

## FACTORS EFFECTING CUSTOMER RETENTION

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### ABSTRACT

*Now days everyone wants to maximize their profit and retain their customer. There are many factors responsible for this customer retention but some of them are important. This research study specialty concentrated on that how customer satisfaction, customer loyalty, customer trust, and switching barrier contribute towards customer retention. We have targeted two universities student of Peshawar region for conducting analysis. In these two universities we have distributed 100 of samples. The universities in which we have distributed sample of 100 were the city university and Iqra University. SPSS 20 has used for the conducting of analysis. After getting result of the study we have identified that customer retention is more reliant on trust, Price & satisfaction of customer in contrast of value. Quality, price and satisfaction are the major aspects which subsidize for the customer retention for hand set mobile toward the university student. Key words: Loyalty, customer value, Customer satisfaction, Customer trust, Switching barriers and customer retention.*

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### INTRODUCTION

The topic of customer retention is well enclosed in the existing literature due to its significant in influencing the organization's financial profitability. Various factors have contributed to the customer retention, such as customer loyalty, customer value, customer trust, customer satisfaction and switching barriers. The current literature only evaluates the direct impacts of customer loyalty, customer value, customer trust, customer satisfaction and switching barriers on customer retention. With this research gap in mind, this research would like to study the impacts of customer trust, customer satisfaction and switching barriers on customer retention as well as the relationship between customer satisfaction and customer trust in the handset mobile industry Peshawar Pakistan market. The aim of this research is to analyze the role of customer satisfaction, quality, price, trust, customer loyalty, switching barrier, money, time on customer retention in handset mobile industry Peshawar KPK Pakistan. Framework provide base for research which allow the researcher to see that which factors contribute more to retention. The tested hypotheses will be evaluated through quantitative research in the form of survey among student of universities of the Peshawar Pakistan.

Questionnaires will be distributed for primary data collection. The study will be concluded with the data findings and recommendations will be suggested. For business consumer is one of the spirited "resource". Business that shortages this important asset might face the trouble that operational cost will be more than operational income;

business losing customers may oppose the problem of a profit decline. Several studies have shown that improving quality and customer satisfaction results in better financial performance for business. However, more and more researchers have realized that Price and trustworthiness are the most important factors to form customer retention. Attaining customers and their retention are very essential affairs in today's competitive world.

## LITERATURE REVIEW

### **Customer retention:**

Customer retention has that when the customer uses the company's product/services or offering preserves going. Customer retention might be defined that the customer intent to stay with the service provider for their future (Ranaweera and Prabhu 2003). While most of scholar has used the word "future behavior intention" for to explain the concept of customer retention (Zethaml et al., 1996). From the last few years, most of the companies realize that the retention of consumer as the chief topic of their marketing and management decision (Van den Poel & Lariviev're, 2005.) Many of the research on the customer retention giving one's reasoning that retaining customer can improve the profitability margin and by decreasing the cost which can occur in to grab the new customer (Rechhield & Kenny, 1990; Schmitten, 1995; Rechhlied, 1996.).

### **Quality:**

Quality can be defined "free from defects and have the ability to satisfy the customer need". Quality is an intangible and vague assembling. Often incorrect and unfocused adjective like, goodness, shines and luxury, weight" (Philip B. Crosby, 1992). Shehzad khan (2012) has defined quality, that free from flaws as known as quality. Quality to be believed then that a client open a direct impact on customer satisfaction. Customer perceiving quality, improving satisfaction of customer, and increase viability "E. Gummesson, 1998". Service quality is much more difficult to analyze or evaluate than good quality. Quality concept comes from the expectation of customer and perception of actual service. Service qualities are realized from the "gap" between what customer expected and perception of the customer about the services packaging (Hirmukhe, 2012). Service quality and loyalty were positively associated with each other (Nejad, Firoozbakht & Taghipoor, 2014).

