

**Impact of service quality on customer satisfaction at the public owned National
Alcohol and Liquor Factory.**

A Research Report

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By

Tibebe Zeleke

Student No. 72194855

E-mail tibebe_se@operamail.com

Promoter: Frederick Ahwireng - Obeng, (professor)

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Abstract

The purpose of the study is to analyze whether perceived customer service directly related to customer satisfaction regarding the National Alcohol & Liquor Factory (NALF) customers in Addis Ababa. The research uses a quantitative methodology and a self-completion questionnaire with closed questions was conducted to test the hypothesis. Accordingly a sample of 300 was taken from 4200 customers in Addis Ababa which is 7.14% of the total population to increase the margin of accuracy.

The findings of the study indicated that five service quality dimensions were positively related to overall service quality and are indeed drivers of service quality which in turn has an impact on customer satisfaction. The study findings also indicated that all the standardized coefficients relating the service quality dimensions to overall service quality and to customer satisfaction have the expected positive sign and are statistically significant.

The impact of five service quality dimensions on customer satisfaction was significant in all factors of service quality. More specifically, customers indicated high satisfaction with the five dimensions of service quality examined in the study (Reliability, Responsiveness, Empathy, Assurance, and Tangibles). In this regard it was interesting to note that the dimension of Responsiveness and empathy had the lowest mean ratings; however, the correlation between Assurance and customer satisfaction was the highest, which implies that improvement in employees Assurance is an important issue that requires attention. The research also concluded that service quality can be used to predict customer satisfaction.

79.2% of the variation in customer's satisfaction was explained by the five service dimensions studied here, the remaining 20.8 % is explained by other factors that were not examined in this study. For example, customer's satisfaction might be influenced by such factors as price, and service variety. It might be desirable for future studies to include these (and other) factors.

Keywords: Service Quality, SERVQUAL, Customer Satisfaction, NALF.

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Much appreciation to all and those not mentioned.

DECLARATION

I, Tibebe Zeleke, hereby declare that the contents of this thesis report are my own work, and that all sources utilized, have been accurately reported and acknowledged. This thesis report has not, nor is submitted for any degree / examination at any university.

Signature: _____

Tibebe Zeleke

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1.1 CHAPTER 1

1.2 Introduction

Business enterprises whose offerings are physical products would find it difficult to compete unless they included a range of services with their products. While manufactured products are typically more tangible than services, they are nevertheless marketed with an accompanying degree of intangible services, as demonstrated in this chapter. Wilson, Bitnerand, Gremler (2008:7) argue that very few products are purely intangible or totally tangible. This argument holds true for an Alcohol and Liquor manufacturer, which is classified in the manufacturing sector of the economy. While Alcohol and Liquors is the obvious product offering, several services were accompanied on product sales and distribution to customers.

Accordingly the purpose of the study is to evaluate the service quality that the National Alcohol and Liquor Factory (NALF) provide to its customers, by measuring customers' perceptions relative to their expectations of the service. National Alcohol and Liquor Factory's (NALF) service quality is measured by using the five -dimensional format of SERVQUAL model, to allow the organization to assess its level of service quality along each dimension, as well as overall. It is hoped that this research will help the management of the NALF's to better understand their customer's need, identify gaps in service provision, and implement necessary procedures to close the gaps, so as to improve service quality.

In the current scenario of keen competition, globalization, underdevelopment and resource crunch coupled with the attainment of the objectives set in the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), the real challenge facing Ethiopia is not only the survival of its public and private organizations but also ensuring continuous improvement in the quality of products manufactured and services rendered. This is intimately linked with the capability of organizations to consistently provide products and services of desired quality (Ethiopia. Engineering capacity building Program, 2007:1-4)

The main development objective of the Ethiopian Government being poverty eradication, it has thus established various sect oral programs to promote sustained

development, putting up all efforts to achieve a speedy high rate of economic growth. One cross sectional issue is the structural changes required to bring about a productive system by implementing an effective quality infrastructure, which would be of paramount importance both in the domestic sphere and in the country's relationship to the international economy.

