IMPACT OF CUSTOMER SATISFACTION ON CUSTOMER LOYALTY AND RETENTION

B Omkareshwar
MBA 2nd Year, Department of Management Studies, Vardhaman College of Engineering

Sukanya Metta
Professor & Head of the Department, Department of Management Studies,
Vardhaman College of Engineering

Ravichandra B S
Assistant Professor, Department of Management Studies,
*Vardhaman College of Engineering*

Abstract

The study investigates the impact of customer satisfaction on customer loyalty and customer retention in the context of four-wheeler automobiles. Various service quality factors along with pricing and product quality combine to affect the customers' satisfaction, loyalty and retention towards the brand. A total of 284 responses were gathered through a structured questionnaire administered via Google Forms, of which 243 were fully completed and usable for analysis. The analysis shows that customer satisfaction establishes a robust positive statistical link which connects to both customer loyalty and retention levels. Businesses must prioritize satisfaction improvements because doing so guarantees sustained loyalty with retention of their target customers.

Keywords: Customer Satisfaction, Customer Loyalty, Customer Retention, Product Quality, Pricing, Service Quality, Trust, Long-term Relationship.

Introduction

In today's highly competitive market environment, Business organizations aim to both draw new customers and hold existing ones through satisfaction improvements. Today customer satisfaction has become a vital driver of business achievement because it directly shapes customer loyalty and retention. The business performance of loyal customers includes making multiple purchases while spreading word-of-mouth recommendations and creating firm value through their actions. The retention of customers also minimizes acquisition expenses and generates consistent revenues for companies. The research investigates the psychological link between customer satisfaction and direct loyalty and retention impacts on customers who buy four-wheeler automobiles. This study collects empirical data to establish how satisfaction influences customer actions along with business results while enhancing organizational service choices and customer interaction.

Framework of the study
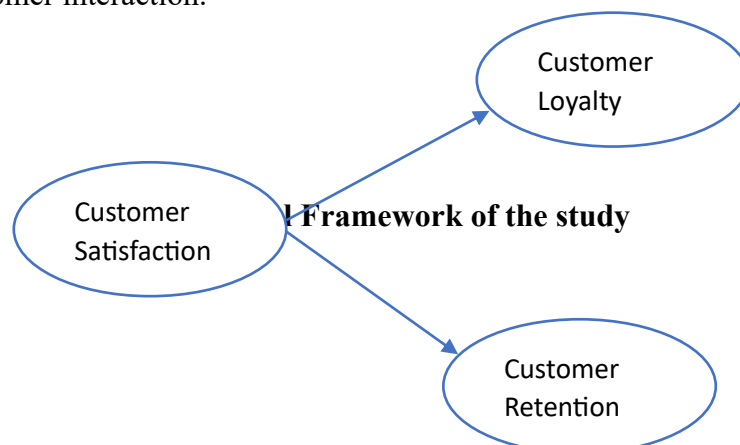
Literature review
Customer Loyalty
Customer loyalty is directly impacted by customer satisfaction; a happy customer is more likely to stick around, which boosts sales and profitability. This link is also mediated by trust, emotional connection, and service excellence. (Sharma et al., 2020). In the car industry, brand loyalty is greatly influenced by customer happiness. According to the study, consumer loyalty and future growth for automobile brands are greatly influenced by high satisfaction levels, especially when it comes to product quality and personalised service. (Gawari & Anute, 2024). In the automotive sector, all four elements of client loyalty are directly impacted by customer satisfaction. Customer attitude loyalty is more influenced by it than behavioural loyalty, and action loyalty is directly impacted by both cognitive and conative loyalty, with conative loyalty having a greater impact. (GU & SU, n.d.). Customer satisfaction reflects how well a supplier meets needs and exceeds expectations, fostering strong relationships. A high level of customer satisfaction fosters customer loyalty, since happy consumers are more likely to keep buying from the supplier, which improves relationships and business success. (Nanhe & Nanhe, 2024). A thorough literature evaluation of 200 papers with a Scopus index found a strong correlation and influence between customer satisfaction and customer loyalty. According to the data, happy consumers are more inclined to stick with a good or service. (Utami et al., 2023). After-sale services have a big impact on consumer satisfaction in the automotive sector, which in turn increases customer loyalty. According to the survey, how businesses deliver these services has a significant impact on consumer happiness and loyalty. (Sawant & Magdum, 2013).

H₁: Customer Loyalty has a positive impact on Customer Satisfaction.

