

MASTER'S THESIS

Thesis Title

**A Model for Customer Satisfaction in Business –to-
Business Marketing
An Exploratory Study of Engineer-To- Order (ETO)
Companies in Iran**
(Customers of Niroo Moharekeh Machine Tools Company)

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*In the Name Of God
The Most Compassionate
The Most Merciful*

Abstract

Customer Satisfaction in Business- to- Business market: An Exploratory Study of Engineer-To- Order (ETO) Companies in Iran.

According to Webster and Wind (1972) and Anderson et al (1987), “organizational buying is a complex process and involves many people from different functional areas, multiple goals and potentially conflicting decision criteria. Moreover, the customers of today are also more knowledgeable and selective when making their purchasing decisions. Since a key to organizational survival is the retention of customers, companies that want to achieve customer satisfaction must be constantly measuring customer satisfaction and developing effective strategy.” This thesis was designed to identify factors that influence customer satisfaction in business- to- business market, especially in the Engineer-To- Order (ETO) companies in Iran and present a model in this special field.

Also the importances of these factors are examined by customers of NMT, which is one Company of the ETO in Iran. Our survey-based field study was conducted among 136 business customers of NMT manufacturer of capital goods industry. The entire statistical problem are solved by SPSS and LISREL software. Finally, three drivers (Reliability, Product information, Commercial aspect), which premised by Guatam in 2007, were identified with high correlation between them while these factors could identify by one factor or identify by these three factors but separately . The importance of these factors was not depending on functional area because all of the customers were project managers, but the most important factors were commercial aspects and reliability.

Key words: Customer Satisfaction, Business-to-Business Marketing, Engineer-to-Order Company.

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Chapter 1

Introduction

1- Introduction

This introducing chapter will provide the reader with an insight to the research area. We will begin by briefly discussing the background of Customer Satisfaction in Business- to- Business area and Engineer-to-order companies. We move from a general perspective towards the focus on the specific problem. The research problem of this study is introduced to give the reader a clearer picture of our field of study and also the overall research purpose is presented. Finally, limitation and chapter structure are presented.

1-1 Background

Today we live in a fast-changing world where product and services companies constantly need new approaches to respond to challenges in a competitive marketplace and world economy. Changes in the political, economical and technological environment have increased competition in all industry sectors (Edosomwan, JA, 1993). The customers of today are also more knowledgeable and selective when making their purchasing decisions. Due to these reasons it has become of utmost importance to focus on the customers, to know their needs and expectations and to satisfy them (Wellemin, J H 1991). Customer satisfaction is the key factor determining how successful an organization will be in customer relationship (Reichheld, 1996); therefore, it is very important to measure it. The real aim of this measurement for the CEO is to capture

customer loyalty, which allows securing existing business. The key to organizational survival is the retention of satisfied customers. If the companies want to achieve customer satisfaction, they must measure it because “you can not manage what you can not measure” (Ho, 1995).

1-2 Customer satisfaction

Customer satisfaction is becoming more and more important for companies today. The customer is not the source of a problem. We shouldn't perhaps make a wish that customers 'should go away' because our future and our security will be put in jeopardy.”That is the main reason why organizations today are focusing on customer satisfaction, loyalty and retention.

Kotler (2000) defined satisfaction as: “a person's feelings of pleasure or disappointment resulting from comparing a product are perceived performance (or outcome) in relation to his or her expectations.”

Hoyer and MacInnis (2001) said that” satisfaction can be associated with feelings of acceptance, happiness, relief, excitement, and delight.”

In other words, Hansemark and Albinsson (2004) said: “Satisfaction is an overall customer attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive, regarding the fulfillment of some need, goal or desire.”

Its importance lies in recognizing how to please the customers economically and effectively. Therefore, many scholars have discovered after much research that there is a positive and significant relationship between customer satisfaction and the long-term financial performance of companies (Fornell et al., 1996; Anderson and Fornell, 2000; Su et al., 2001).

High consumer satisfaction has many benefits for the firm, such as increased consumer loyalty, enhanced firm reputation, reduced price elasticity, lower costs of future transactions, and higher employee efficiency (Anderson et al 1994; Fornell, 1992; Swanson and Kelley, 2001). In an atmosphere of heavy competition it is dangerous to be a non-customer oriented company. Most markets are very competitive, and to survive,

organizations need to produce products and services of very good quality that yield highly satisfied and loyal customers.

