A FRAMEWORK FOR ECONOMIC ANALYSIS OF CONSUMERS' PERCEPTION OF SERVICES QUALITY

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ABSTRACT

Consumers' perception is a marketing term that involves customers' impression, awareness and/or consciousness about a business or products and services offered. As a service quality measure it indicates how well services received by customers correspond to their expectation level, that they had even before receiving/buying the services/products. Most often Consumers' perception and satisfaction are used interchangeably but they are different. Customer perception indicates whether customers are satisfied or not. Customer satisfaction points out the degree to which the customer is happy or not happy with the service received. Consumers perception, satisfaction with regard to service quality are vital for businesses as it helps in attracting new customers and retain the old ones. "The economic analysis" (demand and supply theory) is equally significant for a business, as it helps in understanding the different issues affecting sales and purchase of business, therefore helps in making smarter business decisions. 'Consumers' perception' and 'demand and supply' are two most significant and cognate terms in the field of business and economics. Hence this study puts together these two terms in a way that helps businesses to make better decisions to satisfy their customers and improve performance. This study aims to provide an economic analysis framework to understand the consumers' perception. This frameworks will provide and economic eye to see the effects of consumers' perception on the business's profitability.

Keywords: Consumer perception, Consumer Satisfaction, economic analysis framework, economic eye etc.

CONSUMERS' PERCEPTION AND CONSUMER'S SATISFACTION

The word "Perception" originated from the Latin word "perceptio". This word is used when one needs to understand the presented information, or the environment by organization, identification, and interpretation of sensory information. Human brain's perceptual systems enable individuals to see & experience the world around. Satisfaction can be defined as pleasure derived from the fulfillment of one's wishes and expectation. In many cases, consumers' perception and satisfaction are not differentiated. They are often used interchangeably. ISO 9001 defines customer satisfaction as a degree of customer's perception at which the customers' requirements have been fulfilled.[1] This definition clearly indicates that customer satisfaction is subjective discernment of whether their requirements (not necessarily the contractual obligations), are fulfilled. It also indicates that customer satisfaction is not just a matter of yes/no issue, rather it is a range of various levels of satisfaction. Consumers' perception of service quality measures how well services received correspond to the expectation level of the customer, that they had even before receiving the service. Customer perception indicates whether customers are satisfied or not. Customer satisfaction points out the degree to which the customer is happy or not happy with the service received.

SERVICE QUALITY AND CUSTOMER SATISFACTION IN INDIAN BANKING INDUSTRY

Service quality and customer satisfaction (CSAT) are central concepts the service industry needs to fathom in order to prevail in today's ambitious business world. It is very crucial to know how to measure these factors from the consumers' prospects in order to understand their demands and satisfy them. Customer Service is considered very important because it leads to higher customer satisfaction, reduced cost, profitability, customer loyalty and retention. According to Parsuraman, Zeithaml & Berry (1985)[2] "Service quality is the difference between the service expectation and service actually received by the customer". Service quality is a vital and essential tool for attaining operational efficiency and improved business performance which helps to satisfy and retain customers. Customer satisfaction is seen as difference between customer's expectations and customers experience or perceptions after getting the services. Customer satisfaction depends on such factors like reliability, assurance tangibles, empathy and responsiveness. Customer satisfaction is related with the type of service quality, if the quality of service provided by the service provider is good then this leads to the higher satisfaction.

[1] ISO 9001 Requirements Clause 9.1.2 Customer Satisfaction

[2] Parasuraman, A, Ziethaml, V. and Berry, L.L., "SERVQUAL: A Multiple- Item Scale for Measuring Consumer Perceptions of Service Quality' Journal of Retailing, Vol. 62, no. 1, 1988

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It is mandatory for a service provider to understand the service quality parameters with respect to the customer expectation as well as the customer perception well, to measure its service quality. This will help in getting the better service and provide greater level of customer satisfaction. The customer expectation with reference to various quality parameters varies for every individual. Such change in perception can affect the customer satisfaction.

