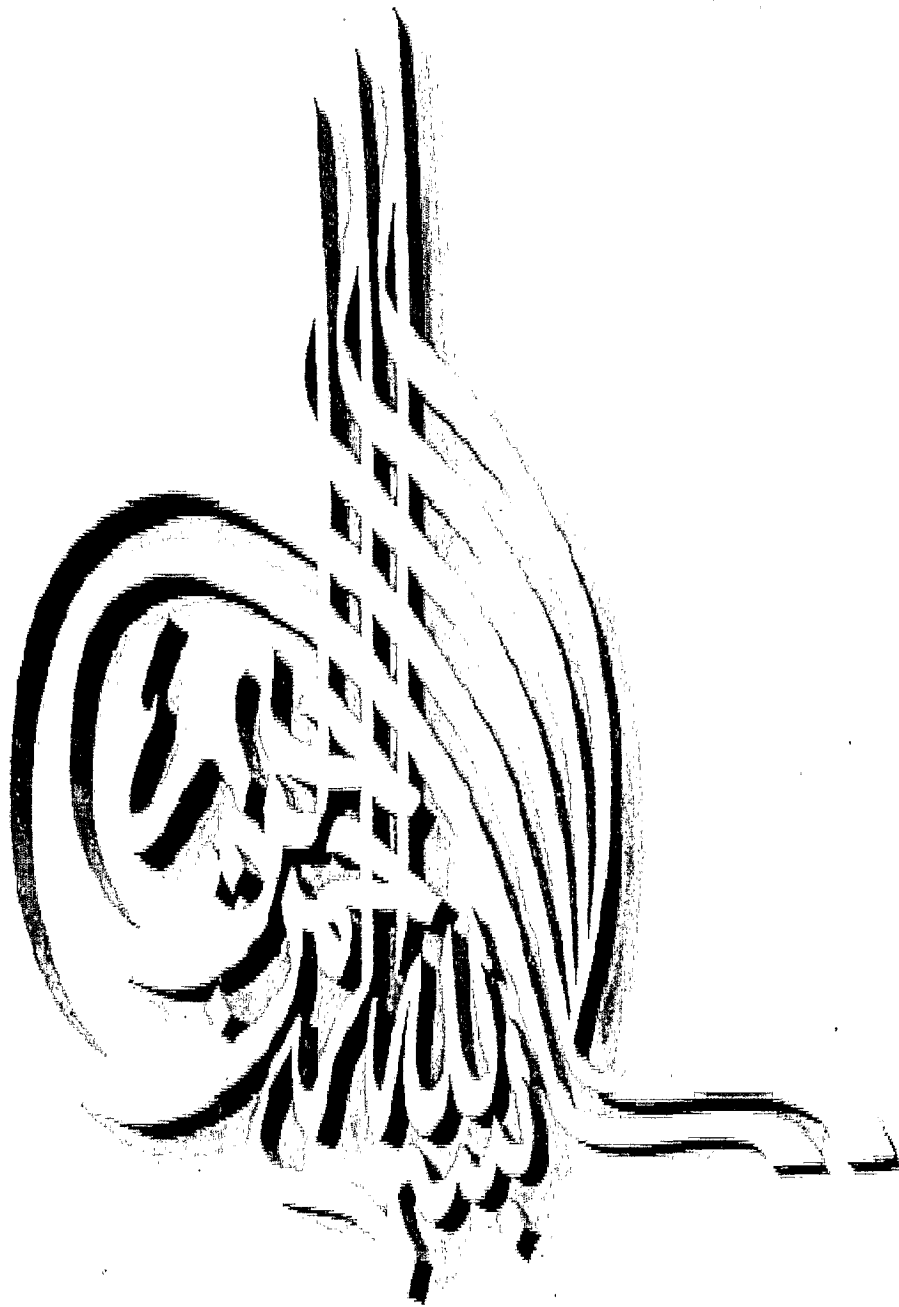


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MASTER'S THESIS

Thesis Title

Service Quality, Customer Satisfaction, Customer Experience and behavioral Intention in Iranian Retail Stores.