Establishing and achieving customer satisfaction is a main goal of business nowadays, because there is very clear and strong relationship between the quality of product, customer satisfaction and profitability (Figure 1.1) .

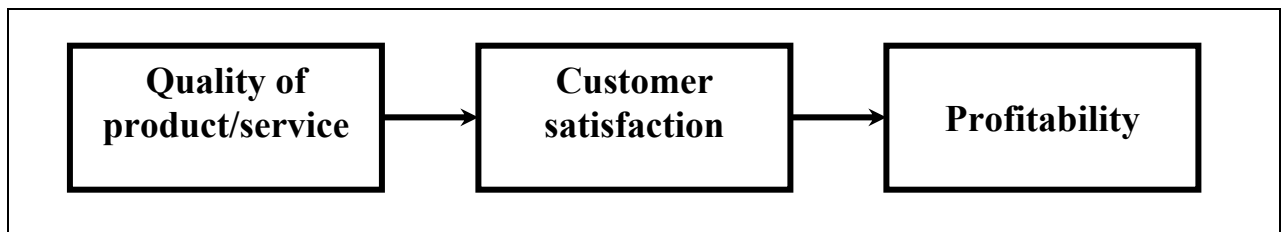


Figure 1.1: dependence between quality, satisfaction and profitability

Source: Ingrid FeclikovaA, 2004

According to Coldwell (2001): “Growth Strategies International (GSI) performed a statistical analysis of Customer Satisfaction data encompassing the findings of over 20,000customer surveys conducted in 40 countries by Info Quest.”

The conclusion of the study was:

- A Totally Satisfied Customer contributes 2.6 times as much revenue to a companies a Somewhat Satisfied Customer.
- A Totally Satisfied Customer contributes 17 times as much revenue as a Somewhat Dissatisfied Customer.
- A Totally Dissatisfied Customer decreases revenue at a rate equal to 1.8 times what a Totally Satisfied Customer contributes to a business.

It is believed that consumer satisfaction is a good, if not the best, indicator for a firm’s future profits (Fornell, 1992; Kotler, 1991; Reichheld and Sasser, 1990).

There are some factors that are affected by customer satisfaction , such as profitability, loyalty, retention, commitment, etc. Here some of these factors described. Customer satisfaction does have a positive effect on an organization’s profitability. According to Hoyer and MacInnis (2001), satisfied customers form the foundation of any successful business as customer satisfaction leads to repeat purchase, brand loyalty, and positive word of mouth.

Aaker (1995) said that the strategic dimension for an organization includes becoming more competitive through customer satisfaction/brand loyalty, product/service quality, brand/firm associations, relative cost, new product activity, and manager/employee capability and performance (Figure1.2).

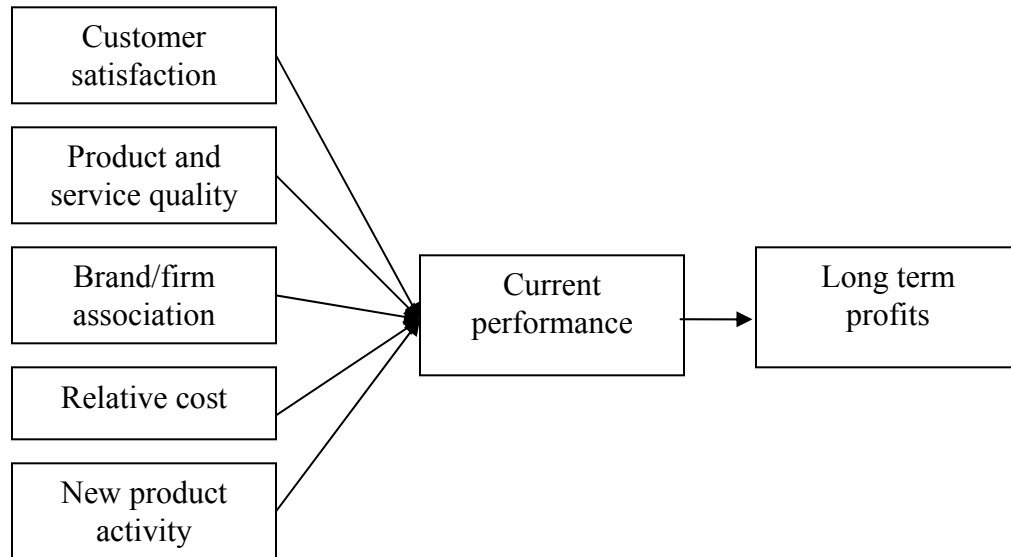


Figure1-2: Performance measures reflecting long-term profitability
Source: Aaker, 1995.