A HISTORICAL VIEW OF SERVQUAL MODEL

Service quality was developed by carrying out a systematic research in 1983. And after many rounds of distillation, resulted in SERVQUAL instrument published in 1988.[3] The researchers began with an comprehensive literature examination in order to identify items that would impact perceived service quality. Initially the search identified approx 100 items, used in the first rounds of consumer testing. Later ten dimensions of service quality were identified using Data reduction technique (factor analysis or principal components analysis). These ten dimensions that were accepted as standard dimensions to represent service quality were:

Table 1: Dimensions Of Service Quality

Sr. No.	Dimension	Description
1	**Competence**	Acquiring needed skills and knowledge to perform the service
2	**Courtesy**	a pleasant appearance of contact personnel, manifesting as politeness, respect, and friendliness.
3	**Credibility**	factors such as trustworthiness, belief and honesty. It involves having the customer's best interests at prime position.
4	**Security**	the customer to feel free from danger, risk or doubt including physical safety, financial security and confidentiality
5	**Access**	approachability and ease of contact. For example, convenient office operation hours and locations.
6	**Communication**	informing customers in a language they are able to understand and also listening to customers

[3]Parasuraman, A., Berry, L.L., Zeithaml, V. A., "Understanding Customer Expectations of Service," Sloan Management Review, Vol. 32, no. 3, 1991, p. 39

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7	**Knowing the customer**	making an effort to understand the customer's individual needs, providing individualized attention, recognizing the customer when they arrive
8	**Tangibles**	the physical evidence of the service, for instance, the appearance of the physical facilities, tools and equipment used to provide the service; the appearance of personnel and communication materials and the presence of other customers in the service facility.
9	**Reliability**	the ability to perform the promised service in a dependable and accurate manner.
10	**Responsiveness**	the readiness and willingness of employees to help customers by providing prompt timely services, for example, mailing a transaction slip immediately or setting up appointments quickly

Source: *Parasuraman, A, Ziethaml, V. and Berry, L.L., "SERVQUAL: A Multiple- Item Scale for Measuring Consumer Perceptions of Service Quality'*

SERVICE QUALITY EQUATION

SERVQUAL instrument used by businesses to find out possible service quality problems and their likely causes. The model of service quality is based on the expectancy-confirmation model which explains service quality in terms of consumer's perceptions of how well a given service delivery meets their expectations. Thus, service quality can be conceptualized as a simple equation:

SQ = P- E

where;

SQ is service quality

P is the individual's perceptions of given service delivery

E is the individual's expectations of a given service delivery

Output of above equation measures service quality as

- **Low service quality** = Customer Expectations > Perceptions of received delivery
- **High service quality=** Customer's Expectations < Perceptions of received delivery

