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TEZA DE DOCTORAT

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**The Impact of Service Components on Customer's
Satisfaction and Repurchasing Intention of Cars in Israel**

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Cluj-Napoca

2013

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Key words:

The service profit chain, the value equation, car service, car workshop, customer satisfaction, customer loyalty, service components.

Introduction

In the last decade the Israeli automobile after-sales market has experienced enormous changes which intensified the competition between the different service suppliers. Particularly intense competition has emerged in the car workshop market. This thesis aims to examine the different service components which shape the customer's experience and the customer's satisfaction from the car workshop. Other links which are examined in this thesis are the links between satisfaction from the car workshop and customer's intention to revisit again and to recommend the workshop to a friend. Finally, the thesis examines the link between car after-sales service and car sales. The research in this thesis was performed by using two sources: a primary source containing a survey conducted among car owners in Israel and a secondary source which uses two updated surveys performed by two different car brands in Israel. The data were processed by SPSS computer program and were analyzed by descriptive statistics, hypothesis tests, alpha Cronbach test, correlation test and regression test.

The research results show that in the Israeli car workshop market the repair quality is the most important service component. However, customers are demanding high quality of interaction with a workshop and are particularly sensitive to reliability. Other findings show that in Israel customer commitment to the workshop is high and the willingness to recommend the workshop to a friend is high as well. However, other findings from the research show that the link between car service and car sales is weak. Customers consider very little their car workshop when they consider changing their car. However, the impact of a car manufacturer and its local general agency on the customer's next car purchase decision is much higher than the one of the car workshop.

The thesis begins with a brief discussion on the research topics, later it continues by introduction of the Israeli car market, it proceeds by introducing theories from the field of services marketing, finally it explains the research methods which were used in this research. The thesis will be finalized by analyzing and concluding the findings.

The research topics

Buying a car is the first step in the customer's continuous car experience which ends when the customer sell his car. The customer's experience with the car, known as the *ownership experience*, includes different kinds of factors. Among the factors which shape the ownership experience are: the car features and performance, the car running costs, the car reliability and the car maintenance and service. Cars are complicated machines which require routine maintenance. Therefore at regular times a car owner has to visit a specialist in order to service the car i.e.: perform oil and filters change, brake pads check and replacement of parts. Furthermore, due to their advanced technology, cars tend to break and to have failures. The service suppliers for cars are called *car workshops*.

According to the Israeli Central Bureau of Statistics (C.B.S, 2011) approximately 2.5 million motor vehicles are registered in Israel. In that market approximately 5,000 car workshops are registered and offer services to those cars (IGA, 2011). There are several kinds of car workshops in Israel; however two of them dominate the market: the *general car workshops* which repair different kind of cars and the *authorized car brand workshops* which repair certain brand cars.

The car workshop market in Israel is a very competitive market. Competition between the different kinds of car workshops became very intensive mainly due to government regulations. As in the last decade the involvement of car manufacturers in this market became very intense, thus service quality and customer satisfaction became key factors in workshops performance. Furthermore, the intensive involvement of car manufacturers in the service business, forced car workshops to invest money in the business. Thus car workshop owners had to face questions such as: Where shall we invest our money? Will the investment return itself? How will we deal with the constant increase of competition? From those dilemmas the idea of this thesis was ignited.

This thesis is focused on the car workshop market in Israel. It aims to examine the different service components which shape the customer's experience and the customer's satisfaction from the service in a car workshop. The thesis examines the links between the different service components in different market segments. Other links which were tested in this thesis are the links between satisfaction from the car

workshop, the ownership experience and the customer's purchase intentions of the next car.

The research questions are:

- How do the different service components impact customer's satisfaction from a car workshop?
- How does customer satisfaction from a car workshop link to the customer's future intention toward the workshop and the brand?
- How does the "*ownership experience*" link to customer's intention to purchase a car from the same brand?

The research data were gathered through different channels by using the following sources:

1. Two secondary sources- a popular car brand survey which consists of 2,439 respondents and a luxury car brand survey which consists of 517 respondents.
2. Primary source- a survey among 202 respondents divided in three market segments.

In the primary source three market segments were examined. The first market segment is the Tel-Aviv market segment which includes respondents who drive cars for personal use and live in a very busy metropolitan area. The second market segment is the Eilat market segment which includes respondents who drive cars for personal use and live in a rural city which is isolated from other places in the country (250 km from the closest city). The third market segment is Taxi Drivers segment which includes respondents who drive an average of 120,000 km per year and use their cars as a working tool. Comparing the results of measurements of those three different market segments might enable us to gain insights into the research topics.

Relationship Marketing

Relationship marketing presents a marketing concept which is based on customer relationship management. This concept focuses on keeping current customers rather than on acquiring new customers. The rationale of this concept relies on the idea that many customers prefer an ongoing relationship with one service supplier over

switching continually among different service suppliers. The principle of relationship marketing is particularly important in service markets due to the fact that the nature of the transactions are based on continuous consumption. Therefore this is the reason why many successful service firms develop effective strategies for retaining customers.

