394, hairdressers -0.246 and dentists -0.320. Being fully correlated would show values of +1 or -1, hence, even though correlated, the figures indicate that loyalty and tangibility are not fully correlated. However, negative correlation coefficients denote that a decrease in service intangibility will increase loyalty and vice versa. In other words, if service providers within these industries attempt to increase services' tangibility, loyalty will increase. Therefore, by influencing customers' ability to picture services, dentists, travel agencies and restaurants will be able to affect their customer loyalty. When it comes to the insignificant correlation values of the Swedish employment agency, banks and hairdressers, there are graphical tendencies towards this negative relationship. The correlation coefficients ranges from -0.024 to -0.246, which confirms that even though very small correlations they are negative. However, in these cases, it is not valid to claim that attempting to make services more tangible would increase loyalty. Thus, it cannot be concluded that a lower degree of intangibility would necessary lead to higher degree of loyalty and vice versa.

5.2 Final Discussion

When performing a study that has primarily focused on customer loyalty and service tangibility, it has been noticed that customers have difficulties in both defining loyalty and tangibility. As a result, measuring these variables based on customers' perception might affect the results derived from the questionnaire. In turn, it is important to be aware that emotions and attitudes could be captured inaccurately. Moreover, there might be customers who consider themselves as being loyal, even though not loyal as theorists define. The same goes for the other way around, customers might not see themselves as loyal, but their actions indicate the opposite.

When presenting our results from the survey, we decided not to look at the age spread of the respondents. It was not in line with our purpose and thus excluded. However, because of this, the age spread in each service industry is not known. If a larger survey was to be conducted, this aspect could also have been included to find possible differences between age groups.

Some results derived from the empirical findings may be questionable. It was found that people are more loyal to their hairdresser than their bank, which may not be the case in reality. This can be a result of asking the respondents to consider their *last* experience with a bank. Thus, the bank referred to when filling in the questionnaire may not be the bank they usually visit.

If customers believe that tangibility and loyalty are hard to define, so might marketers. As mentioned only briefly in the thesis, a study performed by Rushton and Carson (1989) proved that practitioners in the service-marketing field do see a difference between their task and that of marketing managers dealing with goods. However, being able to separate intangible benefits and intangible features was difficult. Common sense was often being used. It might be that, reflecting on such findings, the theoretical world is not yet fully linked to reality. Further, to implement different kinds of tangibility strategies, there is a need for theorists to communicate what tangibility and intangibility are and *why* marketers should focus on marketing their services in a more tangible way. In addition, to deepen knowledge of how to market services as more tangible is an area for further investigation.

In the future, if service tangibility has been effectively communicated to practitioners, loyalty might be measured only based on how customers perceive provided services. Their expectations as well as experiences based on tangibility could help marketers to direct and improve marketing methods. In addition, assuming that customers are aware of the word tangibility, measuring loyalty through rather simple tangibility questions could cut costs from more expensive and extensive loyalty programmes. Thus, focusing on tangibility could save money but it could also facilitate the actual measuring of loyalty.

5.3 Suggestions for further studies

Our study has measured the relationship between loyalty and tangibility within different service industries. We detected some similarities and difference, which would be more interesting to investigate further. For example, the reasons for why all investigated service industries ended up within a narrow tangibility range from 1.7 to 2.3. This is interesting because the service industries chosen are considered to have more experience and credence qualities than search qualities. Hence, when marketing services provided by these industries, it is argued that these characteristics should be taken into consideration. However, as these services actually seem to have more search qualities, could it then be more appropriate to use traditional marketing than service marketing? Because it is difficult to find pure services or pure products, could it be that customers have changed and do not believe that there is a difference? If so, would it be appropriate to create a new marketing approach that focuses on service and product mixtures instead of either services or products?

It could also be interesting to perform similar tests between different service providers within the same service industry. If measuring loyalty and tangibility in one specific industry, comparisons of how service providers market the same core service could be further investigated in. In addition, competition theories could be introduced to the

Conclusions and Final Discussion

discussion. It might also be interesting to link loyalty and service tangibility to different kinds of services provided from the same organisation.