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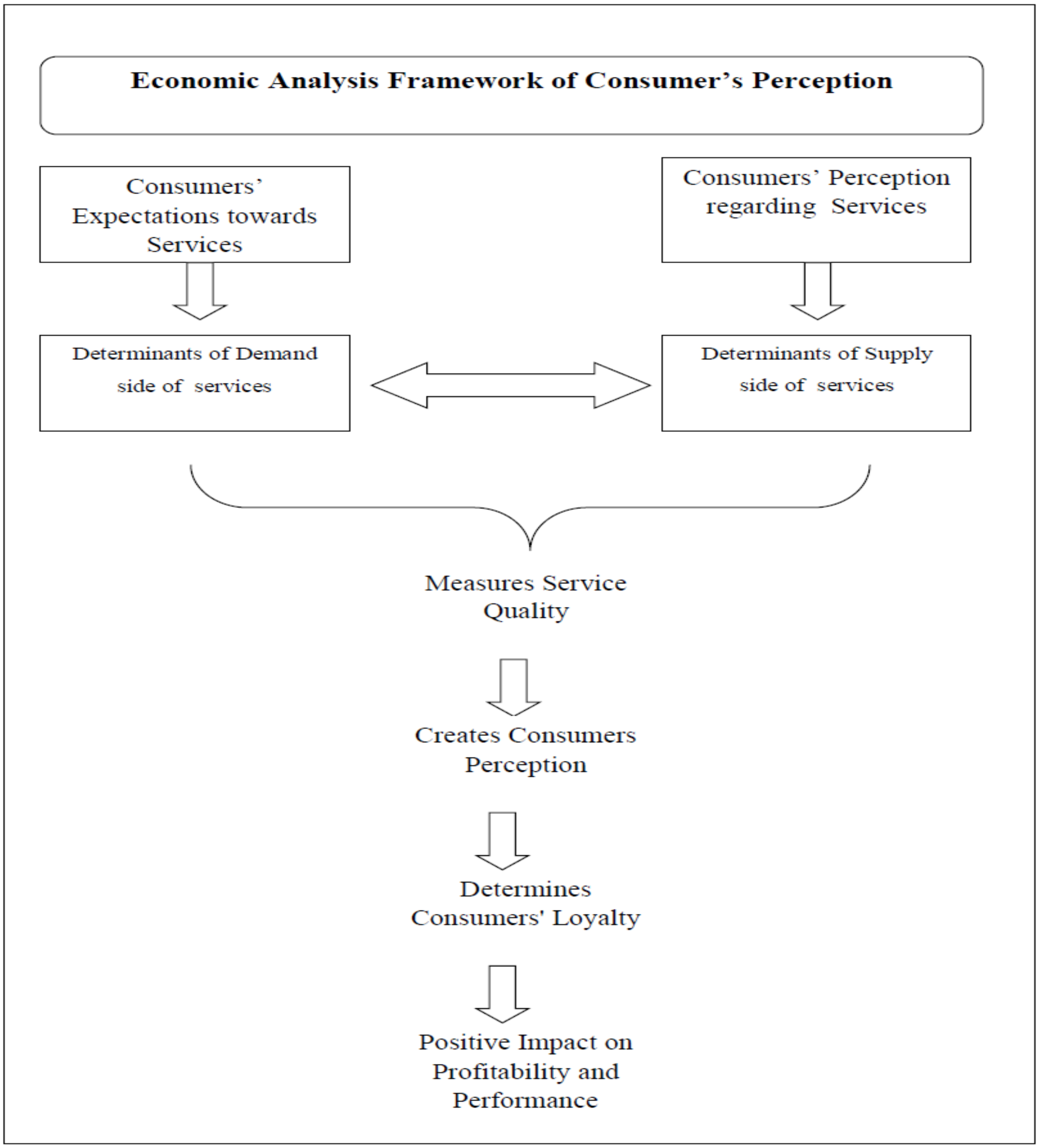
With this backdrop an economic analysis frame work has been designed to examines the impact of e baking service quality provided by banks on individual customers' perception.

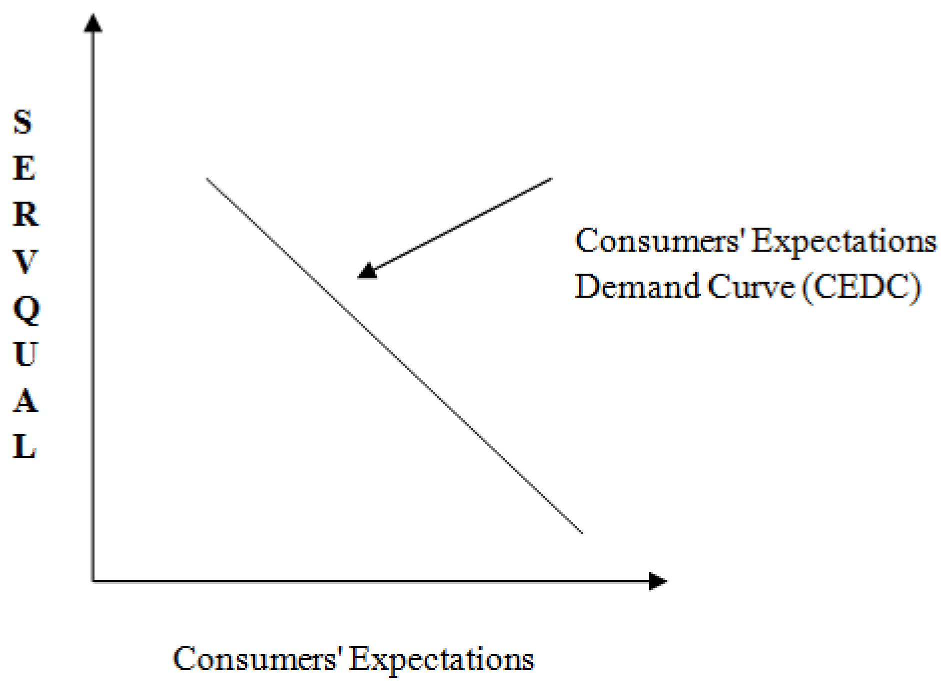
Figure 1:



Demand side : "Consumers' Expectations"

Consumer's expectation from the service provider based on the SERVQUAL dimensions form the demand side of the economic analysis.