### **Customer satisfaction:**

Customer satisfaction is the sentimental and emotional reaction or behavior of interactive recognizing and realizing. Customer satisfaction is the reply to the particular attention on the expectation of the experience and production of using services and consumption. Customer satisfaction is the reflexion throughout of the time period (for instance, after first choice or according to happing again and total experience and so on) ( Joeng & lee, 2010).Customer satisfaction is now days most common and important measurement metric that is using by businesses in customer perceived concept (Gupta

and Zeithaml, 2007). Customer trust in brand has positive relationship with brand trust (Sahin & Kitapci, 2013). So for making money in the future for the firms this is customer satisfaction which play very important role (Hauser, Semester and Wornerfelt, 1994). That is very important for customer retention to satisfy the customer (Guo, Xiao & Tang, 2009). Those customers who are not fully satisfied they take very less time to switch to the brand (Lin & Wu, 2011). Furthermore added by (Lin & Wu, 2011) that although service is not the only factor which responsible for the customer satisfaction. Customer satisfaction and relationship marketing were found to have positive association (Aelen, Dalen, Herik, & Walle, 2014).

#### **Customer Loyalty:**

Customer loyalty and customer retention is very closely related factors that have the general rules. They stated that all some functions of customer retention as an example of customer loyalty. Customer loyalty stopped customer churn and strengthen the customer retention. When the consumers are loyal to the company then making relationship could be not much costly. For making loyalty there are much more different approaches used. But one of them is stochastic approach which play important role in making loyalty. Bagram and Khan (2012) reported that Customer loyalty and customer satisfaction was found to have positive relationship. In this approach we understand that loyalty is the attitude or behavior whenever a person purchases the specific brand or product continuously. It is actually difficult to understand the mind of customer that what the mental or psychological aspects are. Which attract and compel the consumer behavior toward the consumer loyalty for the company brand (Chen and Hu, 2010). When the company knows the mind of customer then it's easy to build the long term profitable relationship with their consumer and easily they could be loyal (Ina mullah, 2012).

#### **Customer Value:**

The concept of customer value is the most important one factor which contributes toward the prosperity and success of a company and it should be under consideration as an important source for a competitive advantage for any sort of organization (Woodruff, 1997). For any marketing activity we should understand that customer value play a vital role and for attracting and retaining the customers it has been realized that strategic tools is an important one (Wang et al., 2004). Customer satisfaction might be possible by the positive customer value so later on the occurrence of customer loyalty possible due to customer satisfaction and thus this customer loyalty then contributes to customer retention which is the basic need of every firm in current competitive market. So now this is very significant for any firm to retain the perception of customer value if their basic purpose is to make the consumer loyal and retention to the brands Srdeshmukh, Singh and Sabol, (2012).

**Customer Trust:**

Mayer et al. (1995) explained that, “the trust is the agreeableness of party to be risky to the action of other party is based on expectation that another will do a specific action which is important for the trusty, without consideration of the ability to checkout and monitor to other party. Those companies who provide the services they should think beyond the factor of customer satisfaction. Instead of customer satisfaction they should emphasize on the factor of customer trust which help them in retaining of customer (Hart and Johnson, 1999). So for developing the factor of trust it is very essential that the company should have power to do the specific job Jason, Scott and Jeffery, (2007). According to marketing context, they link the factor of trust normally with expectation of consumers, relating to the company ability to maintain the promise take their obligations. So the expectation is based on the company's ability, trustworthiness, honesty and power. Competency of an organization shows the capacity which can take the transaction with the customer according to their expectation.

**Price:**

In every transaction price is an important factor either it can be associated to the goods or services. In the market pricing show its effect on the purchasing decision of customer. In the market two sort of consumer are situated, first type of consumer is price conscious and the second one is quality conscious. Pricing is one of the most important elements which could be reason for repelling and attraction of customer toward company brand (Butt, 2011). As study identified that Price is the medium of exchange through which we can gain worth that can be in good or services (Butt, 2011). On the basis of two things consumer decide to purchase the product or service, one is quality of the product or service and other one is price of product or service provided (Ahmad et al., 2010). If the quality of the product or service is according to what consumer expected then consumer should be agree and positive toward paying of price (Garette and Kamani, 2010).

**Switching Barriers:**

Switching barriers is explained that, as the customer judgment of the opportunities and resources require doing for the act of switching, or alternatively the hindrance that stop the act of switching. Some researcher study shows that it is not easy to switch the thing while you invest in money, time and effort, so these are some terms which are known as switching cost. It is also identified by the researcher that customer retention might be affected by both main and interactive switching barrier. As a result, a firm can continue the retention of customer, may be they are not much satisfy, but it is possible in one condition if there is highly switching barrier's. The goal of mostly all company has customer 100% satisfaction, but this is not often possible. In this context they identified some alternatives for customer retention in which specifically useful one is switching barrier. For that reason, switching barrier role may help to that company which deal in services identify the cost effective substitute to gain the satisfaction of consumers. As

before we studied that investment in time, money and an effort is deemed switching cost. According to the perception of customer, these switching costs which may include time, money and efforts create hardness for any purchaser to change or to switch from one retailer to another retailer which automatically leads to customer retention.