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behavioral Intention in Iranian Retail stores**

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این سند در حضور اینجانب و سایر اعضای هیأت امضاء و در تاریخ فوق الذکر صادر گردید.
امضاء استاد راهنما

*In the name of GOD,
The Compassionate the Merciful*

“The greatest Teacher is EXPERIENCE”

Imam Ali (a)

"The secret of successful retailing is to give your customers what they want. And really, if you think about it from your point of view as a customer, you want everything: a wide assortment of good-quality merchandise; the lowest possible prices; guaranteed satisfaction with what you buy; friendly, knowledgeable service; convenient hours ; free parking; a pleasant shopping experience."

Sam Walton (1918-1992)

Wal - Mart

ABSTRACT

For most companies, developing a satisfying customer experience has a direct impact on their future revenue streams. They now have to consider creating such "experiences". The purpose of this thesis is to provide a better understanding on how to build a positive experience in retail stores. In order to reach this purpose, research questions related to website design and customer service were focused on. Via a review of literature related to these research questions, a conceptual framework was developed and tested. Using a quantitative approach within the hand-woven carpet industry was used to collect data. The findings indicate that if companies try to concentrate on the quality of service and its relation with their customers satisfaction they can successfully build a positive experience in their retail stores for their customers.

This paper aims to investigate and determine the nature of the service quality construct and its relationship with those of customer satisfaction, customer experience and behavioral intentions. Moreover this study purpose to identify which dimension that is the best predictor of overall service quality, in terms of generating an outcome that identifies dimensions regarding service quality in Iranian retail stores.

This was achieved through performing a theoretical and empirical study. The theoretical study provided by identifying relevant theories, determining and defining service quality, customer satisfaction, customer experience and behavioral intention for retailers in the industry of Iranian handmade carpet. The empirical study comprised of 500 questionnaires. Key findings of the study are that service quality is represented by four dimensions the hand-woven carpet industry. The best predictor of overall service quality is the dimensions referred to as "Tangibility", "Reliability", "Responsiveness" and "Knowledge of Employee". Moreover there is strong relation between "customer experience" from onside and "service quality, customer satisfaction, behavioral intention" from the other side.

Keywords: Service Quality, Customer Satisfaction, Behavioral Intention, Customer Experience, Retailing, Hand-woven Carpet, IRAN

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Tehran 2007

Seyed Ali Araghchi

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CHAPTER 1, INTRODUCTION

1-1 Introduction

The background of the selected area is introduced in the first chapter. Then, the problem area will be next discussed to provide a deeper understanding about the research area for reader. The problem discussions end with a research problem and a specific research question. In the end of this chapter the contribution of this research is also presented.

1-1-1 Background

Nowadays all the companies are realizing the significance of customer-centered philosophies. One of the key challenges of them is how they manage service quality, which holds a great importance to customer satisfaction. Therefore the role of service quality in the success of Retailer businesses cannot be denied. It is vital for the retailer managers to have a good understanding on what exactly the customers want. Expectations are well known to service marketers as most definitions of service quality revolve around "meeting or exceeding customer expectations". Customers' evaluation of the service quality that they receive is conceptualized as being influenced by their prior expectations. As a consequence of this the opportunity has arisen for service industry managers to "manage" these expectations; to under-promise and over-deliver.

This section will provide the background of the research area. This section contains the general idea of service-quality, role of service-quality...behavioral intention, customer experience and customer satisfaction and their close relationship with each other. Consequently this section contains the general idea of customer experience and behavioral intention. This section also describes importance of customer satisfaction in those companies involved in electrical industry, relationship between customer satisfaction, customer experience, behavioral intention and service quality and measurement of service quality.