Identifying a service provider's customers could deepen the discussion concerning the customer loyalty and service tangibility relationship. To examine what preferences, experiences and expectations a customer has of a specific service might help marketers to find more suitable segments but also to be able to customize tangibilization strategies to different customer groups.

New trends within for example banks and travel agencies affect a service's tangibility. For example, banking activities are carried out more on the internet than before. In turn, tangibles, physical surrounding and other factors that influence service tangibility are no longer able to function as marketing tools. Hence, if services can be considered as becoming more intangible as new technologies are entering the market and taking over the physical meeting between a service provider and a customer, it is important for marketers to approach new strategies for attracting and retaining customers. It might be that the loyalty concept needs to be re-evaluated.

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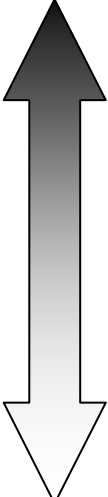
Appendices

Appendix 1 Survey – Swedish version

En enkätundersökning angående lojalitet relaterat till tjänster.

- | | | | | | |
|-----|-----------------------|--------|-------|-----------------------|---------|
| Kön | <input type="radio"/> | Man | Ålder | <input type="radio"/> | 18 – 32 |
| | <input type="radio"/> | Kvinna | | <input type="radio"/> | 33 – 47 |
| | | | | <input type="radio"/> | 48 – 64 |
| | | | | <input type="radio"/> | 65 – 80 |

Frågorna ska besvaras utifrån Er senaste erfarenhet hos en bank. Hur konkret eller abstrakt anser ni att tjänsten var? Kryssa för det alternativ som stämmer bäst överens.

	Konkret
	<input type="radio"/> Jag har en väldigt tydlig bild av denna tjänst.
	<input type="radio"/> En föreställning av denna tjänst kommer direkt framför mig.
	<input type="radio"/> Denna tjänst är lätt att se och röra.
	<input type="radio"/> Jag anser att detta inte är en typ av tjänst som är lätt att föreställa.
	<input type="radio"/> Detta är en svår tjänst att föreställa sig.
	Abstrakt

Hur väl stämmer följande frågor in på er syn av företaget? Ringa in det alternativ som stämmer bäst överens.

1. Hur stor är sannolikheten att ni kommer att fortsätta köpa denna tjänst hos detta företag?

Inte troligt 1 2 3 4 5 6 7 8 9 10 Troligt

2. Om ni skulle välja ett liknande företag för första gången, hur troligt är det att ni skulle ha valt detta företag?

Inte troligt 1 2 3 4 5 6 7 8 9 10 Troligt

3. Hur troligt är det att ni kommer att rekommendera andra att köpa tjänsten hos detta företag?

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Inte troligt 1 2 3 4 5 6 7 8 9 10 Troligt

4. Hur nöjd är ni med tjänsten?

Inte nöjd 1 2 3 4 5 6 7 8 9 10 Mycket nöjd

I vilken grad överensstämmer ni med följande påstående? Ringa in det alternativ som stämmer bäst överens.

5. Företaget bryr sig om att bygga upp en stark relation med mig.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

6. Företaget kommunicerar öppet och ärligt.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

7. Företaget är engagerat i att skapa ömsesidiga fördelar (dvs. missbrukar inte sina kundrelationer).

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

8. Jag litar på detta företags ledare och anställda.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

9. Kundlojalitet är värdefullt för detta företag och lönar sig för mig som kund.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

10. Jag anser att företaget är värd min kundlojalitet.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

11. Över åren så har min kundlojalitet ökat för detta företag.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

12. Det är enkelt att vara kund på detta företag.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

13. Företaget är ett bra föredöme för denna bransch.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

14. Företaget har bra personal.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

15. Företaget kommer med innovativa lösningar.

Håller inte med 1 2 3 4 5 6 7 8 9 10 Håller med

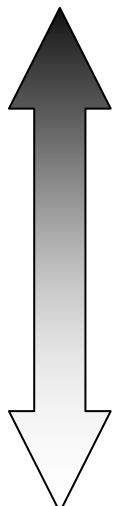
Tack för er medverkan!

Appendix 2 Survey – English version

A survey concerning customer loyalty relating to services.

