

THE STUDY ON FACTORS INFLUENCING CUSTOMER RETENTION TOWARDS XYZ AIRLINES

Gunasekara. M. A. N. P.

Department Industrial Management, Faculty of Sciences, University of Kelaniya, Sri Lanka

Abstract

Since the last decade, customer retention has been a central issue in management, and marketing decisions of firms. This phenomenon is good for the general well-being of the firms. Benefits of customer retention from a different perspective, especially from that of economic, cannot be over-emphasized as they culminate in the overall profitability of firms. The open skies policy in the air transport industry all over the world sparked intense competition and has witnessed a proliferation of airlines into the industry. This reminds us of the deliberate workable strategies aimed at not only acquiring customers, but also keeping them. Several studies have been conducted to identify the relationship between customer satisfaction and business performance in the airline industry but less from the customer retention perspective. The aim of this study is to find out the factors influencing customer retention on XYZ Airlines. A quantitative method and survey questionnaire were used to investigate the problem. The survey design was a cross-sectional non-experimental study of 100 respondents which was sampled by using a random sampling technique. Exploratory data analysis and correlation analysis were used. The analysis of the study clearly exposed that all the six constructs used in the study namely; customer satisfaction, switching cost, price perception, customer loyalty, perceived service quality and customer service are significantly and positively associated with customer retention. Despite limitations like generalizability, the findings of this study provide evidence that airline industry professionals are required to work closely with these strategies, especially with Airline Service Quality and Airline Switching Barriers. It is essential to fine-tune the strategies to reflect the exigencies of the time.

Keywords: Retention, Airline, Business Performance

1. INTRODUCTION

1.1 Research Background

Customer Retention has remained a central issue in management and marketing decisions of companies since the last decade. Long-term customers have a long buying cycle and it's not costly to serve, whereas, new customers are expensive to serve. The marketers, management, practitioners and companies heavily emphasize on customer retention because of an implicit assumption that there is a strong relationship between firm's performance and customer retention. Replacing existing customers with new customers is risky and there is always uncertainty in such a situation. It is assumed that the new customers may take time to become loyal to a product or brand, and they may take time to make a special bond and affiliation with the company as well. Such customers are susceptible to switching to another product/brand/ company because of their rapid changing behaviour. However, there is no such research that has clearly identified a relationship between customer retention and a firm's performance which shows that there is a research gap in the marketing field.

1.2 Research Problem

It is disclosed by the researchers that customer retention has crucial impacts on profitability, market share, economies of scales as well as such other variables that determine the competitive position of the organization in their respective industries. In today's highly competitive world, many top performing organizations have identified the importance of customer retention and have taken strategic approaches to encourage and enhance customer retention (Gupta, 2006).

Most of the competing organizations tend to implement aggressive strategies to beat the competitors and attract the existing customers to their organization. Thus the importance of retaining the existing customers is increasingly influenced by the organizations. Therefore, the research question was formulated to find out, the factors influencing customer retention on XYZ Airlines.

1.3 Research Objectives

The primary objective of this study is to find out the factors influencing customer retention on XYZ Airlines. According to that, following objectives were derived: to evaluate the current status of relationship between customer retention and firm's performance, to identify the factors influencing customer retention on XYZ Airlines, to determine strategies to enhance the current status of the company related to the phenomenon under study and to analyse the change in performance of a firm with the customer retention factor.

1.4 Justification of Research

This research has been selected to fill the gap between the current and past research on marketing. This research focuses on the customer retention. It means retaining the existing customers. Today, building relationship with customers is the first step and then maintaining relationship with customers is the second step which is a quite a difficult task because of the constant emerging challenges in the market that have made it difficult to retain customers (Ang, 2006). There is a strong competition in the market with many suppliers who are offering quality and low priced products/ services to customers and propel them to switch from one brand to another is not so easy. Also, it is creating problems for existing businesses to remain active in the market due to new businesses entries try to capture the customers of existing business (Ghavami, 2006). Therefore, this research is conducted to provide deep insight to the link between customer retention and firm's performance.