The results indicate the following:

1. Customer experience has an important role in retail stores. And the quality of service and customer experience strongly affect on the customer satisfaction and the customer intention to repurchase.
2. The instrument and the five dimensions of service quality may need considerable restructuring. It may vary in different service categories and industries.
3. A few statements which showed considerable reliability problems should be restated or substituted by more relevant statements in retail

stores. SERVQUAL is an instrument that must be conducted in longitudinal. This instrument does not answer in short term.

4. The instrument may not be applicable to the retail sector in Iran without further restructuring. Environment and emotion effect Iranian buying behavior.
5. Further research is necessary to understand retail store service quality in Iran.

1-1-2 Case Study, Araghchi Trading Co.

Araghchi Trading Company established on 1888, ATC has more than 100 employees that they produce, buy and sell Persian hand-woven carpets and rugs. In 2006 ATC was the exemplary exporter of the year and awarded by the president Ahmadinejad. ATC now is doing business with international markets and is famous in carpet industry, they take part in many exhibitions and they are one of the three biggest exporters in Iran now. They started business in domestic market in 1980. ATC has 5 big shops in Tehran Mashhad and one new opened in Isfahan (2007).

The mother Company, Araghchi Trading Co has a sub company named Sherkate Farsh o Gelim (Carpet and Kilim Co) for domestic market. Data for this research were collected in Carpet and Kilim Co during Eide Norouz (Persian Christmas time), 500 questionnaires run out in 5 shops in Tehran and Mashhad, the questionnaires presented by salesman to the buyers during the delay of 5 to 10 minutes for making the factor and receipt ready and the terms of payment.

We gave 100 questionnaires to the five shops fortunately 414 of them were accepted. The salesman had to describe them the importance of this survey and how buyers can help ATC to measure and improve their service quality by filling the questionnaires and how ATC can satisfy their needs in near future. It was really interesting for me as a questioner to see how they were ready to accept consequently it was important for them too! At the end of filling the questionnaires salesman or questioner had to give them a gift for participating the survey.

1-1-3 Retailing

Retailing in the 21st century will no doubt be very different from retailing in the 20th century, just as retailing in the 20th century was very different from retailing in the 19th century. To understand and explain current retailing phenomena and retailing-related phenomena, and accurately predict such phenomena, it is necessary to have a coherent and consistent definition of retailing as well as comprehensive retailing theories based on this definition. This introduction to the special issue argues for such a definition and related comprehensive theories. As Robert Peterson (2002)

in retailing in 21 century point out, salespeople are more successful at adaptive selling when they correctly identify a customer category and modify sales techniques appropriately.

To succeed, retail salespeople do need to accurately identify the needs and dispositions of their customers then cater each sales presentation to the individual customer. Adaptive selling involves "reading" one's customer. Both verbal and nonverbal, are used to differentiate retail customers. Successful adaptive sellers may be very good at customer categorization-resulting in increased sales productivity when adaptive selling is implemented (Nowacki, M. M. 2005) Particularly in light of the modern-day knowledge that shopping is no longer a leisure activity for many consumers (Robert Peterson, 2002), customers are increasingly seeking convenient shopping venues. In fact, data provided by the International Council of Shopping Centers indicate that customers spend less time browsing in stores today than they did as recently as 2 years ago Nowacki, M. M. (2005). Additionally, customers may schedule store visits to coincide with other priorities and obligations in their schedules.

1-1-4 Service Quality

Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Victor P. Lau, 2007).

There are a number of different "definitions" as to what is meant by service quality. One that is commonly used defines service quality as the extent to which a service meets customers' needs or expectations (Parasuraman et al., 1994; Madeline Pullman and Michael Gross, 2003). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman et al., 1985; F. Olorunniwo, 2006).

Always there exists an important question: why should service quality be measured? Measurement allows for comparison before and after changes, for the location of quality related problems and for the establishment of clear standards for service delivery. Edvardsson et al. (1994) state that, in their experience, the starting point in developing quality in services is analysis and measurement. The SERVQUAL approach, which is studied in this research, is the most common method for measuring service quality.