Customer Retention
In the automobile sector, especially with regard to after-sales services, customer satisfaction and client retention are strongly related. The systematic literature evaluation emphasises that keeping clients boosts profitability and promotes the purchase of new cars. In order to increase customer happiness, which in turn promotes loyalty and retention, the study highlights the significance of customer relationship management. Automobile dealers can successfully enhance customer experiences and guarantee enduring ties with their consumers by concentrating on after-sales services. (Kridiawan & Wang, 2023). In the authorised automobile after-sales service industry, client happiness has a big impact on customer retention. The study emphasises how variables like utilitarian and hedonistic experiences, customer engagement, customer value expectation, and customer retention are mediated by both customer satisfaction and customer delight. Service providers may better meet and surpass consumer expectations by increasing customer happiness and joy, which will eventually result in higher retention rates. This emphasises how crucial it is for the automobile sector to concentrate on consumer experiences. ("Enhancing Customer Retention: When Improving Customer Satisfaction and Delight Matters in the Authorised Automotive after-Sales Service Sector," 2024). At Outspan Hospital, system utilization, customer switching fees, and service design all have a big impact on customer happiness and retention. Improving these elements can increase patient loyalty and lower attrition rates, which will eventually strengthen the hospital's position as a leader. (Mbaabu & Njuguna, 2022). In Ghana's shipping sector, customer happiness has a big impact on client retention. Satisfaction is negatively impacted by assurance and responsiveness, but positively by empathy, dependability, and tangibility. The study emphasizes the importance of these factors for effective organizational performance in shipping. ("Service Quality in Shipping Industry of Ghana – Determinants and Impact on Customer Satisfaction and Customer

Retention," 2022). Strategic alignment, which entails striking a balance between customer needs and quality and value leadership, has a major impact on customer satisfaction and retention in the automotive sector. According to the research, companies that successfully match their goals with the expectations of their customers report greater levels of customer satisfaction and loyalty. Improved performance amongst competitors in the U.S. car market results from this alignment, underscoring the significance of comprehending customer orientation in promoting retention and overall business success. (Johnson, 1997).

H$_2$: Customer Retention has a positive impact on Customer Satisfaction.

Research methodology
Research Design
The study adopts an exploratory research design to investigate the relationship between customer satisfaction and its impact on customer loyalty and retention.

Population and Sample
The target population comprises customers of Four-wheeler Automobiles. The sample size consists of 243 respondents.

Data Collection Method
Primary data is collected through a structured questionnaire comprising closed-ended questions. The questionnaire includes three main sections:
• Demographic information
• Measures of customer satisfaction (Product Quality, Price, Service Quality, Customer Service)
• Measures of loyalty and retention (Word of Mouth, Emotional Attachment, Commitment, Trust, Long term Relationship)

Data Analysis Techniques
Collected data is coded and analysed using SPSS (Statistical Package for the Social Sciences) Structural Equation Modeling (SEM) is employed to test the hypotheses regarding the relationship between satisfaction, loyalty, and retention.

Results

Cronbach Alpha

Cronbach Alpha

Variables	Number of Items	Cronbach Alpha	Internal Consistency
Customer Satisfaction	16	.970	Excellent
Customer Loyalty	6	.911	Excellent
Customer Retention	9	.944	Excellent

Interpretation
The results show very high levels of internal consistency for all three of the measured variables. The 16-item Customer Satisfaction survey had an excellent Cronbach's alpha of .970, indicating that the items measure the same underlying construct with high consistency. Customer loyalty was measured using six items, and its Cronbach's alpha was .911, indicating excellent internal

consistency as well. The scale's high reliability is further demonstrated by Customer Retention, which has nine items and an alpha of .944. These high Cronbach alpha values demonstrate that the survey items for each variable appropriately reflect their corresponding constructs and that the scales are suitable for further analysis.

Hypothesis testing using Regression
Regression

Hypothesis	Variables	Beta Coefficient	R Square	P Value
H$_1$	Customer Satisfaction & Customer Loyalty	.900	.810	.000
H$_2$	Customer Satisfaction & Customer Retention	.905	.820	.000

Interpretation

Customer satisfaction is positively correlated with both customer loyalty (H1) and customer retention (H2) according to the data which is statistically significant. High beta coefficients for both hypotheses 0.900 for loyalty and 0.905 for retention indicate that both outcomes rise significantly in response to improvements in customer satisfaction. Customer satisfaction explains more than 80% of the variation in loyalty and retention. According to the R square values (.810 for loyalty and .820 for retention). These relationships are confirmed to be statistically significant at conventional levels by the p-values of .000.