2. LITERATURE REVIEW

2.1 Introduction to Customer Retention and Business Performance

Customer retention practice is reflected as one of the most significant weapons for airlines to sustain in the said competition and, hence improve their performance (Sharmeela-Banu, S.A., Gengswari, K., Padmashantini, P., 2013). Customers are considered to be the focal point of the organizations. Therefore, the main aim of every organization is to create more customers in order to achieve their target and to retain their customers by providing the best quality of services. It is not possible for the organizations to increase their business performance without their customers (Ahmad, 2002). It has been

researched that the priority of the organizations is towards their customers, as the targeted business performance of the organization depends on their customers (Alvarez, 2001).

The same agenda is taken place in airline organizations as well. The satisfaction level of passengers in airline industry is considered to be a very important phase. The organizations may develop innovative strategies in order to build a long term relationship with their customers by providing good quality products/services so that the level of satisfaction of their customers will also increase, thus the level of customer retention will also increase (Anderson, 1994). According to Ang (2006) organizations should focus on customer retention rather than on the recruitment of the new customers. In the past, the organizations used financial measures and accounting standards in order to measure the financial performance of the organization, but now this is not the only way to measure business performance by adopting different financial measures: in fact: the firms can also measure their business performance by considering non-financial performance metrics as well. The researchers have explained different factors that influence the customer retention (Larivie`re, 2005).

A study by (Reinartz, 2000) has stated that loyal customers and profitability are not necessarily related to each other; in other words, loyal customers cannot be necessarily profitable customers. It can be said that customers who are more inclined towards retention does not generate higher profits for the company and any wealthy customers who are not strongly retained, generate higher profits because of their huge spending power (Reinartz, 2000). In this research, four predictive variables are taken under the umbrella of "customer retention" that are, word-of-mouth, non-complaining behaviour, repetitive purchase behaviour and price insensitivity. The dependent variable taken in this research is "firm performance" measured by profitability. Ryals (2005) measured the impact of customer retention on firm performance by taking customer demographics (as controlling variables) into consideration.

A previous study conducted by Larivie`re (2005) was a cross-sectional study that investigated the profitability with respect to customer longitudinally and this study evaluated a direct relationship between the profit generated by customers and a set of retention variables. This study investigated two directions of profitability: profit evolution and profit drop. Profit evolution means the evolution of customer in association with the profit generation during the observed period and profit drop means a drop in profits of the customer in association with the profit generation during the observed period. Profit drop expressed the reduction in profit by the end of observational period and it is a binary variable. This research was a profound research as it validated the accuracy of measuring customer profitability evolution by measuring firm's performance with the retention variables taken under binary variable. The main agenda of business is to produce customers, satisfy them and retain them through multiple channels, mediums and strategies. The previous studies declared that firm cannot remain active in the market and increase their performance without strong customer base and close customer bond. A firm without customers has no revenues, profits, market value and equity. Nowadays, globalization has increased the competition to a higher extent and the entire focus of businesses is towards customers propelling businesses to become customer-centric by changing their strategies, design, structure and processes to become more customer-oriented. A survey conducted by the Economist concluded that 65% of the senior executives of companies said that in the next three years, their top most goal is to achieve targeted performance through customers. Customer retention is a central discussion area

among scholars because of the past researchers who claimed that firms exist to maintain and sustain the relationship with customers via customer relationship management and it is the success factor for organizations.

The market is heavily flooded and has a higher level of competition claimed that strategies of retention among firms are crucial to their existence. The past studies have established a significant association between practices of customer retention and firm performance improvement: the firms that maintain and sustain their relationship with customers and intense competition enjoy savings in monetary terms, of retaining the existing customers (Reichheld, 2000) declared that with an increase of 5% in customer retention rate, profit can be increased by 25% to 95%.

2.2 Customer Retention and Price Perception

It is very important for the customers to be familiar with the new prices offered by the companies. The companies should set out the prices of the product according to the customer's perception. If the new prices offered by the companies are too high, then there are possibilities that the customers may switch to another product or brand (Ryals, 2005). If other companies provide more benefits and the customers are keen to try other brands, then they may switch to another brand easily. If the customers are price conscious and if they have noticed that the prices are not reasonable, they will never pay the high prices for the brand in which they are showing interest; in fact, they can easily convert their interest in to another brand. The companies should always set out the prices of the brand according to the worth of the brand so the number of customers switching to another brand because of the pricing issues can be reduced to an acceptable level (Woo, 2004).