By the 1990s, service organizations were also beginning to understand what their manufacturing colleagues had discovered earlier – that quality cannot be improved unless it is measured, and the best measure is the customer (Babakus, 1992). C. Johnson et al, (1997) suggest that as a result of competitors moving ever faster, there is a need to listen to customers and respond intently.

One approach is to document and measure customer complaints. Feedback to managers and customer contact staff based on complaints will begin to tell a story of

how customers perceive the firm's service quality. Improvements are then implemented to avoid similar future problems. They suggest that not all customers complain, and this could be down to several reasons. Such as they believe it won't make any difference, individuals feel they are awkward or pushy if they complain, and it may be easier to simply switch to another supplier.

1-1-5 Customer Satisfaction

Customer satisfaction is a critical issue in the success of any business system, traditional or online (Ho & Wu 1999). In a turbulent commerce environment, in order to sustain the growth and market share, companies need to understand how to satisfy customers, since customer satisfaction is critical for establishing long-term client relationships (Patterson et al. 1997). It is evidenced by the fact that over the last five years, customer satisfaction surveys have become common in many financial institutions. Thus, a fundamental understanding of factors impacting customer satisfaction is of great importance to commerce.

Furthermore, the need for research in customer satisfaction has been accentuated by the increasing demand for the long-term profitability of dotcom companies and traditional companies (Pather, Erwin & Remenyi, 2002).

To understand satisfaction, we need to have a clear understanding of what is meant by customer satisfaction. Customer satisfaction is defined as a result of a cognitive and affective evaluation, where some comparison standard is compared to the actually perceived performance. If the perceived performance is less than expected, customers will be dissatisfied. On the other hand, if the perceived performance exceeds expectations, customer will be satisfied (Kong 2006).

Relationship between Satisfaction and Service Quality Service quality is the key to measure user satisfaction. Few scholarly studies, to date, have been undertaken to identify quality dimensions and detailed aspects of services and their relationships with customer satisfaction (Zeithaml et. al., 2002). One of the more widely used instruments for assessing customer satisfaction is SERVQUAL developed by Zeithaml et. al., (1988). Researchers have paid much attention to the close relationship between service quality and customer satisfaction (Parasuraman et. al., 1985; Parasuraman et. al., 1988). SERVQUAL is widely recognized and used, and it is regarded as applicable to a number of industries, including the electrical industry.

Achieving quality service in the eyes of the customer requires proactive organizational commitment. According to Berry et al. (1994) service plays a key role in providing value, and drives a company's success. For the customer, this represents the benefits received against the burdens – like high price, an inconvenient location, unfriendly employees, or an unattractive service facility. Quality service helps to maximize the benefits and minimize such errors. Understanding customer

expectations and measuring the organization's performance with regard to them are a central component of building service quality.

1-1-6 Customer Experience

Experiential Marketing offered a new marketing paradigm that argues for a customer-focused instead of a product- or brand-focused approach and shows how managers can create a variety of experiences (*Sense, Feel, Think, Act, and Relate*) for their customers. Customer Experience Management is the next step providing a powerful framework for managing the customer experience step-by-step in a strategic and creative way, between and within companies and customers in every touch-point.

Experience is now a word in every manager's vocabulary. Managers are beginning to understand the importance of focusing on the customer experience even before or after a service; managers must use the power of a positive experience to connect with a customer at every touch points such as service quality.

The focus of Customer Experience Management is on enhancing customer value through managing the customer experience at every touch point. For instance Tangibility is a common element between Customer Experience and Service Quality.

1-1-7 Behavioral Intention

Behavioral intention refers to "instructions that people give to themselves to behave in certain way" (Koornneef 2006). In our model, behavioral intention refers to customer intention to shop in retail stores, specifically from hand-made carpet retailers in Iran. From the perspective of customer behavior, it is customer intention to exchange information, share confidential information and engage transaction both offline and online (Victor Lau, 2007).