National Alcohol and Liquor Factory (NALF) is a government-owned factory. It has four branch factories namely, Maichew Liquor Factory, Sebeta Alcohol & Liquor factory, Mekanisa Alcohol Factory and Akaki Alcohol Factory. It is one of the oldest factories in the country with 466 permanent and 36 temporary employees, and is the largest producer and distributor of various liquors such as, Gin, Ouzo, Double Ouzo, Cognac, Brandy, Perno, Orange, Coffee, Fernit, Bitter, Aperitif, Lemon and Pineapple Liquors throughout the country. Year after year, the Factory has made a huge investment in the upgrading of the existing plants and distribution system in order to maximize its sales volume and gross profit. However, new entrants are expected and existing ones are also expected to expand their capacities to take the advantage of economy of scale.

Moreover, increasing awareness for quality products, services and systems, government commitment towards the enforcement of standards, the expansion of the modern industrial sector with superior technology, the rising demand for quality assurance services, globalization and international support provided to strengthen the service delivery of the country and private service providers, are considered to be the main opportunities for customer focused companies and treats for those that are not.

Currently there are 17 alcohol and liquor factories in the country which produce different types of liquors with insignificant differences in product specifications which indicates their products are homogeneous. In an industry where brand products are homogeneous customer can easily switch from one product type to another since the cost of changing from one brand to another is very low which is true for Ethiopian alcohol and Liquor industries(ALI). Therefore service related issues can be a source of competitive advantage for Alcohol and liquor industries (ALI).

Cognizant of the overall reality, the factory has implemented different capacity building initiatives since year 2000 Ethiopian calendar in order to improve its product/service offerings by articulating the following quality policy.

- “The Top Management of National Alcohol and Liquor Factory is committed to provide quality pure alcohol and liquor products that meet customers’ and regulatory requirements through implementation of effective Quality Management System based on ISO 9001:2008.
- We are committed to continually improve the effectiveness of our Quality Management System to meet and exceed our customers’ needs and expectations and enhance their satisfaction.
- Our products shall be competitive and provided in an ethical and impartial manner to our customers all the time.
- Our staff working through teamwork shall be competent on the basis of education, training and work experience to meet the dynamic customer needs.
- The Top Management is also committed towards achieving the organizational objectives as well as enhancing the well being of the society & protecting the environment”

Based on the above quality policy, the factory has established and implemented a quality system for production, sales, distribution and marketing of liquors, alcohol and denature. The implemented system has given a considerable advantage for the factory’s performance in terms of product quality improvement, cost reduction and customer compliant management. However, casual look at the factory indicates that comparison of customers’ perceptions with their expectations of service quality is an area that has not been given sufficient attention and also proactive establishment of perceptions of its customers in the area being studied has been given little or no attention in the past. Some of the reasons for lacking to give it sufficient attention may be related to the infant stage of service quality concept by the management or the current achievement of the factory in terms of sales volume, gross profit and the established customer compliant mechanism were taken as enough, further service quality improvement shall be addressed later on.

Given the scenario described above, this study shall investigate the service quality that NALF provides to its customers, by measuring customers' perceptions and compare them to their expectations of service quality, in order to identify gaps in the service provision. The determinants of service quality as part of the evaluation process are also part of this study.

1.3 Problem Statement and Hypotheses

1.3.1 Background of the Statement

The primary objective of the service provider is identical to that of the tangible goods producer, i.e. to develop and provide offerings that satisfy customer needs, thereby ensuring their own economic survival. To achieve this objective, service providers will need to understand how customers evaluate the quality of their service offerings, how they choose one organization in preference to another and on what basis they give their long-term support.