2.3 Effect of Switching Barrier on Customer Retention

The organizations should build some switching barriers in order to hold their customers. If the switching cost increased by the organizations then as a result the risk will be increased for the customers and the company should be more efficient as the dependency increased on the company's side (Jones, 2002). If the companies build positive switching barriers, then it will be a positive effect on the customers. In order to create the long term relationship between the company and the customers, the company should provide more benefits to their customers in order to increase the retention level of the customers (Berry, 1995). The benefits should be personal interaction with the customers and an effective communication in a friendly manner, emotional benefits that may relax the customer's mind, financial benefits such as offering different discounts to their customers (Bejou, 1998). When the customers are totally satisfied by the services provided by the organization, and they never think about the alternate options describes the possibility of customer switching to another organization will be reduced to an acceptable level (Ang, 2006). If the customer gets attracted to any other option or alternative, then the existing may build the switching barrier. The service recovery is also one of the components of the switching barrier which means that the organizations that are providing the services to the customers have an ability to resolve the problems of the customers and reduce dissatisfaction of the customers. The service recovery is one way to build the customer relationship into a long term relationship (Anderson, 1994). The customer satisfaction is very significant in order to retain the customers. It has been evaluated that the effect of switching barrier directly affects the level of customer retention therefore organizations takes

innovative steps in order to adjust the relationship between the customer retention and the customer satisfaction (Abrat, 1999).

2.4 Customer's Loyalty towards the Airline Industry

There is a very high competition in the Airline Industry and to run the Airline with profitable outcome has become a challenge for all the Airlines. Nowadays, in the high competitive market, customer loyalty has become a crucial way to increase the profitability of the company (Bejou, 1998). It has been viewed that the Airlines are actually working on the marketing approach and they are working on the loyalty programs, as they are focusing on the short term sales in order to build a strong relationship among the customers and the Airline Company (Woo, 2004).

The reason for increasing the short term sale is that the demand of the air travelling decreased since few years. The most profitable customers of the Airlines are the business travellers. The loyalty management has arranged the reward programs for both the company and the passengers in order to provide benefits to the business travellers (Trasorras, 2009). Therefore, the company provides variety of incentives so as to encourage the employees so that they perform their duties effectively in order to attain the profitable outcome.

2.5 Customer Satisfaction on Customer Retention

Customer satisfaction can be considered as a psychological concept that includes the feeling of wellbeing and pleasure that results from obtaining what one hopes for and expects (Pizam, A. & Ellis, T., 1999). The author emphasizes that it is not a universal miracle, which means that not everyone gets the same satisfaction by getting the same experience. This is because though it is the same industry, different customers could have different needs, objectives and experiences that influence their own expectations. As per the clarification on (Frederick F. Reichheld, Thomas Teal, 2001) customer satisfaction can be a major cause for customer retention. There is an inverse relationship between satisfaction and retention.

2.6 Perceived Service Quality vs Customer Retention

As explained above, satisfied customers retain a longer time for the company. According to Rust (1994), customer satisfaction keenly depends on a different set of factors like perceived service quality, emotions, social relations and other experience-specific subjects. Perceived service quality is defined as the overall customer's assessment of the standard process of the way of receiving customer services (Hellier, P.K., Geursen, G.M., Ca, 2003). Some researchers believe that the perceived quality is the extent of obedience rate among perceived performance and customer expectations (Athiyaman, 1997); (Bejou, 1998). And the same time, some other researchers consider the perceived quality as the result of satisfaction (Anderson, Eugene, W., and Mary W. Sullivan, 1993). Perceived quality has a direct relationship to customer's purchasing decision as well as brand loyalty, especially during the time customers have less or no information of the service that they are going to experience (AAKER, 1991); (Philip Kotler, Gary Armstrong, 2003).