According to Anderson and Jacobsen (2000), “Customer loyalty is actually the result of an organization creating a benefit for a customer so that they will maintain or increase their purchases from the organization.”

1-2-1 Customer Satisfaction in Business-to-Business context

An essential ingredient in successful marketing is to keep the customer satisfied on a long-term basis (Srinivas Durvasula and Steven Lysonski 2000).

A fundamental premise to the marketing concept is the notion of satisfying customers’ needs. A satisfied customer is expected to enhance a firm’s bottom line in multiple ways. Increased customer satisfaction generates positive word-of mouth and brings in new customers to the firm (Zeithaml et al., 1996; Anderson et al., 1994).

Also, it is widely accepted among researchers that customer satisfaction is a strong predictor of behavioral variables, such as repurchases intentions and loyalty. There are many studies that highlight the importance of customer satisfaction for a firm's success and how customer satisfaction can be measured (Oliver, 1980; Keaveney, 1995; Youjjae, 1993; Zeithaml et al., 1996), but most of these studies are limited to the area of Business-to-consumer (B2C) marketing. It is difficult to make broad-based generalizations from B2C studies to business-to-business (B2B) contexts because there are many underlying differences between consumer buying (B2C) and organizational buying (B2B) behavior(Goutam Chakraborty2007).Organizational buying is a complex process and involves many people from different functional areas, multiple goals and potentially conflicting decision criteria (Webster and Wind, 1972; Anderson et al., 1987).

1-3 Engineer –to- Order companies

Capital goods industry is an important economic sector in each country. Manufacturer of capital goods are Engineer -to- Order (ETO) Companies. The main business activities of the companies are design, manufacture and construction of capital equipment. ETO means that products are engineered and produced based on the specifications of the customer. In general, high level of customization leads to increased cost of higher risks and long lead-times. In such industry, if you satisfy your customer, it means that your customer will return and suggest your company to others (word of mouth). Existence of competitors inside and outside of the country leads us to retain an old customer. Satisfaction of customers in Business- to- Business market is very difficult because both buyer and seller are knowledgeable, trained and experienced about the product.

Product customization has been recognized as an effective means to meet individual customers' needs. It is imperative to assist customers in making informed decisions with regard to company capabilities and the added value of customization. Facing the buyers' market, many industries are shifting from mass production to mass customization (Pine BJ, 1993). Quality, in the sense of satisfying individual customers' needs, has become a major differentiating factor among products (Norman DA ,

1998) .With the increasing flexibility in manufacturing systems and the high speed of information exchange, mass customization may satisfy the requirements of individual customers with near-mass-production efficiency (Jiao J (1996). Such a new paradigm enables higher profit margins for designers and manufacturers, better and improved customer satisfaction, as well as high-value added business opportunities (Jiao J, Tseng MM ;2004).

1-4 Problem definition

Most academicians and practitioners understand that enhanced customer satisfaction usually leads to increased customer retention, positive word-of-mouth, and higher profits (Fornell, 1992). Increased customer satisfactions also reduce the number of complaints and the costs of complaint handling. Measuring customer satisfaction and understanding the factors that drive satisfaction can therefore help firms discover ways to improve product quality, which in turn may lead to increased competitive advantage (Cravens et al., 1988). Recent International Organization for Standardization (ISO) 9000 changes also embrace customer satisfaction as a focus of the standard and require ISO 9000 certified companies to collect and analyze customer satisfaction data and use this information to improve organizational performance (Bond and Fink, 2003).

Given the importance of customer satisfaction for a firm's long-term business survival and growth, monitoring customer satisfaction and diagnosing what factors drive customers' satisfaction should be an essential activity of every firm. Due to the complexity of organizational buying situations, it is likely that a purchase manager's satisfaction with a supplier may be driven more by one set of factors (such as those covering commercial aspects of a transaction), whereas the engineering manager's satisfaction with the same supplier may be driven more by another set of factors (such as those encompassing technical information about the product). If this conjecture is right, then it makes good business sense to emphasize different factors in communicating with organizational buyers based on their functional areas instead of taking a "one shoe fits all" approach (Goutam Chakraborty 2007).