According to Zeithaml and Bitner (2003) "the main objective of service firms is to develop and provide offerings that would satisfy the needs and expectations of consumers". Kotler (2000) asserts that "if the expectations of customers are exceeded, customers become highly satisfied". To achieve this objective, Kumar et al (1999) stress the importance of service firms developing a customer satisfaction program for measuring performance/satisfaction over time. Zeithaml and Bitner (2003) affirm that "a sound measure of service quality is necessary for identifying aspects of service needing performance improvement and also assessing how much improvement is needed on each aspect of the service offerings".

1.3.2 Problem Statement

In light of the above discussion, it is deemed essential for NALF to be fully aware of its customer perception in relation with the service offered to them. If NALF does not measure the magnitude of its customer actual perceptions of the service and make appropriate measure the result may have a direct impact on customer defection.

This study therefore investigates the impact that service quality has on customer satisfaction at publically-owned Liquor Factory.

1.3.2 Formulation of research hypotheses

- H₁ Reliability has a positive influence on customer satisfaction.
- H₂ Responsiveness has a positive influence on customer satisfaction.
- H₃ Assurance has a positive influence on customer satisfaction.
- H₄ Tangibles has a positive influence on customer satisfaction.
- H₅ Empathy has a positive influence on customer satisfaction.
- H₆ Service quality has a positive influence on customer satisfaction.

1.4 Objectives of the study

The general purpose of the study is to analyze whether perceived customer service directly related to customer satisfaction regarding the NALF customers in Addis Ababa. Within this broader research context, the study focuses on the following research objectives:

1. To determine the customers' perceptions of the services rendered to them by NALF with respect to customer support service for each of the service quality dimension.
2. To determine NALF's customer perceptions of the service they currently receive for each of the service quality dimension,
3. To determine which dimension of the services is poor quality.
4. To determine which dimension of the services is best quality.
5. To recommend implementation of appropriate service quality performance improvement procedures where necessary.

Identification of service quality gaps can help the organization accurately target areas for performance improvement. Likewise if gap scores are positive in some areas, this allows the organization to review the service and consider such changes as re-deployment of resources into other areas where these may be under performing.

1.5. Definition of Terms

Service Quality

According to Parasuraman, Zeithaml and Berry (1988) service quality is “a form of attitude, related but not equivalent to satisfaction, and results from a comparison of expectations with perceptions of performance”. Service quality can be defined as “the extent of discrepancy between the perceived expectations of the guests and their perceptions pertaining to actual delivery”.

Customer Satisfaction

Customer satisfaction is feeling of contentment when the customer “has or achieves what one needs or desires”, according to the Oxford Advanced learner’ dictionary (1991:403). Customer satisfaction “is a direct result of firm and environmental variables rather than solely of individual transaction” Emerson and Grimm (1999:403).

Expectation

Expectation is “a belief that something will happen because it is likely to happen” Wehmeier (2000). Expectations can be formed before or during the delivery of a service. They reflect beliefs as to what will or should happen (Mudie and Pirrie 2006).

Perception

Perception is “the process by which an individual selects, organizes and interprets information inputs to create a meaningful picture of the world” George (2004). Perceptions of a service are a complex series of judgments formed during or at the end of the experience Williams and Buswell (2003).

Pure Alcohol

Despite the availability of different types, the term “alcohol” in this study refers to ethanol or ethyl alcohol distilled from fermented molasses. Ethyl alcohol, also known as ethanol has been consumed by human beings for its intoxicating and mind alerting effect. It is also used as a reagent in some industrial application (Notion International Business plc, 2010 :).

Alcoholic Liquors

Alcoholic liquors are drinks made from fermented and distilled alcohol, sugar, water and flavorings such as fruits, herbs or flowers (Notion International Business plc, 2010 :).

Denature Alcohol

Denatured alcohol is a byproduct obtained when potable alcohol is distilled from molasses. It is an ethyl alcohol made unfit for drinking but still suitable for industrial and domestic purposes. It is used in hospitals, barbers, beauty salons and households as disinfectant (Notion International Business plc, 2010 :).