2.7 Measures of Customer Retention

As it has been elucidated that the organization's first priority should be to retain the customers, it is also important for the organizations to build a strong relationship with the loyal customers as well as new upcoming customers in order to retain the customers in addition to increasing financial gains of the industry (Berry, 1995). When compared to new customers, the retained customers are always ready to pay for premium prices and they do not necessarily claim for discount offers because they believe that if they are paying high prices for the products and services than in return, they are buying or purchasing the best quality of products and services according to their demands. These are the customers who are totally satisfied and always make purchases whether the organizations offer the discounted schemes or not (Ahmad, 2002).

The customers who stay in touch with the organization for a longer period are called "*retained customers*". Consequently, the researchers have identified three methods to evaluate the retention rate of the customers: these three methods are compound method, behavioural method and attitudinal method. The behavioural method of retention rate shows the repetitive and constant buying behaviour of the customers. Actually, the customers who are loyal to the brand or the product are the retained customers (Anderson, 1994). However, it has been researched that this buying behaviour of the customer shows that the commitment of the retained customer towards the organization never create hurdles for the firms at the time of measuring the customer retention rate. Further, it has also been described by the researcher that if the organizations provide more distinctive benefits to their customers then the loyal customers never switch to any other brand.

Another method to measure the retention rate of the customer is attitudinal method that describes the emotional attachment of the customer towards the product or the brand. These customers are considered to be the authentic customers; in other words, authentic customers are loyal customers. These are the customers who always show a positive attitude towards the brand or the product and are considered to be evangelist customers. Evangelist customers are essentially "*word of mouth*" marketers. These customers convince others to buy the product or the brand for which the new customers are not ready to purchase because of the higher prices (Berry, 1995).

The last method to evaluate or measure the retention rate of the customer is the composite method, as the composite method is the combination of both behavioural method as well as the attitudinal method. These customers are loyal and retain customers towards the organization. They continue to make purchases and always hold favourable and auspicious attitudes towards the organization. Composite method is considered to be the greatest tool for implementing the retention rate of the customer. The loyal customers also have an ability to compromise with the new prices in order to receive the best quality of services from the organization (Reichheld, 1990).

The researchers have explained that the evangelist customers have become a reference group for the potential customers. This relationship between these customers and the organization is strong and long lasting. Mostly the new customers have so many complaints regarding the organization or the products provided by those organizations, but the usually retained customers have fewer complaints regarding the products or services provided by the organizations (Bowen J. a., 2001).

3. METHODOLOGY

3.1 Conceptual Framework

In this case, customer retention acts as the mediator variable and dependent variable is business performance. Independent variables are customer satisfaction, switching cost, price perception, customer loyalty, perceived service quality, and customer service.