Service quality is often considered as a key factor that leads to successful customer relationships. Service quality can provide the basis for enhancing loyalty and retention and for improving the business performance. Offering a superior service which competitors can hardly match provides customers with the reason for choosing and retaining a particular service supplier. However, according to Zeithaml & Bitner (2004), service quality has many dimensions which have different importance to different customers. Therefore it is important for service firms to distinguish between different customer requirements prior to the designing the appropriate service.

In their famous and extended structure known as *the service profit chain*, Heskett et al. (1997) drew up a series of inter-connections between the different firm's functions toward achieving success in service businesses. The *service profit chain* idea assumes that there are direct and strong links between: (1) profits, (2) growth, (3) customer loyalty, (4) customer satisfaction, (5) the perception of the value by customer, (6) employee performance and productivity, (7) employee satisfaction and (8) employee capability. At the heart of the service profit chain is *the customer value equation*. According to this equation the value of services delivered to customers depends on the results of the service as well as the quality of the process used to deliver the results, all in relation to the costs of the service. The value to the customer is directly linked to customer satisfaction: the higher the value the higher customer satisfaction. This research aims to evaluate how important is each service component in the value equation in the car workshop market. The findings from this part of the research might extend the knowledge concerning the importance of each component for the different market segments in the car workshop market in Israel.

Many managers assume that a positive correlation exists between customer satisfaction scores and customer buying behavior. But satisfaction alone does not necessarily translate into higher sales and profits. Recent studies confirm that current satisfaction measurement systems are not a reliable predictor of repeat purchases

(Griffim 2002). Many other factors influence the repurchase behavior of customers, among them include brand loyalty, word-of-mouth recommendation, the service costs, the product features, the availability of the product or service and so on. The impact of service quality on customer satisfaction and on the business performance of service providers has received considerable attention in the marketing literature in recent years. According to Ibanze et al. (2006) customer satisfaction is associated with positive business performance such as higher customer loyalty, larger market shares and profitability. Reichheld and Sasser (1996) concluded the advantages of loyalty from the service supplier's point of view in four groups:

1. Profits derived from increased purchases due to larger needs for customers over the time (larger families, higher income and etc.)
2. Profits from reduced operating costs due to the fact that customers become more experienced with the service supplier.
3. Profits from referrals to other customers as the effect of positive word-of-mouth recommendations are like free advertising to the business.
4. Profits from price premium as attracting new customers often involve promotional discounts whereas long-term customers are more likely to pay regular prices.

However, according Reinartz and Kumar (2000) customer loyalty model works best when customers enter into a formal membership with the supplier. This part of the research might extend the knowledge concerning the links between customer satisfaction from a car workshop to customer's intentions to revisit and to recommend the workshop to a friend. Furthermore, the research might extend the knowledge concern the links between car service and car sales. It might enrich the knowledge concerning how satisfaction from the car workshop and the "*ownership experience*" are linked to customer's intention to buy his/her next car.

The Main Research Findings

The findings of the research indicate that in Israel the *Quality of the repair* is the most important service component. This component emerged as the most critical component in all market segments as the primary reason for visiting a car workshop is

to fix the car . Furthermore, the findings show that failure in repairing the car in the first visit effects the customer satisfaction very negatively.

The *Quality of the process* counts for 50% of the importance from the service. The findings reveal that although the three segments (e.g. Tel-Aviv, Eilat and Taxi Drivers) have many differences (the first two use their cars for private use, while the third segment uses the car as a working tool), the impact for the *Quality of the process* among them is very similar. These findings support the service delivery process which will be presented in chapter three. According to this process which is known as the "*seven steps process*" a customer focused process assures a high quality service in a variety of situations. At the heart of this process are the front-line employees who interact directly with customers and shape the customer experience from the service. Those employees have to be trained to deliver quality service to different customers under different service situations. Another interesting finding concerning customer satisfaction is that *a follow-up call* from the workshop to the customer within 24-48 hours after completion of the service might raise customer satisfaction scores significantly.

Customer's satisfaction from the workshop is another issue which was checked. The findings show that the overall satisfaction from car workshops in Israel is relatively high. According to the analysis there is a strong link between customer satisfaction from the workshop and his/her intentions to revisit the workshop. Furthermore, there is a strong link between customer satisfaction and his/her intention to recommend the workshop to a friend. Those two links are very important links which support the theory of *relationship marketing*. According to the findings improving service quality might enable increasing customer retention and support the business performance. However, the findings show that a car workshop has little impact on the selection of the next customer's car. Furthermore, the findings of the research show that the link between car service and car sales in Israel is weak.

The "*car ownership experience*" is the overall experience of a car owner from his car. The findings of the research show that the service is the least important component in this experience. Each of the other components such as car performance, car running costs and car reliability are ranked higher at that scale. However, the findings show that a *car ownership experience* has a significant impact on the intention to purchase a

car from the same brand. The findings indicate that a car manufacturer and its local car general agency have a major effect on the customer's next car decision.

An important point to clear is that there are many factors that affect car buying decision. The *car ownership experience* is only one of them. Other factors such as: the retail price, the used car market, the availability of loans, the trade-in options, the deal (special offer at a certain moment) and more factors affect the customer's car purchase decision. As this research is limited to the car service and its effects on car sales those factors were not discussed.