1.6 Limitations of the study

- There is also limitation of resource especially with respect to finance to travel to the regional states to find more balanced response from other customers outside of Addis Ababa.
- The time frame is very limited which limits in-depth treatment of the research topic which could have been done by increasing the number of samples from all alcoholic beverages in Ethiopia;

1.7 Delimitation of the study

The aim of the research is to find the most important service quality dimensions that affect customer satisfaction in Ethiopian alcohol and Liquor industries with specific reference to NALF by considering customers who are residing in Addis Ababa. Thus, the research has the following delimitations:

- The study is focused only on customers of NALF;
- Sampling frame is taken as the customers residing in the city of Addis Ababa only;

1.8 Importance of the study

In a competitive market place understanding customer's needs become crucial. Therefore, companies have moved from a product-centric to a customer-centric position. According to Ranaweera and Prabhu (2003) customer retention has increasingly become an issue of strategic importance that is not only limited to customer interfacing departments and roles, but to the entire company as a whole. One of the

drivers of customer retention is customer satisfaction which is achieved by ensuring the customer get needs satisfying products and services. One of the ways to achieve is through quality customer service which “is essential to building customer relationships” (Wilson et al., 2008:6).According to these authors’ customers should be “viewed as assets to be valued, developed and retained (Wilson et al., 2008:24). Accordingly In the last few years, regarding the customer service issue a considerable understanding has been noticed in the manufacturing and services giving sectors in Ethiopia. Considering the high costs of acquiring new customers, it is very important to study the determinants of customer satisfaction. Customer satisfaction is the key factor determining how successful the organization will be in customer relationships; therefore it is very important to measure it. In order to narrowing down the research, the research shall be focused on service quality as one of the customer satisfaction’s factors. The purpose of the research is to ascertain whether there is a statistically significant difference between the services offered by the NALF as perceived by its customers, and the expectations of its customers. The findings of this research shall be very useful to Managers of NALF who intend to stay consistently in the market with least cost, time and energy.

1.9 Outline of the research report

This report consists of four chapters as follows:

Chapter 1: serves as the introduction and background to the study. It includes the definition of the problem under investigation, the purpose and importance of the study, the limitations of the research and definition of selected concepts relevant to the study.

Chapter 2: This chapter critically reviewed literature on Service Marketing, Service Quality and customer Satisfaction with particular reference to the five dimensions of service quality and the use of the SERVQUAL model to measure service quality.

Chapter 3: This chapter discussed the economic policy and strategy of the country its capacity building program in different sector to enhance quality and subsequently the Alcohol and liquor industries performance, market share, market mix and its competition among compotators.

Chapter 4

This chapter begins with an explanation of the chosen method for this research followed by sampling method, questionnaire design, and data collection. Finally the reliability and validity and statistical analysis were explained.

Chapter 5

In this chapter the results from the study is presented in graphical and tabular format based on the responses given by the respondents. Descriptive and inferential statistics were used to analyses the data.

Chapter 6

In this chapter a discussion of the results is done. An attempt made to answer the research Hypotheses and conclusions based on the theory and the results also drawn. Lastly implications for management, theory and suggestions for future research also discussed.

CHAPTER 2

2.1. Overview of the Ethiopian Socio- Economic Situation

Ethiopia is situated in the Horn of Africa, bordering Eritrea in the North and Northeast, the Sudan in the West and North-west, Kenya in the South, Somalia in the South-east and Djibouti in the East. The landmass of the country covers an area of one Million Sq. km. It is well recognized that Ethiopia is a diverse-ethnic and diverse-religious country. There are more than 85 linguistic groups constitutionally empowered with cultural and administrative autonomy.

As indicated on Central Statistical Agency (2009) with 79.4 million Populations in 2010, Ethiopia is the 2nd most populous country in Sub - Saharan Africa. It is a land of ethnic, linguistic and cultural diversity (Central Statistical Agency, 2009). Ethiopia is administratively divided into nine regional states and two city administrations. As part of the government's effort towards decentralization, higher administrative authority is given to lower administrative levels.