#### **Time:**

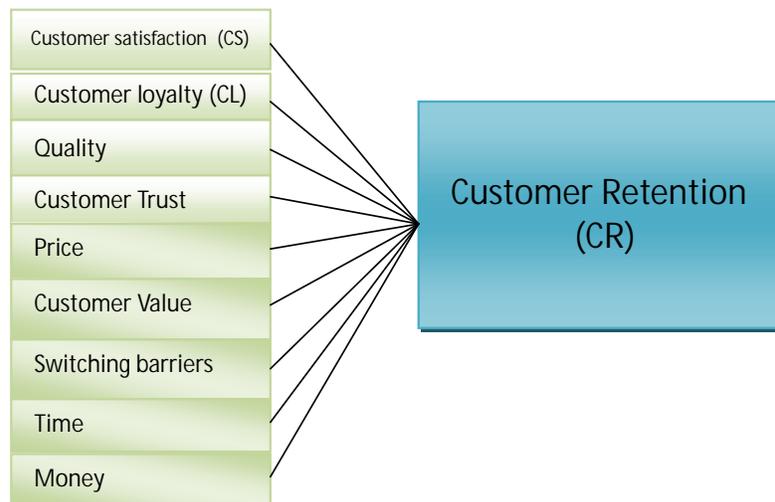
Time is so important for customer especially in the service sector, so then this becomes very difficult to switch. Mostly in the surrounding that people now days very conscious about time. As studied identified that most of the people like those product, especially services which easily available near to their homes. As the life busy with changing the situation mostly people are conscious about time. So those organizations which have the capability to save the people time and create the time factor to become barrier then they can easily retain their customers.

#### **Money:**

Money is such an important factor for the customer. Every customers who may quality conscious but with the quality still they will be looking for money in their pocket. Once you invest in your money then it's too difficult to switch that particular service or product with contrast to other brand which has the high price. So money factor more contribute toward barrier for switching.

#### **Theoretical framework**

This diagram indicate that customer retention is dependent upon customer loyalty, price, quality, and trust, customer value, switching barrier, money, customer satisfaction and time.



**Figure 1:** Research Framework of Study

Independent variables

#### **HYPOTHESIS:**

The summary of the hypothesis linked to the association of customer retention and customer loyalty, customer trust, customer value, quality, price, time and switching barrier.

The following hypotheses were tested in this research study:

- H1:** *Customer satisfaction has significant effect on customer retention.*
- H2:** *Customer loyalty has significant effect on customer retention.*
- H3:** *Customer trust has significant effect on customer retention.*
- H4:** *Quality has significant effect on customer retention.*
- H5:** *Customer value has significant effect on customer retention.*
- H6:** *Price has significant effect on customer retention.*
- H7:** *Switching barriers has significant effect on customer retention.*
- H8:** *Time has significant effect on customer retention*
- H9:** *Money has significant effect on customer retention*

#### **RESEARCH METHODOLOGY**

This research paper determines to realize the factor which influences the retention of customer.

##### **Questionnaire**

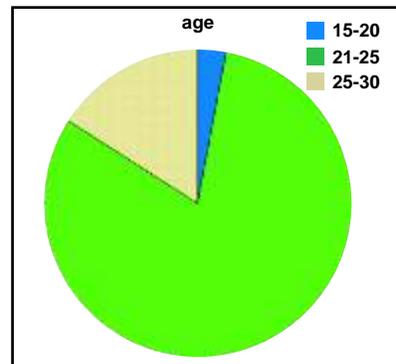
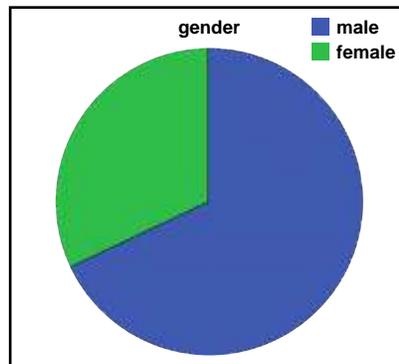
Questionnaire has used for the collection of primary data to get correct info for this research paper. For the completion of research paper the researcher has distributed questionnaire on convenient bases in the students of two different universities. In the questionnaire every variable is developed on the scale of liket 5 point.

