TECHMIND RESEARCH
ISSN: 2292-9355
Journal of Research in Marketing
Volume 2 No.1 February 2014

Allocation of Resources to Customer Satisfaction and Delight Based on Utilitarian and Hedonic Benefits

Florian Pallas[1], Christopher Groening[2], Vikas Mittal[3]
[1]Department of Innovation Management & Strategy, University of Groningen, Nettelbosje,AE Groningen, f.pallas@rug.nl
[2]Department of Marketing and Entrepreneurship, Kent State University, Kent, cgroenin@kent.edu
[3]J. Hugh Liedtke Professor of Marketing, Jones Graduate School of Business, Rice University Houston, vmittal@rice.edu

Abstract- *In this article, a strategic typology is introduced to improve a firm's return on investment (ROI) based on understanding whether to devote additional resources to improve customer satisfaction and increase delight. The framework is based on the recognition that customers seek two types of benefits—utilitarian and hedonic—from products and services. Companies need to determine when resources devoted to customer satisfaction and delight for a particular product or service will produce sufficient achievements in loyalty, word-of-mouth recommendations, and purchase behaviour. By understanding when firms need to focus on improving customer satisfaction and delight, firms can make judicious strategic decisions about their resource allocation to improve customer satisfaction and/or customer delight.*

Keywords- *Customer Management; Customer Satisfaction; Customer Delight; Benefit; Hedonic; Utilitarian*

1. INTRODUCTION

Customer management receives considerable attention because customers are considered a company's most valuable resource and because so few companies have optimized this resource. However, despite existing research, there still remains a lack of agreement on how this resource should be grown and managed. Many researchers have argued that maximizing customer satisfaction (and thus, theoretically, loyalty) is the optimal method to increase customer revenue (e.g., Anderson, Fornell, & Lehmann, 1994; Jones & Sasser, 1995; Oliver, 1999). Cultivating customers who are not merely satisfied but very satisfied, they argue, is vital in producing higher levels of repurchase as well as positive word-of-mouth (Jones & Sasser, 1995). However, research has shown that many satisfied and very satisfied customers nevertheless defect to competing firms (Mittal & Lassar, 1998; Reichheld, 1996). Moreover, investments in customer satisfaction reach a point of diminishing, and sometimes even negative, returns (e.g., Ngobo, 1999; Oliva, Oliver, & MacMillan, 1992). On the other hand, it may be possible that in certain business categories, consumers require more than mere satisfaction. Many researchers have therefore argued that companies should go beyond satisfaction and strive for delight as a strategic objective to obtain lasting loyalty (e.g., Kim & Mattila, 2013). They claim that customers need to receive unexpected value (i.e., being surprised) to enter profit generating relationships with the firm (Oliver, Rust, & Varki, 1997). Still, is it possible to continuously delight customers? By surprising customers companies raise their future expectations, which makes it more difficult for companies to generate delight repeatedly. So what should companies do to develop a strategically effective customer management approach? When might mere satisfaction be enough and when should companies try exceeding expectations to achieve delight?

From previous research, we know that customer satisfaction is less important for increasing a firm's profitability and loyalty in certain product or service categories than others (Anderson, Fornell, & Rust, 1997; Gruca & Rego, 2005). The nature of this relationship may depend on several factors such as an industry's competitiveness, the nature of the product or service being consumed, and the strategic focus of a firm. In this article, we develop a strategic typology to help firms understand when striving for customer satisfaction and/or delight is most financially beneficial, and when it is not. Our framework is based on the recognition that customers seek two types of benefits—utilitarian and hedonic—from products and services. Companies can analyze their service or product offerings from this perspective to decide whether customers see reasonable levels of customer satisfaction as the only necessity or whether companies should strive for increasing levels of customer delight. The main strategic insight we offer is as follows: in product or services categories possessing predominantly high utilitarian attributes (e.g., Internet or cable service providers) customer satisfaction plays a relatively minor role. In such utilitarian categories, many customers may be highly price sensitive and will leave for a cheaper alternative even though they may be very satisfied. In other utilitarian industries, such as electricity providers or