Word of mouth (WOM) and Loyalty are two positive results of intention to repurchase. Even though it is notionally implied that intentions lead to actions (Gronroos 2002) it is beyond the scope of this research to measure actual transaction behavior in a longitudinal period.

1-2 Research Purpose

In view of the above-mentioned areas of interest for this study, our research purpose can be formulated as:

Gain a better understanding of the concept of Customer Experience and the Quality of Service in retail Stores, simultaneously the importance and effect of Customer Experience and Customer Satisfaction

on Service Quality and consequently on Behavioral Intention in Iranian retail stores, and what factors effect on purchasing in Iran.

Few such studies have been done in Service Quality in Mass Services and Service Typology in the other countries but fortunately we haven't found any research of this type, which has been done in Iran. Our study of Iran is in the case of Carpet Retail Stores and Iranian Buying Behaviors, and factors affect customers to buy and not to buy.

This research aims to contribute to the literature by assessing Customer Satisfaction and Customer Experience factors which effects on the evaluation of Hand-woven Carpet industry by customers. Since the purchases of Persian hand-woven carpet have a crucial importance for its quality and performance features, as a result, we find it interesting to investigate this issue that among choice criteria how the quality of service affects Iranian buyers' evaluation in this industry. Some questions appear important in this research such as Is there any other factor in service quality model beside of service quality, customer satisfaction and behavioral intention!? Specifically does Customer Experience affect the retail store service quality model!?

This Hand-woven Carpet industry is a big unexplored one in which it seems that a country stereotyping exist, according to the experts active in it. Also this is one of industries in which most of products are exported and use by domestic market and due to our access to information in this industry, it has been chosen as the research population. No researcher has done a research about customer experience effect for Carpet industry.

1-3 Research Problem and Research Question

The key research question which should be answered is:

- 2 Is there any other factor in service quality model beside of service quality, customer satisfaction and behavioral intention!? Specifically does Customer Experience affect this model!?*
- 3 If the answer is positive, where Customer Experience located!? What kind of relation Customer Experience has with Customer Satisfaction, Service Quality and Behavioral Intention!?*
- 4 Can we improve the Service Quality Model by adding Customer Experience!?*
- 5 Does the new suggested model appropriate for Iranian retail Stores, specifically for our case study, Iranian hand-woven carpet retail stores!?*

1-4 Demarcation

Since the time available for this study has been limited, and the aspects of chosen problem area are many, an attempt to narrow down the focus has been made. The aim of the research is to find the most important service quality dimensions that affect customer satisfaction and behavioral intention of the customers in the retailers of the Iranian hand-woven carpet industry. In the literature part, we will introduce theories related to service quality, customer satisfaction and behavioral intention in order to give a clear idea about the specific area to the reader and to explain the proper context of the study.

The aim of the investigation was to provide insights for enhancing service quality in terms of the Persian hand-woven carpet in retail stores overall delivery and provision. The SERVQUAL instrument for the quality of service, introduced by Parasuraman et al. (1988), and the Festus model (2006) were tailored for the study. The technique has been widely documented as an approach for measuring service quality, via comparing customers' expectations against their perceptions on five service attributes.

1-5 Disposition of the Thesis

This thesis is divided into six chapters. In the first chapter the background of the selected research area is presented followed by a problem area discussion that ends with the research problem and the research question. In chapter two theories and previous studies related to the topic will be presented. Methodology is fully brought in chapter three which would be ended by frame of reference that shows the exact road map of the study. Chapter four and five present the data which is gathered through the offline survey by 500 questionnaires. And last but certainly not least, chapter six is about the conclusions and will be finished by limitations and further studies.

1. **CHAPTER ONE:** Introduction
2. **CHAPTER TWO:** Literature Review
3. **CHAPTER THREE:** Research Method
4. **CHAPTER FOUR:** Data Collection
5. **CHAPTER FIVE:** Data Analysis
6. **CHAPTER FIVE:** Conclusion, Limitation and Future Research
7. **REFERENCES AND APPENDIX**