##### **Data Collection Method:**

Researcher has targeted two private sector universities student from the region of Peshawar for the collection of data.. The universities which has targeted by researcher for data collection were Iqra University & City University of science & information technology. A sample of 100 was contacted for the data collection. For the collection of data researcher has conducted 100 sample. 100 out of 100 questionnaires received back. No one was incomplete. The final analysis has been done on 100 bases.

**RESULT AND ANALYSIS:****Table 1:** Demographic Result

| Measure       | Items  | Frequency | Percentage |
|---------------|--------|-----------|------------|
| <b>Gender</b> | Male   | 68        | 68.0       |
|               | Female | 32        | 32.0       |
|               | Total  | 100       | 100.0      |
| <b>Age</b>    | 15-20  | 3         | 3.0        |
|               | 21-25  | 81        | 81.0       |
|               | 26-30  | 16        | 16.0       |
|               | Total  | 100       | 100        |

**Demographic Result**

In the above table the output shows that there are 68 male respondents with the total percentage of 68.0 % and there are 32 Female respondents their percentage are 32.0 % .the collection of total respondents were 100.

In the given table there are 3 respondents their age are from 15-20 and 81 respondents the age are from 21-25 and 16 respondents there age are from 26-30.

**Table 2:** Validity & Reliability Analysis

| s.no | Questions   | Validity |       |                   |                | Reliability |
|------|---|----------|-------|-------------------|----------------|-------------|
|      | <b>Customer retention</b>                             | C.Mat    | KMO&B | Anti image        | compnnt mtarix |             |
| Q1   | Customer retention is the future behavioral intention |          |       | .763 <sup>a</sup> | .866           | .811        |
| Q2   |   |          |       | .863 <sup>a</sup> | .727           |             |
| Q3   | I believe on retention of customer instead of Profit  |          |       | .804 <sup>a</sup> | .656           |             |
| Q4   |   |          |       | .771 <sup>a</sup> | .712           |             |

|     |   |      |      |                   |      |      |
|-----|---|------|------|-------------------|------|------|
| Q5  | Competitive advantage can be only possible through customer retention.<br><br>Loyalty by the reason of attachment and obligation is customer retention.<br><br>Ongoing purchasing is customer retention | .175 | .000 | .824 <sup>a</sup> | .820 |      |
|     | <b>Quality</b>  |      |      |                   |      |      |
| Q1) | I prefer quality over the price.  |      |      | .799 <sup>a</sup> | .803 |      |
| Q2) | I understand that quality is durability of a product.<br><br>The fulfillment of expectation is quality<br><br>Quality is actually the 2 <sup>nd</sup> name of Reliability                               | .304 | .000 | .711 <sup>a</sup> | .840 | .767 |
| Q3) |   |      |      | .696 <sup>a</sup> | .864 |      |
| Q4  |   |      |      | .872 <sup>a</sup> | .525 |      |
|     |   |      |      |                   |      |      |
|     | <b>Customer loyalty</b>   |      |      |                   |      |      |
| Q1) | I become loyal due to uniqueness  |      |      | .237 <sup>a</sup> | .176 |      |
| Q2) | Loyal customers are price bear.   | .245 | .000 | .554 <sup>a</sup> | .934 | .682 |
| Q3) |   |      |      | .687 <sup>a</sup> | .818 |      |
| Q4) |   |      |      | .592 <sup>a</sup> | .819 |      |
|     | Quality enhances customer loyalty.  |      |      |                   |      |      |