many cell-phone service providers, customers are often unable to leave their provider due to monopolistic or contractual reasons. Therefore, customer satisfaction plays a diminished role in engendering their loyalty. Thus, in these types of predominantly utilitarian categories, companies should not overinvest in maximizing customer satisfaction but rather strategically eliminate customers' dissatisfaction. In highly hedonic product or service categories, maximizing customer satisfaction might not be enough, and companies need to strive for customer delight. In the hotel business, for example, customer satisfaction is an important aspect and thus hotel chains are constantly trying to provide an experience that meets customer expectations to keep them committed to their chain. However, companies in this category, with a multitude of choices and low barriers to switching, may need to exceed customer expectations and delight them to remain in a customers' consideration set when they book their next stay. In summary, firms can make a judicious strategic decision about their resource allocation to improve either customer satisfaction and/or customer delight based on the level of hedonic or utilitarian benefits they offer to their customers.

2. CONCEPTUAL BACKGROUND

2.1 Satisfaction and Delight

Satisfaction can be defined as meeting or fulfilling an individual's expectation towards a product or service. A large body of research shows that customers with a higher level of satisfaction have higher levels of loyalty behaviors such as repurchase, recommendation, cross buying, positive word-of-mouth, lower price elasticity, and longer relationship duration (Mittal & Frennea, 2010). Rooted in the psychology literature, the satisfaction approach asks managers to achieve 100% satisfaction—anything less would render the firm uncompetitive and unable to retain its customer base. This is supported by a large body of research that has shown an association between customer satisfaction and consequences such as loyalty behaviors and financial performance (e.g., Gruca & Rego, 2005; Kumar, Pozza, & Ganesh, 2013). Yet, these research findings have produced mixed results regarding the existence and shape of the relationship. Therefore, it is has been suggested that companies should pursue delighting its customers as an extension to satisfaction in order to obtain loyalty. Delight results from surprising (i.e., unexpected) and positive experiences related to the product's or service's performance (Finn, 2005). While prior research has argued that there is a threshold where satisfaction turns into delight (e.g., Keiningham & Vavra, 2001; Ngobo, 1999), recent literature argues for a separate conceptualization of satisfaction and delight (e.g., Finn, 2005; Oliver et al., 1997; Wang, 2011). Emotion theories show that satisfaction and delight differ according to associated levels of arousal (Oliver, 1999). Hence, for customers to be delighted, a higher level of arousal is needed than for customers to be highly satisfied. Research has shown that the hedonic and utilitarian dimensions of a service or product evoke different levels of arousal and therefore relate differently to satisfaction and delight. Chitturi, Raghunathan, & Mahajan (2008) show that products or services that meet or exceed hedonic wants enhance high arousal feelings leading to customer delight, whereas meeting or exceeding utilitarian needs only evokes low arousal feelings rather leading to customer satisfaction. Mano & Oliver (1993) show that utilitarian values are highly correlated to satisfaction, whereas hedonic values are not. This highlights the importance of both dimensions in order for companies to make sound decisions regarding their customer management strategy.