Ethiopia is in a state of change from the backward, subsistent economy to the commercialized agriculture and ultimately to the agro industry and industrialization. Following the overthrow of the ever dictatorial communist government and establishment of new constitution, various market transforming policies have been put in place; private investments including those in the financial sector have been flourishing. In particular, structural adjustment such as liberalization of foreign trade, privatization of public enterprises and investment advocating schemes have been undertaken to promote economic growth.

According to Ministry of Finance and Economic Development (MoFED) macroeconomic report, the Ethiopian economy has shifted to a higher growth trajectory since 2003/04. This has been sustained, and during the last five years (2005/06 – 2009/10), overall real GDP has grown rapidly at an average of 11% per annum. During the same period, the average growths attained in agriculture, industry and service sectors were 8.4%, 10% and 14.6% respectively (Ministry of Finance and Economic Development, 2010:10).

Achieving broad-based, accelerated and sustained economic growth so as to eradicate poverty has been and is a key objective of the Government of Ethiopia. The government has designed, and is implementing, strategies, policies and plans to guide and manage the overall development of the country accordingly. The last five year development plan was the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). PASDEP had a medium term development perspective and aimed, at a minimum, at achieving the Millennium Development Goal (MDG) targets. During the PASDEP implementation period, high and sustained economic growth and significant social and human development results were realized. During the same period the economy grew on average at 11 % per annum. By sustaining the current economic growth over the next five year period, the government aims to achieve the MDG targets by 2015, and its longer term vision of being a middle income country by 2020-2023 (Ethiopia. Ministry of Finance and Economic Development, 2010:19).

The government has formulated the five year Growth and Transformation Plan (GTP) (2010/11-2014/15) to carry forward the important strategic directions pursued in the PASDEP. The GTP envisages that, besides maintaining a fast growing economy, better results will be realized in all sectors. In preparing the GTP the performance of the previous development plans, and the lessons learned during their implementation, were taken into account, within the context of the country's development vision. Development of the GTP has benefited from the many consultative meetings held at the Federal, Regional and local levels with government bodies, private sector organizations, higher education institutions, professional, women's and youth associations, religious and civil society organizations, opposition political parties and development partners. Many issues which are believed to be important for achieving fundamental changes in economic growth, social development and good governance and which will contribute to realizing the objectives of the GTP are raised and discussed in the consultations. These concerns are now adequately addressed in the GTP. Issues that were raised and which needed greater elaboration or more emphasis were addressed and are also presented in depth at the sector and sub sector levels described in the GTP (Ministry of Finance and Economic Development, 2010:21).

During the GTP period special emphasis will be given to agricultural and rural development, industry, infrastructure, social and human development, good governance and democratization. The GTP takes into account two alternative economic growth scenarios: a base case and a high case. The base case scenario assumes that the previous five year's average annual GOP growth rate will be maintained. The high case scenario assumes that the GOP and the Agricultural Value Added achieved in 2009/10 will double by the end of the GTP period, 2014/15. Development programs that will be implemented in the GTP five year period will have a strong focus on improving the quality of public services provided. Thus special emphasis is given to investments in infrastructure and in the social and human development sectors. It is clear that implementation of the GTP will require mobilization of considerable financial and human resources, especially for infrastructure development. For this reason, mobilization of domestic financial and human resources, as well as improvements in domestic savings are considered to be critical (Ministry of Finance and Economic Development, 2010:21)

2.2. Economic policy and strategy

According to engineering capacity Building Program (ECBP) report, the economic policy of Ethiopia is based on a free market economy while the policy and strategy of development focuses mainly on agricultural development. Towards this end, Ethiopia has developed and is implementing the Agricultural Development Led Industrialization (ADLI) strategy, the objective of which include: promotion of economic efficiency and growth, development of domestic technological capacities and capabilities for the promotion and development of intermediate and capital goods industries, including, the production of spare parts and components, promotion of inter and intra sector linkages, creation of a sound domestic base for the transfer, adaptation, and development of technology, promotion and greater use of labour intensive technologies, as well as of local resources, achievement of industrial competitiveness in areas of clear comparative advantages in industrial exports, and promotion of balanced regional industrial development (ECBP,2007:37).