Goutam Chakraborty et al (2007) said: “We believe that B2B sale people are already aware of such differences in the needs of different organizational buyers and use customized communications during the pre-sales period to uniquely appeal to different departments within the same firm (customer). However, we have not seen published studies that documented the fact that an organizational buyer’s satisfaction is also differentially influenced by factors that relate systematically to the buyer’s functional areas.”

“In industrial marketing settings, the relationship between buyer and seller is frequently long-term, close, and involves a complex pattern of interaction between and within each company” (*Hakonsson, 1982*). Customer satisfaction in industrial marketing should therefore be understood as relationship specific (*Homburg and Rudolph, 2001*) although there is no single established method for measuring customer satisfaction (*Zeithaml et al., 1990; Fornell, 1992*).

Motivations behind this research attempts are:

1-customer satisfaction measurement (CSM) is the principal tool by which marketers assess the health of their relationships with their customers.

2-There are few articles that have addressed customer satisfaction in a Business-to-Business context. Academic researchers have noted a predominant focus on consumer measurements with near complete disregard for customer satisfaction research between businesses (*Morris and Davis,1992; Moore and Schlegelmilch,1994; Homburg and Rudolph,2001*).

3- Accessibility to gathering data from manufacturing companies, which are customers of Engineer-To-Order companies (in B2B context).

1-4-1 Research Purpose and Research Questions

Following the previous discussion, the research problem and research questions of the study formulated as follows:

**Customer Satisfaction in Business- to- Business Marketing:
An Exploratory study of Engineer-To- Order (ETO) Companies
in Iran
(Customers of Niroo Moharekeh Machine Tools Company)**

Research Questions:

Q1- What are the drivers of customer satisfaction in capital goods industry?

Q2- What are the model specifications suitable for customer satisfaction in capital goods industry?

Q3- Which factor (Reliability, Product information, Commercial aspects) is the most important predictor in capital goods industry?

1-5 Limitation

There are some limitations that affect this study in different ways. The limitations are time and lack of manufacturer of capital goods in Iran. These limitations create some demarcations:

Area of demarcation	Choice for this study
Industry	Capital goods Industry
Company	Niroo Moharekeh Machine Tools(NMT) Company
Customers	Project manager in each company (NMT customer)
Business/Product	Machine for production of automotive components and parts Machine for machining & forming Test machine for automotive engine & gear box Utilities for testing car bodies Industrial equipment
Quality Focus	Customer's view about important factors in Capital goods industry and on customer satisfaction
Time Frame	Situation during summer 2007

Table1.1 Areas of demarcation and the choice of this study

Source: Author's table

1-6 Structure of the study

The structure of the study is illustrated below:

<i>Chapter 2</i>	<i>Literature Review</i>	This chapter provides a literature review of the concept of customer satisfaction and Business-to-Business context.
<i>Chapter3</i>	<i>Research Methodology</i>	This chapter discusses the selected research methods
<i>Chapter 4</i>	<i>Analysis and recommendations</i>	This chapter provides the analysis and recommendations for improvement.
<i>Chapter 5</i>	<i>Summary and conclusion</i>	This chapter gives a summary over the research process and also a summary over the conclusions

Table 1-2: structure of study

Source: Author's table

Chapter2

Literature Review

Introduction

The aim of literature survey is to investigate literature concerning customer satisfaction (CS). Literature regarding customer satisfaction can be found both within the field of marketing and quality. Traditionally customer satisfaction has been studied within the field of marketing, but with the emerging trend of Total Quality Management (TQM) it has also become an essential part of quality studies (Bergman,1994).The literature that is reviewed in this chapter contains facts about:

- 1) Overall customer satisfaction;
- 2) Customer satisfaction in Business-to-Business context;
- 3) Engineer-to-order Company and its product, Capital goods.

As mentioned in chapter one , the aim of this study is to present a model to measure customer satisfaction, especially in capital goods industry. The survey is from customers of Niroo Moharekeh Machine Tools company (NMT) is one of the manufacturers of capital goods in Iran.

Keywords: Customer Satisfaction, Engineer_To_Order company, Business_To_Business context.