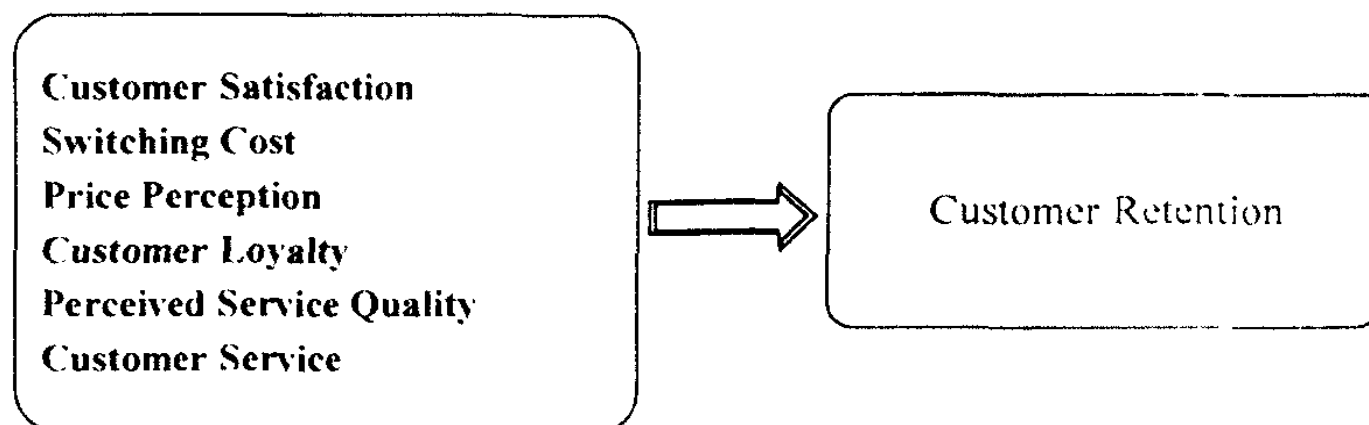


Figure 1: Conceptual Framework

3.2 Collection of Primary Data

The main goal of this study is to identify the impact of customer retention in XYZ airlines on business performance. The study emphasizes contemporary events, does not require control over behavioural events and the research question of this learning is in the form of what; therefore, the most appropriate strategy is a survey.

3.3 Collection of Secondary Data

Secondary data are most important when generalising the findings. Therefore, those data were collected through web sites, blogs and annual report.

4. RESULTS AND ANALYSIS

4.1 Sample size and Response Rate

Approximately 130 questionnaires were prepared and circulated. A total of 115 responses were received. Of these, five (15) responses had to be discarded due to invalid or incomplete data entries. Thus, the sample comprising of a total of 100 respondents was used for analysis. The usable response rate amounted to 77%, which is satisfactory. From the received questionnaire feedback, some meaningful results were found and documented.