Figure 2: Demand side : "Consumers' Expectations"



The above mentioned figure 2 represent the demand side of the economic analysis of consumer's perception of e banking services. The CEDC curve shows the inverse relationship between SERVQUAL and the consumer's expectation. It is based on the assumption that initially consumer's expect many things from its service provider's. As service provider keeps meeting consumer's expectations gradually, its declines. At this level it is not in expectation category but moves to either consumer's satisfaction or dissatisfaction. Therefore CEDC is downward sloping curve. It should be noted here that to simplify the model elasticity of the demand curve is assumed to be unitary.

Supply side:"Consumers' Perception"

Consumer's perception about the services provided by the service provider according to the SERQUAL dimensions form the supply side of the economic analysis

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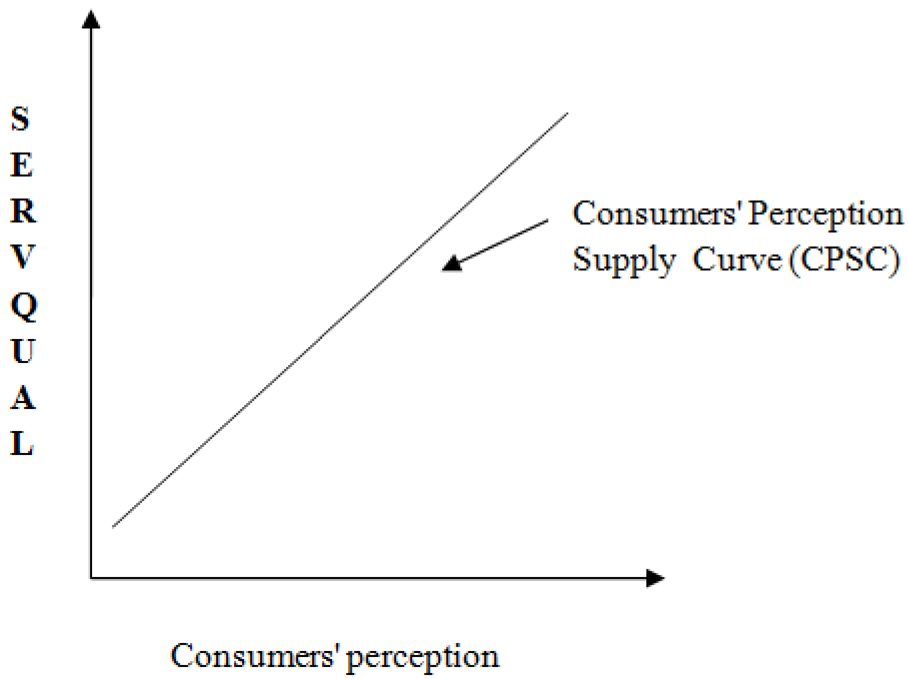
Figure 3: Supply side: " Consumers' Perception"



The above mentioned figure 3 represents the supply side of the economic analysis of consumer's perception of e banking services. The CPSC curve shows the direct relationship between SERVQUAL and the consumer perception. It is based on the fact that higher service quality leads to higher degree of satisfaction level. Higher the service quality , higher the satisfaction will be. Therefore CPSC is upward sloping curve. It should be noted here that to simplify the model elasticity of the Supply curve is assumed to be unitary.

Consumer's Satisfaction: An Equilibrium Determined By Consumers' Expectation And Consumer's Perception

The degree of consumers' satisfaction or dissatisfaction is determined by the level of their expectation and perception. Based on the above mentioned demand and supply factors, Consumer's Satisfaction is the equilibrium set by the interplay of demand and supply forces as per SERVQUAL model.