An Industrial Development Strategy has been adopted in 1995, which aims to ensure sustainability and develop the sectors effective linkages with the agricultural sector. Among the fundamental features of this strategy are: private sector led industrialization,

development of export oriented industries and strengthening the capacity of the existing industries to be competitive at the national, regional and international levels, utilizing, to the extent possible, labour intensive technologies with a view to creating employment, generating incomes and alleviating poverty, investment promotion and facilitation with increased emphasis on foreign investment, public private consultative and partnership for efficiency in policy development and implementation, as well as, industrial development (ECBP,2007:41).

The strategy emphasized export-led growth and specifies leather and leather products, textile and garment and food processing or in general agro-processing industries as priority sectors with the potential for employment generation, prospects for export, and strengthening the agro-industry linkage and broader base development. In relation to this, efforts are underway to facilitate industrial sector licensing, allocation of land, infrastructure, financial and investments supports and advice, including undertaking of public sector service reform programs at the Federal and Regional administration levels, also encompassing decentralization. Despite the fact that these priority sectors are identified as prospects for export of the country, their function can be effectively realized when the country has the mechanism to deal with the tariff and non tariff barriers in the international trade. Thus, establishing and strengthen a national quality infrastructure which comprises the standardization, testing and certification capacity (conformity assessment services) and measurement standards as well as various technical regulations are considered as the most important issues of the non-tariff barriers (ECBP,2007:54).

To ensure faster and sustained development of the industrial sector, favorable conditions will be created for industry to play a key role in the economy. To this end, particular emphasis will be given to two main sub-sectors. First the main strategic direction will be to support expansion and development of micro and small enterprises. In addition, efforts will be made to further develop medium and large scale industries.

Agricultural Development Led Industrialization is the fundamental building block of industrial development in Ethiopia. To support this key policy, the private sector will be promoted so that it can play a more significant role in sustaining economic growth. The government's industrial development strategy states that ensuring accelerated and

sustained industrial development is a fundamental policy direction. To implement this policy, the sector's development strategy focuses mainly on industries that are labor intensive, have broad linkages with the rest of the economy, use agricultural products as inputs, are export oriented and import substituting, and contribute to rapid technological transfer. In other words the key strategic direction of industrial development will be micro and small scale industrial development.

a) Micro and small enterprises development: This will be the strategic focus of the industrial development during the GTP period. During the plan period an environment conducive for the emergence of new MSEs and support that increase the productivity of the existing MSEs will be put in place. This strategic direction will enable the development of broad-based and competent private sector. The expansion of MSEs in urban areas will also result in large scale job creation and thereby poverty reduction. The development of MSEs is also critical for strengthening sustainable rural-urban and urban-to-urban functional and economic linkages. The expansion of MSEs is crucial too for sustaining the rapid growth being witnessed in the agricultural sector.

b) Medium and large industries development: particular emphasis will be given for the following medium and large scale sub-industries:

1. Textile and garment industry,
2. Leather and leather products industry,
3. Sugar and sugar related industries,
4. Cement industry,
5. Metal and engineering industry,
6. Chemical industry,
7. Pharmaceutical industry, and the
8. Agro-processing industry,

c) Industrial zones development: based on their feasibility industrial zones that are suitable for establishing medium and large scale manufacturing industries will be developed.

d) Public enterprises management and privatization: The capacity and management of public enterprises as well as privatization will be enhanced.