|     |   |      |      |                   |                   |      |
|-----|---|------|------|-------------------|-------------------|------|
|     | <b>Customer value</b>   |      |      |                   |                   |      |
| Q1) | Decreasing in price show customer value.                            |      |      | .653 <sup>a</sup> | .854              |      |
| Q2) | Improvement in product or service quality increase customer value   | .307 | .000 | .720 <sup>a</sup> | .806              | .747 |
| Q3) |   |      |      | .637 <sup>a</sup> | .647              |      |
| Q4) |   |      |      | .607 <sup>a</sup> | .708              |      |
|     | For me decreasing in time cost is customer value                    |      |      |                   |                   |      |
|     | I believe that emotional value is actually the customer value       |      |      |                   |                   |      |
|     | <b>Customer satisfaction</b>  |      |      |                   |                   |      |
| Q1  | I get satisfied when my basic needs become fulfill.                 |      |      | .645 <sup>a</sup> | .856              |      |
| Q2  | My expectation is basically my satisfaction                         | .336 | .000 | .815 <sup>a</sup> | .684              | .755 |
| Q3  |   |      |      | .752 <sup>a</sup> | .787              |      |
| Q4  |   |      |      | .655 <sup>a</sup> | .707              |      |
|     | Satisfaction compel customer toward repurchasing.                   |      |      |                   |                   |      |
|     | Customer satisfaction can only be possible through quality Services |      |      |                   |                   |      |
|     | <b>Price</b>  |      |      |                   |                   |      |
| Q1  | Mostly I negotiate on price because I believe on reasonable Price.  |      |      |                   |                   |      |
| Q2  |   |      |      | .654 <sup>a</sup> | .923              |      |
| Q3  | Mostly my primary focus is on price in product.                     |      |      | .735 <sup>a</sup> | .767              |      |
| Q4  |   |      | .171 | .000              | .749 <sup>a</sup> | .825 |
|     | I response quickly toward the favorable changes in price.           |      |      | .859 <sup>a</sup> | .738              |      |
|     | I prefer price over quality.  |      |      |                   |                   |      |

|                          |   |      |      |                   |      |      |
|--------------------------|---|------|------|-------------------|------|------|
| <b>Trust</b>             |   |      |      |                   |      |      |
| Q1                       | My trust developed when my expectation gets completed.  |      |      | .833 <sup>a</sup> | .868 |      |
| Q2                       | I understand that keeping the promise is actually trust.<br><br>Trustworthiness of services is more important than product<br><br>I believe that Trust contribute 70% toward customer retention | .110 | .000 | .777 <sup>a</sup> | .887 |      |
| Q3                       |   |      |      | .774 <sup>a</sup> | .876 | .875 |
| Q4                       |   |      |      | .856 <sup>a</sup> | .797 |      |
|                          |   |      |      |                   |      |      |
| <b>Switching barrier</b> |   |      |      |                   |      |      |
| Q1                       | Quality of brand is to be considering the switching barrier.  | 332  | 000  | .627 <sup>a</sup> | .825 | .738 |
| Q2                       | Highly switching barrier mostly occurs in service sector  |      |      | .680 <sup>a</sup> | .644 |      |
| Q3                       | Investment in efforts and time is one of the highest barriers for switching.  |      |      | .698 <sup>a</sup> | .753 |      |
| Q4                       | Monopoly is one of the barrier which keeps 100% customer retain.  |      |      | .623 <sup>a</sup> | .769 |      |
| <b>Time</b>              |   |      |      |                   |      |      |
| Q1                       | I prefer the product which easily available near to my home   | .215 | .000 | .760 <sup>a</sup> | .859 | .814 |
| Q2                       | I am mostly time conscious  |      |      | .737 <sup>a</sup> | .866 |      |
| Q3                       | I prefer time, over quality   |      |      | .761 <sup>a</sup> | .707 |      |
| Q4                       | I believe on time rather than price   |      |      | .740 <sup>a</sup> | .781 |      |

|    |  |      |      |                   |      |      |
|----|--|------|------|-------------------|------|------|
|    | <b>Money</b>   |      |      | .693 <sup>a</sup> |      |      |
| Q1 | Switching becomes difficult when prices of other brand become high.  |      |      | .618 <sup>a</sup> | .812 |      |
| Q2 |  | .407 | .000 | .706 <sup>a</sup> | .887 | .781 |
| Q3 | The contribution of money is much higher than time, toward switching barrier<br><br>For me, money is barrier instead of personal relationship to switch. |      |      |                   | .803 |      |

**Reliability & Validity:**

The table above shows the reliability of the data collected from respondents. The following table show that the data collected from declared sample is reliable and respondents answered accurately. Because almost all variables are exceeding from 70% which is the standard of acceptance for reliability. The only customer loyalty has Cronbach's Alpha less than .7 which is not the standard of Reliability but the variable are valid.