Gender and Age Distribution of Passengers

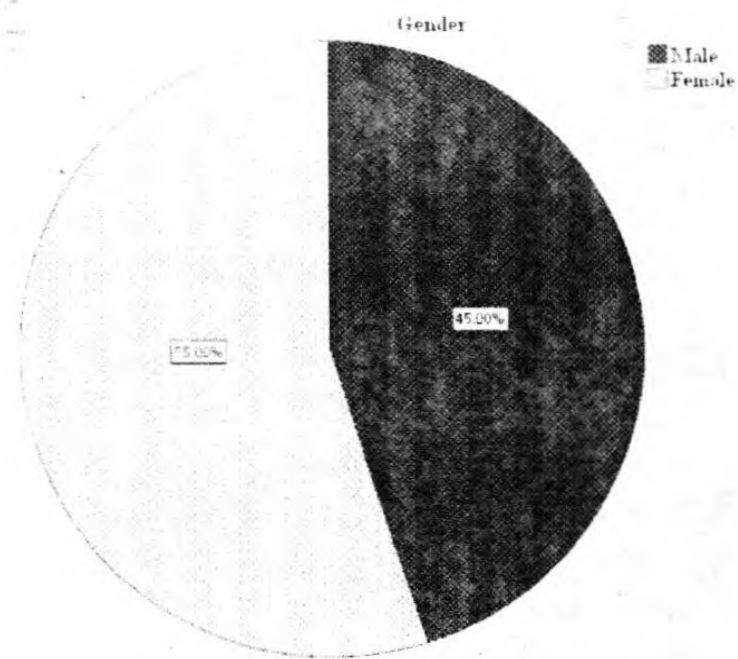


Figure 02: Gender Distribution of Passengers

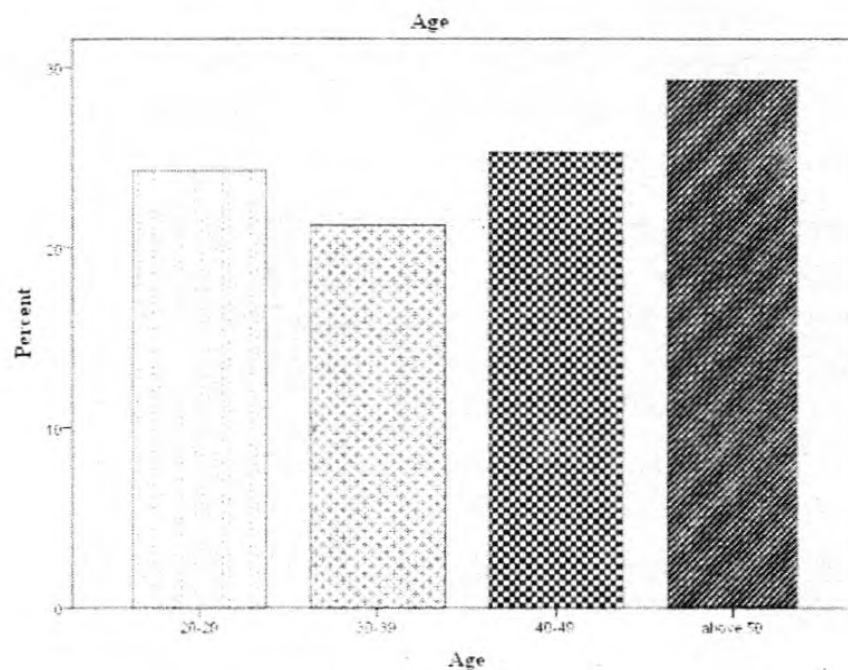


Figure 03: Age Distribution of Passengers

Out of the total respondents, 45% of the respondents were female while 55% of respondents were male. The data were fairly distributed and it seems that both categories used Emirates airline. But a slight increase can be seen from the male respondents. When analyzing the age distribution, mainly they considered the categories of 20-29, 30-39, 40-49 and above 50. From the findings, it can be concluded that highest percentage accounted for 'above 50 years' category which was second to the 20-29 age group. These respondents accounted for 25% of total respondents. So, there may have several reasons for this kind of situation. Most of the time, younger category is looking for their higher education purposes and above 50 years may have business travels. When considering the distribution by clustering with gender, the age category "above 50", and the highest distribution of males is clearly visible when compared with other categories. But male distribution is comparatively low among the age between 30 to 39 years category. Wilfred et al., (2011) highlighted that the demand for air

travel is resultant and the actual demand to be satisfied might not have anything to do with the person gender.

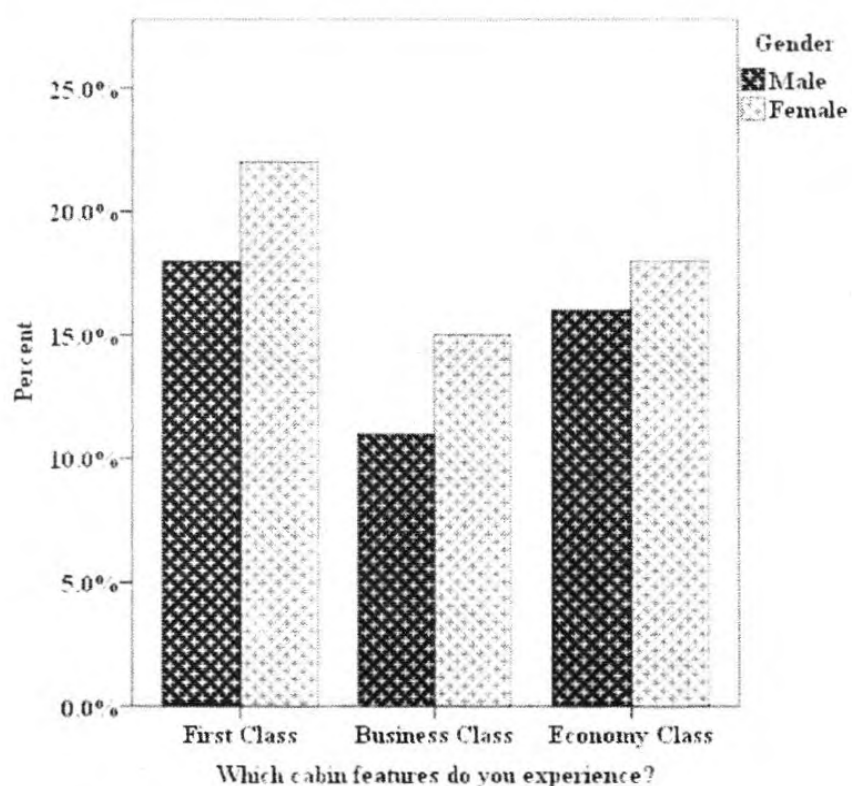
4.3 Primary Reason to Fly with Age Distribution

When analyzing the primary reason to fly with their age, there were three main reasons like leisure, business and personal reasons. 37.5% of respondents (above 50) travel for leisure. For business, 35.1% of respondents travel who are in the age group of 40 to 49 years. For personal reasons, 36.7% of respondents travel who are above 50 age group.