- | | | | |
|---------------|------------------------------|------------|-------------------------------|
| Gender | <input type="radio"/> Male | Age | <input type="radio"/> 18 – 32 |
| | <input type="radio"/> Female | | <input type="radio"/> 33 – 47 |
| | | | <input type="radio"/> 48 – 64 |
| | | | <input type="radio"/> 65 – 80 |

The questions should be answered with reference to your last experience at a bank. To what extent did you perceive the service as being tangible or intangible? Mark with a cross the alternative, which best coheres with your view.



Tangible

I have a very clear picture of this item.

The image comes to my mind right away.

This item is very tangible.

This is not the sort of item that is easy to picture.

This is a difficult item to think about.

Intangible

How well do your view of this company coheres with these questions? Mark the alternative, which best coheres with your view.

1. How likely are you to continue buying services from this company?

Not likely 1 2 3 4 5 6 7 8 9 10 Likely

2. If you were selecting a similar vendor for the first time, how likely is it that you would choose this company again?

Not likely 1 2 3 4 5 6 7 8 9 10 Likely

3. Overall, how likely are you to provide enthusiastic referrals to this company?

Not likely 1 2 3 4 5 6 7 8 9 10 Likely

4. Overall, how satisfied are you with the service from this company?

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Not satisfied 1 2 3 4 5 6 7 8 9 10 Very satisfied

Please rate your level of agreement with the following statements.

5. Company really cares about building a relationship with me.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

6. Company communicates openly and honestly.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

7. Company is committed to win/win solutions (does not take advantage of its partners or customers).

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

8. I trust Company's leaders and personnel to behave with fairness and integrity.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

9. Customer loyalty is appropriately valued and rewarded at Company.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

10. I believe Company deserves my loyalty.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

11. Over the past year, my loyalty to Company has grown stronger.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

12. Company makes it easy for me to do business with them.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

13. Company sets the standard for excellence in its industry.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

14. Company attracts and retains outstanding people (employees, partners, etc.).

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

15. Company creates innovative solutions that make my life easier.

Do not agree 1 2 3 4 5 6 7 8 9 10 Agree

Thank you for participating!

Appendix 3 Correlation Outputs

Restaurants

Correlations

		Intangibility rate	Loyalty
Intangibility rate	Pearson Correlation	1,000	-,394*
	Sig. (2-tailed)	,	,012
	N	40	40
Loyalty	Pearson Correlation	-,394*	1,000
	Sig. (2-tailed)	,012	,
	N	40	40

*. Correlation is significant at the 0.05 level (2-tailed).

Hairdresser

Correlations

		Intangibility rate	Loyalty
Intangibility rate	Pearson Correlation	1,000	-,246
	Sig. (2-tailed)	,	,126
	N	40	40
Loyalty	Pearson Correlation	-,246	1,000
	Sig. (2-tailed)	,126	,
	N	40	40

Travel Agencies

Correlations

		Intangibility rate	Loyalty
Intangibility rate	Pearson Correlation	1,000	-,352*
	Sig. (2-tailed)	,	,026
	N	40	40
Loyalty	Pearson Correlation	-,352*	1,000
	Sig. (2-tailed)	,026	,
	N	40	40

*. Correlation is significant at the 0.05 level (2-tailed).

Appendices

Dentistry

Correlations

		Intangibility rate	Loyalty
Intangibility rate	Pearson Correlation	1,000	-,320*
	Sig. (2-tailed)	,	,044
	N	40	40
Loyalty	Pearson Correlation	-,320*	1,000
	Sig. (2-tailed)	,044	,
	N	40	40

*. Correlation is significant at the 0.05 level (2-tailed).

Bank

Correlations

		Intangibility rate	Loyalty
Intangibility rate	Pearson Correlation	1,000	-,053
	Sig. (2-tailed)	,	,746
	N	40	40
Loyalty	Pearson Correlation	-,053	1,000
	Sig. (2-tailed)	,746	,
	N	40	40

The Swedish Employment agency

Correlations

		Intangibility rate	Loyalty
Intangibility rate	Pearson Correlation	1,000	-,024
	Sig. (2-tailed)	,	,883
	N	40	40
Loyalty	Pearson Correlation	-,024	1,000
	Sig. (2-tailed)	,883	,
	N	40	40