The development objectives for the industrial sector are to:

1. Create a broad-based spring-board for competitive domestic industrial and private sector development;
2. Create employment opportunities and thereby reduce poverty;
3. Support sustainable development of agriculture;
4. Increase industrial production and productivity by fully utilizing the existing capacity of industries;
5. Promote medium and large industries that use domestic raw materials and labor;
6. Create a strong foundation for the sector to start playing a leading position in the national economy, employment generation, and foreign exchange earnings and savings;
7. Strengthen the sector's capacity to produce locally equipments, machinery and spare parts.

To achieve the objectives described above, the following targets have been set.

1. Provide comprehensive support to micro and small scale enterprises so that they create employment opportunities for about three million people. Achievement of this target will enhance citizens' income, contribute to a rise in domestic saving, and enhance the benefits of women and youth from the sector so as to reduce unemployment and poverty.
2. Provide Training of Trainers for 10,000 professionals in the sub-sector.

3. Provide capacity building and basic skills training for about 3 million operators in the areas of entrepreneurship, technical and vocational skills.
4. Prepare and develop 15,000 ha of land for working premises, and construct shade and buildings for MSEs.
5. Provide micro credit and marketing information and work with producers to identify bottlenecks and provide support where solutions are identified.

The prevailing peace and stability of the nation, the government policies and strategies, the expansion of the industrial sector, the rising demand for quality assurance services, globalization and international support provided to strengthen the service delivery and private service providers, are considered the main opportunities for the sector. In line with these new private alcohol and Liquor industries have come into operation which will make the competition fierce.

2.3. Alcohol and liquor Industries

The art of distillation was known in crude form even in ancient times. The Chinese and the peoples of the East Indies distilled liquids and used the resulting potions for medicinal purposes as early as 800 B.C. About the time the Pilgrims ran out of beer at Plymouth Rock, these forms of concentrated alcohol were coming into favor in Europe.

Distilled spirits made from fermented liquids were much more potent than the original liquids. The first ones were called aqua vitae (water of life) and used as medicines, but they were quickly assimilated into society as beverages. Highland Scots and Irish distillers made whiskey. The French distilled wine to make brandy. A Dutch doctor's experiments produced gin, which is alcohol flavored with the juniper berry. In Russia and Poland the distilled spirit was vodka. In the West Indies rum was made from sugarcane, while in Mexico, Spaniards distilled the Indians native drink to make mescal, the great-grandfather of today's tequila (Katsigris, 2002).

The world alcoholic beverage production currently is on the rise. This has been propelled by Economic growth, technology advancement, increasing per capita consumption, improved quality and globalization of markets that has provided better

market opportunities. Production of alcoholic beverage worldwide has increased at an annual growth rate of 3.80% during the period 2001 – 2007 (Notion International Business PLC, 2010:92).

In Ethiopia traditionally distilled spirit known as 'Kundiftu' produced from different types of grains. The traditional distillation uses the alembic, a simple closed container made of potter's earth to which heat (burning fire wood) is applied and the vapors are transferred through a bamboo tube to water cooled chamber in which they were condensed (see Figure 2-1 below). The modern and commercial distillation in Ethiopia is at the level of stills of collier-Blumenthal and Coffey (Notion International Business PLC, 2010:71).

During the period 1998-2007, local production of alcoholic liquors in Ethiopia, except for a slight decline in year 2000 is characterized by a consistent growth. The growth registered during the last five years is especially remarkable, so that local production of alcoholic liquors has reached a record figure of 119,650 hectoliters in 2007. During the period of analyses, local production of alcoholic liquors has registered an average annual growth rate of 17.81% (Notion International Business PLC, 2010:44).

Having the policy and direction of the government the manufacturing industries (public and private companies) more deeply incorporating the agenda into their strategic plan and set objectives for further implementation.

2.4 Alcohol and Liquor Industry in Ethiopia

In Ethiopia traditionally distilled spirit known as 'Kundiftu' produced from different types of grains. The traditional distillation uses the alembic, a simple closed container made of potter's earth to which heat (burning fire wood) is applied and the vapors are transferred through a bamboo tube to water cooled chamber in which they were condensed (see the Figure 2-1: below). The modern and commercial distillation in Ethiopia is at the level of stills of collier-Blumenthal and Coffey (Notion International Business PLC, 2010:44).