2.2 Utilitarian and Hedonic Benefits of Services and Products

When purchasing products or services, consumers are frequently confronted with choices of hedonic and utilitarian benefits (Cronin Jr., Brady, & Hult, 2000). The benefits offered by a product or service can be comprised on two dimensions: utilitarian to hedonic (Voss, Spangenberg, & Grohmann, 2003). Hedonic value is sensorial, emotional, largely intangible, and does not readily lend itself to comparison across brands (Babin, Darden, & Griffin, 1994; Chitturi et al., 2008). Examples include the *scent* of a perfume, the *pride* of wearing a designer's creation, the *taste* of food at a restaurant, the *ambiance* of a store, the personal *connection* with a service provider, the *trust* one places in an industrial supplier, or the *rapport* with a B2B salesperson. Hedonic value can be felt and experienced, yet each person may experience it differently than another. Moreover, hedonic experiences leave vivid mental impressions which create and populate word-of-mouth content.Utilitarian value, on the other hand, is focused on the functional and instrumental goals that a brand can fulfill (Chitturi et al., 2008). Examples include the *size* of a yogurt container, the *price* of clothing, the *distance* of a store from your house, the *hours of operation* at a restaurant, the *return policy* of an industrial supplier, or the *number* of times a salesperson calls a client. Utilitarian benefits are readily comparable across brands and rarely lead to an emotional bond between a brand and the consumer. Yet, because they do not create vivid mental impressions they are less likely to induce word-of-mouth.However, many products do not solely offer one single benefit but rather a mix of both utilitarian as well as hedonic benefits. In a car, comfort and prestige are hedonic benefits, while the gas mileage is a utilitarian benefit. For coffee, the flavor and aroma of the coffee is hedonic, while the cost and availability are utilitarian. Moreover, different product attributes can provide different degrees of hedonic and utilitarian consumption benefits. An example is the mobile phone market, where a smartphone offers more hedonic benefits while the carrier plan only provides low utilitarian benefits. Furthermore, different competitors offering the same products or services can vary their positioning based on the relative value of hedonic and utilitarian benefits. In the retail

department category, Saks Fifth Avenue focuses more on hedonic benefits, while a store such as K-Mart emphasizes utilitarian benefits.

3. A NEW FRAMEWORK FOR CUSTOMER SATISFACTION MANAGEMENT

Research shows that increases in customer satisfaction are associated with higher consumption and loyalty in hedonic categories, but not in utilitarian categories (Voss, Godfrey, & Seiders, 2010). For example, the level of satisfaction with an electricity provider, a firm offering mainly utilitarian benefits, will not alter the amount of electricity consumed. In contrast, the more satisfaction one derives from fashion goods, a hedonic item, the more one may purchase. Moreover, research finds that hedonic categories show weak satiation effects (Voss et al., 2010)—that is, increased satisfaction leads to increased and long-term consumption. In contrast, for utilitarian categories, satisfaction is less correlated with repurchase because consumers, despite being satisfied, are satiated more quickly. From a psychological perspective, satisfaction based on hedonic attributes can cultivate a committed emotional bond between the customer and the brand. A high level of emotional commitment has been shown to benefit firms through increased word-of-mouth recommendations to friends and family, repurchase behavior, and cross category-buying (e.g., Hennig-Thurau, Gwinner, & Gremler, 2002; Kumar et al., 2013; Oliver, 1999). The benefits of word-of-mouth recommendation in building sales is greater for hedonic categories because the value derived cannot be easily duplicated, quantified, or compared. For example, advertising hours of operation (a utilitarian benefit) is easily comparable across different stores. However, hedonic benefits, such as friendliness of service staff, are harder to convey, because they are not as credible when described by the firm as when communicated through customer word-of-mouth. In short, there are benefits from continuing to increase customer satisfaction within hedonic categories. In addition, companies operating in hedonic product or service categories can even try to delight their customers (i.e., exceeding customers' prior expectations) to reap more profits. In contrast, customers in primarily utilitarian categories look at relatively comparable benefits (e.g., MPG, internet speed, number of channels). Thus, word-of-mouth communication is less necessary in building a customer base and growing sales as customers are able to compare different offerings without need for outside assistance. Moreover, opportunities to develop emotional bonds to cultivate a customer-brand connection are scarce. For instance, the emotional connection a customer has with a perfume is largely based on hedonic benefits (e.g., scent, the emotions it evokes, aesthetics of the packaging) than on utilitarian benefits (e.g., price discount, sizes in which the bottle is available). While a lack of specific utilitarian benefits can leave customers unsatisfied, increased levels of a utilitarian benefit will not necessarily increase customer satisfaction or build an emotional bond. In this sense, utilitarian benefits are typically "must haves" on which a firm needs parity, but they do not confer a relative differential advantage for building loyalty or commitment. Finally, research shows that increasing satisfaction in utilitarian categories does not translate into higher loyalty behaviors like repurchase and recommendation (Jones, Reynolds, & Arnold, 2006). Thus, mere satisfaction (i.e., meeting customers' expectations) in this category is seen as a basic necessity and therefore delighting customers for utilitarian products may be ill advised.