Hypothesis Testing through Correlation

Variables	Customer Satisfaction	Customer Loyalty	Customer Retention
Customer Satisfaction	1		
Customer Loyalty	.900	1	
Customer Retention	.905	.911	1

Correlation is significant at the 0.01 level (2-tailed).

Interpretation

The data presents correlation coefficients among three key variables: Customer Satisfaction, Customer Loyalty, and Customer Retention. The correlation between Customer Satisfaction and Customer Loyalty is very strong at 0.900, indicating that as customer satisfaction increases, loyalty tends to increase significantly as well. Similarly, Customer Satisfaction and Customer Retention share a strong positive correlation of 0.905, suggesting that satisfied customers are highly likely to stay with the company. The highest correlation is between Customer Loyalty and Customer Retention at 0.911, which implies that loyal customers are even more likely to be retained over time. Overall, these strong positive correlations indicate that improving customer satisfaction is likely to enhance both loyalty and retention, highlighting the interdependent nature of these constructs in customer relationship management.

Structural equation modeling

Structural equation modeling is a methodological approach that seeks to articulate hypotheses regarding the means, variances, and covariances of observable data through a reduced set of 'structural' parameters defined by an underlying conceptual or theoretical framework. Historically, structural equation modeling emerged from the convergence of two separate statistical traditions. The initial tradition is factor analysis, which emerged from the fields of psychology and psychometrics. The second tradition is simultaneous equation modeling, which started in econometrics, has historical roots in genetics, and was introduced to sociology as path analysis (Kaplan,2001).

Fit Indices	Recommended	Observed	Result
CMIN/df (minimum discrepancy as indexed chi-square)	>5 Terrible, >3 Acceptable, >1 Excellent	3.471	Acceptable fit
GFI	>0.80	0.805	Acceptable fit
CFI (Comparative Fit Index	<0.90 Terrible, <0.95 Acceptable, >0.95 Excellent	0.971	Excellent fit
TLI (Tucker–Lewis's index)	> 0.9	0.904	Good fit
PNFI (Parsimony-Adjusted Measures)	> 0.5	0.725	Excellent fit
RMSEA (Root mean square error of approximation)	>0.08 Terrible, >0.06 Acceptable, <0.05 Excellent	0.02	Excellent fit

CMIN/df (Chi-square/degrees of freedom) = 3.471The scale value demonstrates an acceptable fit when positioned between values of 3 and 5. The model fit works acceptably despite showing a value of 3.471 which is slightly removed from the perfect 1 but still meets acceptable standards. GFI (Goodness-of-Fit Index) = 0.805 the observed value stands slightly above 0.80 the recommended minimum thus the model displays acceptable goodness-of-fit yet it needs additional improvement for enhanced performance. CFI (Comparative Fit Index) = 0.971 exceeding 0.95 identifies the model as excellent. The proposed model fits exceptionally well when compared to a null framework. TLI (Tucker–Lewis Index) = 0.904 the model exhibits a good fit according to the recommended standard of 0.90 since its value reaches above 0.90 but falls short of delivering an exceptional match. PNFI (Parsimony Normed Fit Index) = 0.725 value well above 0.50, the model shows a good balance between model fit and model simplicity. RMSEA (Root Mean Square Error of Approximation) = 0.02 below 0.05 indicates an excellent fit. Therefore, the model demonstrates an excellent error approximation and fits the population covariance matrix very well.
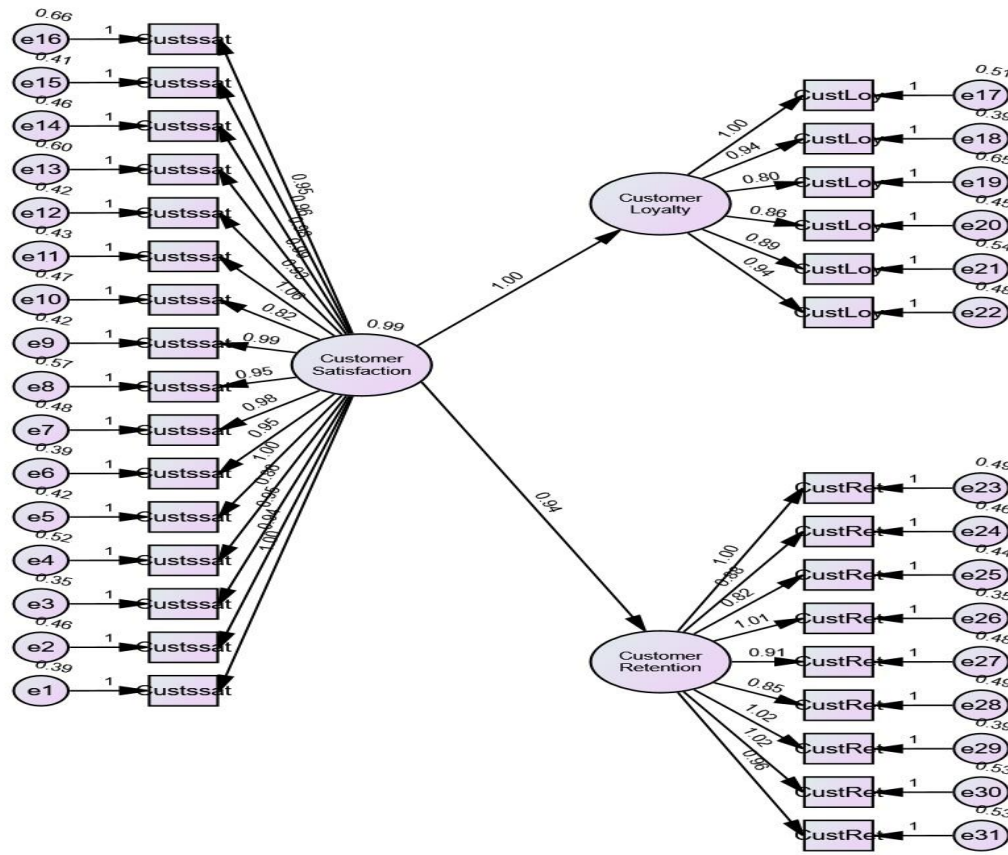
Hypothesis Testing