The above table also shows the validity of the collected data from respondent. Table shows that the data collected from mentioned sample is almost valid and respondent answer accurately. Because approximately all variables show their validity. As researcher tested four tests in validity such like, cumulative matrix, anti image, KMO & Bartley test and component matrix. According to standard cumulative matrix should be greater than 0.01, KMO & Bartley should be less than 0.05, Anti image should be greater than .5 and component matrix should be greater than .7. Hence according to these standards almost all of variables meet to the standard of validity test. Hence almost all the variables are valid.

**REGRESSION ANALYSIS****Table 3:** Model Summary

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .803 <sup>a</sup> | .645     | .610              | .57599                     |

a. Predictors: (Constant), Money, CustomerValue, Quality, CustomerSatisfaction, Trust, Time, SwitchingBarrier, Customer Loyalty, Price

The adjusted R-square in the table highpoints that the dependent variable customer retention is influenced by 61.0 % by independent variable i.e. Money, Customer Value, Quality, Customer Satisfaction, Trust, Time, Switching Barrier, Customer Loyalty, Price.

It explains that Money, Customer Value, Quality, Customer Satisfaction, Trust, Time, Switching Barrier, Customer Loyalty, Price are responsible for customer retention of student.

The above mentioned model has also significant, studied with the help of ANOVA. The results are shown in the following table.

**Table 4:** ANOVA<sup>a</sup>

| Model |            | Sum of Squares | df | Mean Square | F      | Sig.              |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1     | Regression | 54.261         | 9  | 6.029       | 18.172 | .000 <sup>b</sup> |
|       | Residual   | 29.859         | 90 | .332        |        |                   |
|       | Total      | 84.120         | 99 |             |        |                   |

a. Dependent Variable: Customer Retention

b. Predictors: (Constant), Money, Customer Value, Quality, Customer Satisfaction, Trust, Time, Switching Barrier, Customer Loyalty, Price.

Level of significance has symbolized by this table. All the factors i.e. Money, Customer Value, Quality, Customer Satisfaction, Trust, Time, Switching Barrier, Customer Loyalty, Price are associated to loyalty of customer and relationship among these factors is significant as related to alpha value = 0.05.

**Table 5:** Coefficients<sup>a</sup>

| Model | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig.   |      |
|-------|-----------------------------|------------|---------------------------|-------|--------|------|
|       | B                           | Std. Error | Beta                      |       |        |      |
| 1     | (Constant)                  | .003       | .478                      |       | .007   | .995 |
|       | Quality                     | .752       | .067                      | .783  | 11.283 | .000 |
|       | Customer Loyalty            | -.038      | .137                      | -.035 | -.275  | .784 |
|       | Customer Value              | .045       | .063                      | .047  | .706   | .482 |
|       | Customer Satisfaction       | .150       | .064                      | .155  | 2.351  | .021 |
|       | Price                       | .273       | .124                      | .299  | 2.198  | .030 |
|       | Trust                       | -.044      | .060                      | -.052 | -.738  | .462 |
|       | Switching Barrier           | -.020      | .069                      | -.021 | -.294  | .770 |
|       | Time                        | -.157      | .062                      | -.177 | -2.535 | .013 |
|       | Money                       | -.017      | .072                      | -.018 | -.234  | .816 |

a. Dependent Variable: Customer Retention

Above table shows that the co-efficient which is unstandardized, clarify that the elements affecting the customer retention positively, and above table also shows that almost the entire elements are expressively related toward “the retention of student for handset phone. It is also verified from the standardized coefficient that “quality” has the vital & crucial role an affecting the student retention toward handset phone with standardize co-efficient if 0.783. “Price” is next imperative variable which has the standardize coefficient 0.299. After that the important variable is customer satisfaction which has the standardized coefficient 0.155. So here we conclude that there are three important elements which are responsible in respect of retention toward the university student hand set mobile in the region of Peshawar. Apart from these three factors remaining of the elements has poor contact with the retention of customer. As like Time (b= -.173), & customer trust which is (b=-.044).

### CONCLUSION

The key objective of this research work was to discover the task of factors towards customer retention. On the basis of finding & result the researcher has drawn a conclusion. On the basis of result researcher has found that price, customer satisfaction & quality is the key and the most essential factors which provide base towards retention of customer. The research finding clearly shows that company have to underline specially these factors, such as, quality, and price and customer satisfaction if they want to keep their customer retain. And also it has cleared from the result that quality has more contribution toward customer retention instead of price. So those company who want to increase their retention level in the student of Peshawar region they should work on quality of the product and specially service.

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