Category Classification According to a Firm's Offerings Value Proposition

We classify product/service categories as being either "high" or "low" in terms of hedonic or utilitarian benefits. Figure 1 displays our typology as a 2x2 matrix and indicates further distinct characterizations of the four quadrants which are important for a company's customer management strategy.

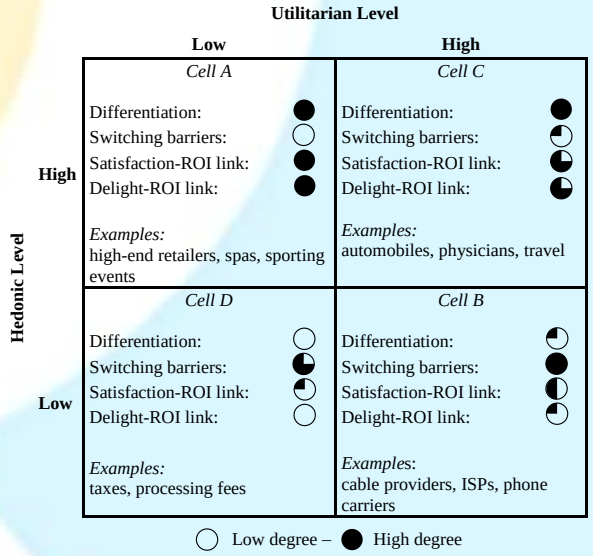

Figure 1: Category classification based on value proposition of firm's offerings

Companies delivering product or service categories with high hedonic benefits (cells A and C) are able to better differentiate their offerings towards their competitors as the hedonic value is rather difficult to compare across different brands. High end retailers such as Abercrombie & Fitch or Tiffany & Co., for example, provide a unique sensorial experience (scent, light or ambience) to their customers in order to create a unique selling proposition. Whereas, companies providing only low hedonic benefits (cells D and B) possess only a low degree of differentiation ability. The link between customer satisfaction and a firm's return on investment (ROI) is non-linear and reaches a point at which further investing will not make financial sense. However, as shown in

Figure 2, the points of diminishing returns as well as the strengths of the link differ for the distinct combinations of hedonic and utilitarian product/service characteristics, indicating varying effects of customer satisfaction on a firm's ROI.