The Study assessed the impact of customer satisfaction on customer loyalty and customer retention. The impact of customer satisfaction on customer loyalty is positive and significant (b= 0.99, t=16.20, p=<0.01) and H1 is supported. The impact of customer satisfaction on customer retention is positive and significant (b= 0.94, t=15.783, p<0.01) and H2 is supported. Model fit and hypothesis result is presented in table-2

Table -2

Hypothesized Relationship	Standard Estimates	t-value	p-value	Decision
Customer Satisfaction → Customer Loyalty	0.99	16.20	0.00	Significant
Customer Satisfaction → Customer Retention	0.94	15.783	0.00	Significant

Conclusion

In the context of four-wheeler car retailers, the study very clearly shows that customer satisfaction has a significant impact on both customer loyalty and customer retention. Based on a thorough quantitative approach that includes reliability analysis and structural equation modelling, the results confirm that happy consumers are more likely to stick with a brand and keep using it over time. Strong statistical significance was found to support both hypotheses, which linked customer satisfaction to loyalty and retention. These findings highlight how crucial it is to continuously provide top-notch goods and outstanding customer service in order to build enduring client relationships. Improving customer satisfaction not only fosters

emotional ties and trust but also guarantees long-term company viability in a cutthroat competitive market.

Limitations

This research article provides significant insight about customer satisfaction and loyalty and retention patterns in four-wheeler automobiles yet contains certain key restrictions. Based on respondent data from 243 participants collected within a selected industry sector the outcomes may not adequately represent the total population. The method of employing a structured questionnaire proved to be a challenge because it failed to deliver adequate depth by missing important customer experiences as well as their underlying motivations. The design approach prevents researchers from determining causality between variables over different time periods. External factors including market competition and both economic conditions and technological advancements were not examined which might affect how customers behave and how satisfied they become. The research findings require careful interpretation because they emerged from a cross-sectional study which suggests that generalizing the results should be done with caution. Future research needs to examine various sectors using longitudinal methods.

Scope for future research

Future research could look at how customer satisfaction, loyalty, and retention are related to mediators (like perceived value or brand image) and moderators (like demographics and purchase frequency). The generalisability of the results may be strengthened and sector-specific dynamics may be revealed by extending the research across other industries such as retail, banking, telecommunications, or healthcare. Future studies could examine the effects of digital customer experiences on retention, loyalty, and satisfaction as a result of the growing significance of digital platforms in customer interaction. Businesses may gain additional strategic insights by examining the effects of active customer engagement (such as feedback, online reviews, or community involvement) on the relationship between satisfaction, loyalty, and retention. Further research could be done on usage of new technological interventions like chatbots, CRM systems, and AI-driven personalisation on customer satisfaction and the loyalty and retention that follow.

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