4.4 Cabin Experience with Gender and Age.

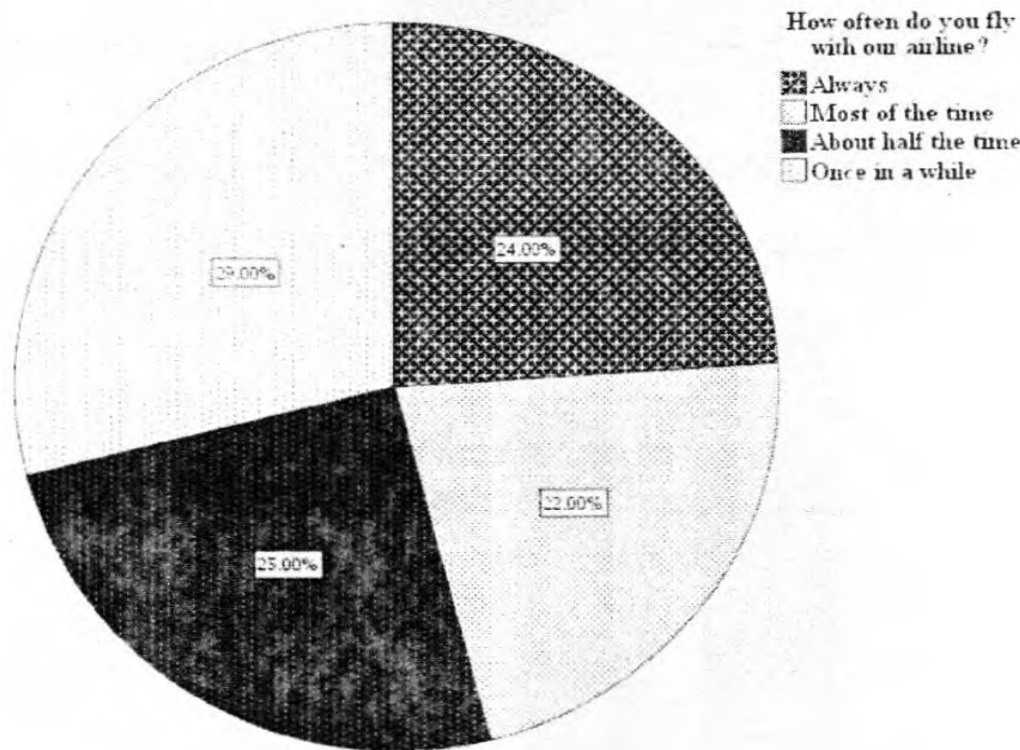
		Which cabin features do you experience?		
		First Class	Business Class	Economy Class
Age	20-29	41.7%	29.2%	29.2%
	30-39	38.1%	28.6%	33.3%
	40-49	40.0%	32.0%	28.0%
	above 50	41.4%	17.2%	41.4%

When asked about their cabin experience with the gender, female group is much more towards the first class and less preferences for business class. When considering cabin experience with the age, age group of “above 50” category is more towards using “First class” while less preference is for “Business class”. Respondents who were in their twenties and thirties tend towards using “Economy” and “Business” class rather than choosing the “First class”.



4.5 How Often Do They Fly and Return Flight vs Cabin Experience

		Which cabin features do you experience?		
		First Class	Business Class	Economy Class
During the period of last 12 months, how many return flights have you had?	1-2	56.3%	18.8%	25.0%
	3-5	38.1%	19.0%	42.9%
	6-10	24.0%	40.0%	36.0%
	>10	36.4%	27.3%	36.4%



When researcher questioned from them how often they fly with XYZ air lines, majority responded that they “always” do. But there were considerable amounts who answered “once in a while”. This issue should be addressed because these categories can make a significant difference in business performance of airline industry. When researcher questioned from respondents “During the period of last 12 months, how many return flights have you had?” and when it was analyzed with experienced cabin features, from the respondents who used had 1-2 flights considerable amount belonging to first class.