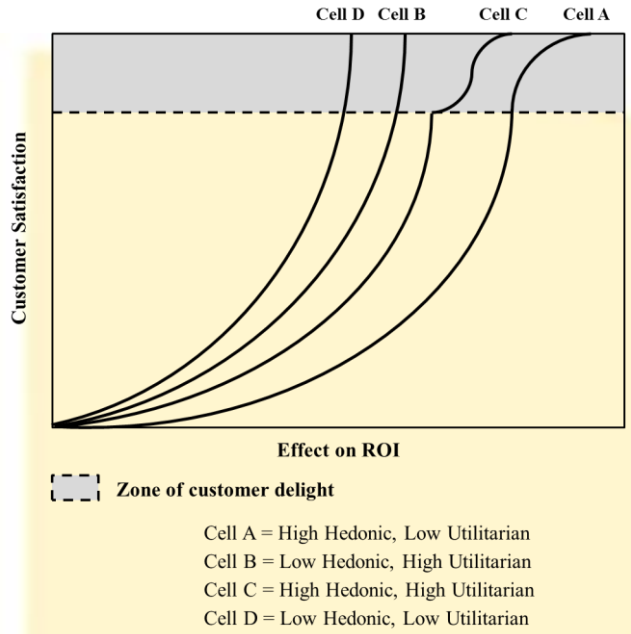

Figure 2: Return on customer satisfaction and customer delight

Whereas customer satisfaction plays a major role for companies' ROI in categories with high levels of hedonic attributes, this link is less strong for companies providing utilitarian benefits (cells D and B). As mentioned earlier, barriers to switching tend to have an inverse relationship with the role of customer satisfaction in loyalty. In other words, in categories with high barriers to switching (cells D and B), dissatisfied customers may find it arduous to switch to another firm, and thus remain loyal with the current provider. Similarly, the effect of customer delight varies across the four quadrants.

In particular, in categories in which products/services are low on hedonic benefits (cells D and B) delighting customers will have minimal if any effect on ROI. Customers purchasing products or services in these categories mostly want their utilitarian needs met (e.g., a certain gas mileage). However, any further increase beyond that goal might lead only to marginal increases in customer satisfaction but will not achieve customers delight, whereas companies offering products/services with high hedonic benefits could profit from delighting their customer base. Yet, the effect of customer delight on ROI also differs for both high hedonic categories (cells A and C). Recall that cell A consists of offerings that have low utilitarian levels while cell C consists of offerings with high utilitarian levels. Thus, consumers of cell C offerings are more likely to respond to any creation of delight. In other words, the presence of delight is a break from the expectations of high levels of utilitarian satisfaction allowing for an impact with only a minimal amount of effort. However, consumers in cell A have focused on hedonic attributes and thus small levels of delight may not have an impact on them because they are undifferentiated from the normal offerings of firms in cell A. Therefore, firms in cell A may have to invest in higher levels of delight compared to firms in cell C before seeing an impact on ROI. Armed with the insight from our categorization and consequently the different relationships, firms can develop sensible customer management strategies in a context-appropriate fashion as shown in Table 1. For example, firms offering a high level of hedonic benefit and a low level of utilitarian benefit should invest in achieving high customer satisfaction and cultivate commitment and loyalty behaviors (cell A). A sample firm is the Houston Dynamo soccer team. They offer a service that is primarily hedonic, where increasing customer satisfaction and delight can translate into beneficial behaviors such as season ticket purchases, positive word-of-mouth, and emotional commitment. Their chief-marketing officer describes the role of highly satisfied and committed patrons as: "... more than just season ticket holders. They are hugely important because they enabled us to gain the community's support for our team." Existing patrons who are highly satisfied engage in positive word of mouth and advocate on the team's behalf to enable the team to more easily acquire new customers.

Category	Hedonic	Utilitarian	Actions
Cell A	High	Low	Devote resources to creating delight by exceeding customers' expectations on hedonic benefits. Enhance strong self-brand connection, commitment & loyalty behaviors. Delighting customers further will lead to higher returns.
Cell B	Low	High	Instead of trying to delight your customer, focus on providing basic customer satisfaction and eliminating dissatisfaction. Exceeding expectations on hedonic or utilitarian aspects will not significantly increase returns.
Cell C	High	High	Focus on increasing satisfaction on hedonic aspects, eliminating dissatisfaction on utilitarian aspects, and customer retention. Returns are much greater with high levels of delight.

Cell D	Low	Low	Analyze strengths and weaknesses to determine strategy for differentiation. Deliver the basic product or service elements on both dimensions and focus on delivering basic satisfaction. Investing in delight will not lead to significantly higher returns.

Table 1: To delight or not to delight?