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Figure 4: Consumer's perception determined by CPDC & CPSC

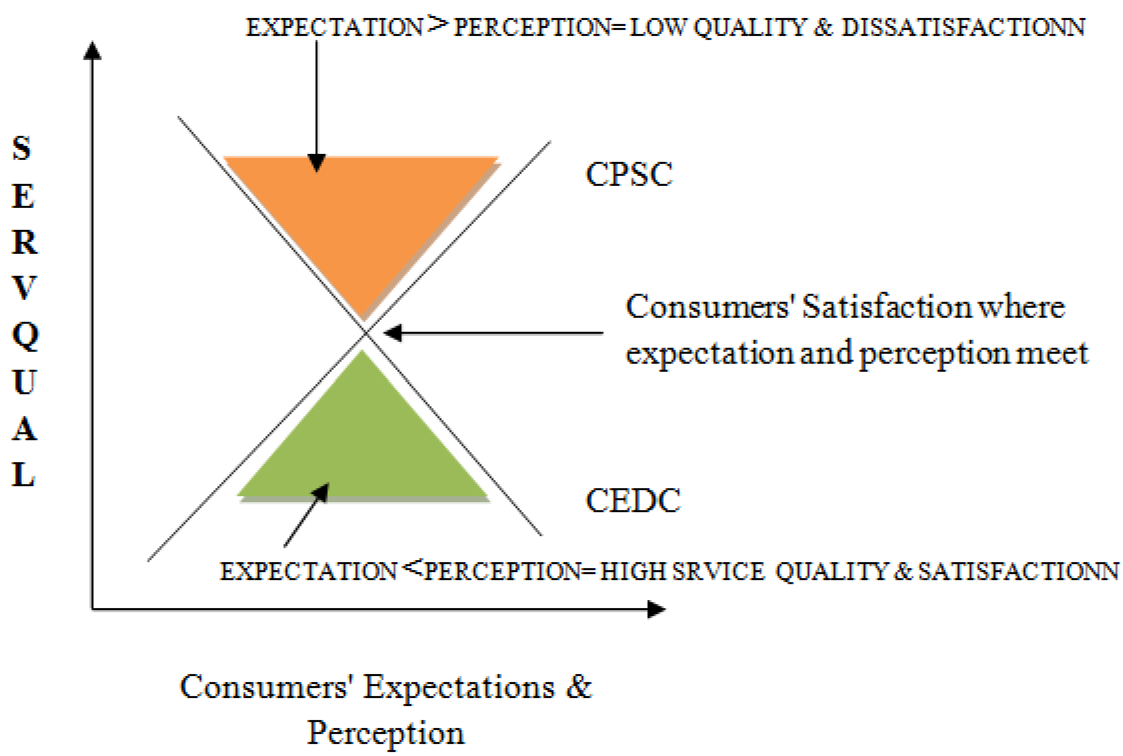

Figure 4 shows an equilibrium determined by consumers' perception and expectations indentifies consumers' satisfaction. Higher perception than consumer expectation in turn creates highly satisfied customer resulting in consumers' loyalty. Loyal consumers' repeat purchase directly impacts banks annual income.

USEFULNESS OF THE ECONOMIC ANALYSIS FRAMEWORK OF CONSUMERS' PERCEPTION

'Consumers' perception' and 'demand and supply' are two most significant and cognate terms in the field of business and economics. Hence this study puts together these two terms in a way that helps businesses to make better decisions to satisfy their customers sway in the long run.

Figure 4 shows Consumers' Satisfaction as an equilibrium determined by expectation and perception. Application of the above mentioned economic framework with the help of statistical tools, can help to get the ideal value for consumers' satisfaction (the equilibrium) to be compared with the actual results of consumers' perception. Accordingly customers' can be categorized as with excess demand indicating low satisfaction or excess supply indicating highly satisfied customers. This would help business to focus on exclusively either on demand

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side policies or supply side policies to improve its performance. Developing an automated feedback system will provide a microeconomic view of every customers standing with the business. The icing on the cake is that this economic framework can be universally applied to all business types.

LIMITATIONS OF THE STUDY

As customer perception and satisfaction are abstract concepts. Therefore the results derived with this economic framework will solely depend on the information provided by the customers during survey. Hence it require and effective feedback system.