4.6 Packing Cost with Gender

When the researcher asked, “How often do you pack less than you would like in order to avoid baggage fees when traveling on Emirates airline?” and when the answers are compared with gender, considerable percentage of female answered as “about half of the time” and from the perspective of male category, answer was “always”. It seems that male category is more concerned on price rather than female category.

4.7 Research Hypothesis

		Satisfaction	Switching Cost	Price	Loyalty	Perceived Quality	Service
Customer Retention	Pearson Correlation	.738	.748	.410	.702*	.620	.834
	Sig. (2-tailed)	.051	.046	.047	.044	.048	.047
*. Correlation is significant at the 0.05 level (2-tailed)							

H₁: There is a significant relationship between customer retention and customer satisfaction in XYZ airlines.

H₂: There is a significant relationship between customer retention and customer switching cost in XYZ airlines.

H₃: There is a significant relationship between customer retention and customer price perception in XYZ airlines.

H₄: There is a significant relationship between customer retention and customer loyalty in XYZ airlines.

H₅: There is a significant relationship between customer retention and customer perceived quality in XYZ airlines.

H₆: There is a significant relationship between customer retention and customer service in XYZ airlines.

A Pearson product-moment correlation analysis is performed to determine the relationship between two variables. Analysis found that, there is a strong, positive correlation between customer retention and satisfaction, switching cost loyalty, perceived quality and service, which is statistically significant. Further, it found that there is a weak, positive correlation between business performance and price, which is statistically significant.

5. CONCLUSION AND RECOMMENDATIONS

Today, world business environment is increasingly competitive. So, in that context customer retention has become an ideal goal due to the aim of steady and increasing business performance. Therefore, it has become the life -blood of every organization. It is therefore vital for airline professionals to recognize and have a better understanding of the factors which drive customer retention and should have a better practice on them in order to prevent customers from defecting to competitors.

According to the research study, first objective is to evaluate the relationship between customer retention and firm's performance and find out the factors influencing customer retention on XYZ Airlines. This was done with literature review and building a model between customer retention and selected factors. Customer retention was measured using six

factors namely customer satisfaction, switching cost, price perception, customer loyalty, perceived service quality and customer service. All factors were affect the customer retention and there is a positive significant relationship between dependent and independent variables. The next objectives were to determine strategies to enhance the current status of the company related to the phenomenon under study and to analyse the change in performance of a firm with the customer retention factor. When considering the switching cost of this industry, airline global alliance displays a strong correlation with customer retention and business performance in the airline industry. So, it is highly required that, industry professionals must carefully watch out on initiating barriers to prevent customers from switching to their competitors. In another perspective, it is reasonable to put forward the idea that the higher the switching barrier, the higher the customer retention rate. There is a positive relationship among those two variables. Currently, the situation is much favourable to XYZ airline. But the firms must focus more attention and investments on service quality issues and erect more barriers to prevent customers from switching to their competitors. In this industry there are critical challenges and issues like cost controls, access to capital markets is problematic, insurance requirement trends ,foreign currency exposure, fleet replacement. Also, industry losses are unpredictable and inconsistent profitability will be a trend and even now is experiencing. So, to face these challenges and achieve success, a solid "airline" business plan, flexibility, diversity strategies, good leadership, steady and moderate growth strategies, effective cost cutting strategies, reasonable capital requirements and long-term vision are required. Long term vision is vital because the challenges will be easy to overcome if the vision is correct.

5.1 Recommendations and Suggestion for Further Studies

This study would act as a guide and a check on the reliability and generalizability of present findings. The model which was used here can also be used to examine customer retention practices and its consequences on a broader manner like expanding it to airline industry rather than limiting to one airline. Furthermore, future research can examine the impact of customer retention towards both financial and non-financial performance: hence, it will make an overall view of their firm`s performance.

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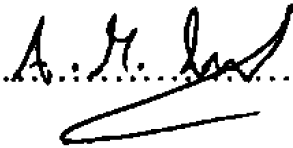
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