When product/service categories are low in hedonic benefits but high in utilitarian benefits (cell B: e.g., cable TV service provider, discount retailer, cell phone carrier, and gas stations), firms should not overinvest in maximizing satisfaction. A recent survey by the ACSI (American Consumer Satisfaction Index) finds that customer satisfaction levels are fairly equal across Texaco, Shell, and Exxon Mobil. For these firms which are only able to primarily control utilitarian benefits (i.e., gas prices) it may very difficult to develop highly satisfied customers to maintain market share. Customers may choose different suppliers based on product offerings, convenience or lower prices. In these categories, the relationship between satisfaction and loyalty is not very strong as customers are often price sensitive, resulting in natural customer churn.

Companies offering products in cell B should therefore focus on eliminating customer dissatisfaction and manage complaints, rather than maximizing satisfaction or even trying to delight customers. Thus, companies may try matching competitors' satisfaction levels but may not overinvest in customer satisfaction as the point of diminishing returns is quickly reached. By providing a baseline level of satisfaction, companies meet customers' expectations and should instead focus on lowering acquisition costs, preventing margin erosion, and promoting sustainable retention rates. For example, according to a study by the GfK Group, the German mobile phone market saw a 13% decrease in demand in 2009, but a 5% increase in the first half of 2010. This improvement resulted from an action that reduced dissatisfaction with a utilitarian attribute: the providers started providing phones that did not require a contract. Thus, instead of maximizing satisfaction for one group of customers, the surveyed companies concentrated on potential sources of dissatisfaction for another group of customers.

Firms that fall into cell C (high hedonic and high utilitarian benefits) need to consider both customer satisfaction as well as customer economics (i.e., the cost of customer acquisition balanced against the profit potential of a customer). Examples of categories which offer hedonic and utilitarian benefits include automobiles, physician offices, mid-market retailers, smartphones, restaurants, and movie theaters. Since these categories offer both utilitarian and hedonic benefits, the brand's positioning strategy will dictate which benefit receives more weight. For example, one car dealer may focus more on customer satisfaction (e.g., allowing customers to take a car for a 24-hour test drive), while another may emphasize customer economics (e.g., providing car dealer financing). Further, companies in this cell should strive for customer delight only if they succeed in surpassing customers' average expectations. Thus, they should avoid overinvesting in below average customer delight as returns are then comparably low.

The last classification (cell D) concerns categories with low hedonic and low utilitarian benefits. Technically, companies would have a hard time surviving if only providing low hedonic and low utilitarian benefits and therefore only few products and services fall into this category. Possible examples could be items with surcharges that provide questionable benefits or benefits that do not directly affect the customer (such as taxes or processing fees). Companies should focus on providing basic satisfaction instead of trying to delight their customers. Exceeding customer expectations will not lead to higher customer loyalty intentions or significant increases in company returns. Nonetheless, companies in this domain can differentiate based on their strengths and weaknesses as well as the external environment to determine how to position their firm to strengthen their customer base. For instance, the government needs to make its citizens aware of how their taxes are spent to increase social welfare.

4. CONCLUSION

Keeping customers satisfied is still important for companies to be successful. Yet, as we have illustrated, the importance of customer satisfaction differs based on the degree of hedonic and utilitarian benefits embedded in the firm's offerings. We argue that firms that offer services or products in high hedonic categories can benefit from investing in higher levels of customer delight. For services or products mainly providing utilitarian benefits, delighting customers will only have a small effect. Instead of viewing customer satisfaction as the only maxim for customer management, companies should carefully revisit their context – hedonic or utilitarian – in order to adapt their customer management strategy.

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Authors' Biography

Florian Pallas is a lecturer at the Department of Innovation Management & Strategy, at the University of Groningen. His research focuses on behavioral pricing, customer relationship management and innovation management.

Christopher Groening is Assistant Professor of Marketing at the College of Business at Kent State University. Chris's current academic research centers around investigating stakeholder influence on the financial outcomes of a firm

Vikas Mittal is the J. Hugh Liedtke Professor of Marketing at the Jones Graduate School of Business, Rice University.