Figure 2-1: Traditional Distillation of Alcohol



Source: (Notion International Business plc, 2010).

1.6 National Alcohol and Liquor Factory

National Alcohol and Liquor Factory (NALF), a government-owned factory, produces and distributes various liquors such as, Gin, Ouzo, Double Ouzo, Cognac, Brandy, Perno, Orange, Coffee, Fernit, Bitter, Aperitif, Lemon, super mint and Pineapple Liquors throughout the country.

The management of NALF, cognizant of the fierce competition in the alcoholic liquor business in the near future, has planned to improve the quality of its products, bring a substantial production volume change and thereby expand its market share and maintains its leadership in the liquor industry of the country and as well to make at most effort to enter foreign market.

2.4.1 Alcoholic Liquor Production

Different types and brands of alcoholic liquors are produced domestically. The major alcoholic liquors supplied by domestic producers are Gin and Areki. The other types include: Bitter, Fernit, Cognac and Perno. Table 2-1 shows the actual annual production of alcoholic liquors (public and private combined).

Table 2-1 Domestic Production of Alcoholic Liquors (in HI)

Year	Quantity	Growth Rate (%)
1998	29,130	-
1999	30,562	4.92
2000	29,552	-3.3
2001	33,223	12.42
2002	33,997	2.33
2003	41,538	22.18
2004	51,675	24.40
2005	64,650	25.11
2006	84,962	31.42
2007	119,650	40.83
Average	51,894	17.81

Source: (Central Statistical Agency, 2010)

A glance at Table 2-1 easily reveals that during the period 1998-2007, local production of alcoholic liquors, except for a slight decline in year 2000 is characterized by a consistent growth. The growth registered during the last five years is especially remarkable, so much so that local production of alcoholic liquors has reached a record figure of 119,650 hectoliters in 2007. During the period of analyses, local production of alcoholic liquors has registered an average annual growth rate of 17.81%.

2.4.2 Pure Alcohol Production

Domestically produced pure alcohol is partially marketed to be used as an intermediate product for local producers of alcoholic liquors, pharmaceutical, chemical and cosmetics while part of it is directly used by the manufacturers for producing alcoholic liquors. Currently, NALF and BALF are the only local pure alcohol producers that market their products.

Local production of pure alcohol for market fluctuated from year to year. During the period 1998- 2007 the maximum local production registered was 20,213 hectoliter in 2007 while the minimum (6,605 hectoliter) was produced in year 2005. During the period under consideration, the average annual local production of marketed pure alcohol was about 14,134 hectoliter (see Table 2-2)

Table 2.2 Domestic Production of Pure Alcohol (in HL)

Year	Local Production	Growth Rate
1998	13,578	
1999	15,623	15.06
2000	14,575	-6.71
2001	17,541	20.35
2002	19,982	13.92
2003	12,878	-35.55
2004	7,211	-44.01
2005	6,605	-8.40
2006	13,132	98.82
2007	20,213	53.92
Average	14,134	11.93

Source: (Central Statistical Agency, 2010)

As can be seen from the above Table, even though local production of pure alcohol fluctuated from year to year over the years under consideration, it registered an annual average growth rate of 11.93%.

2.4.3 Denatured Alcohol

Denatured alcohol is an ethyl alcohol made unfit for drinking but still suitable for industrial or domestic use. It is used in hospitals, barberry and households as disinfectant. Denatured alcohol is a byproduct of pure alcohol production. The local demand for the product is met largely through local production and a small amount of import. There is no data available on local production of denatured alcohol. However, according to enterprises engaged in pure alcohol production including NALF, on average.

Table 2.3 Domestic Production of Denatured Alcohol (in HL)

Year	Estimated Local Production Of Denatured Alcohol	Growth Rate (%)
1998	1,780	
1999	1,977	11.11
2000	1,869	-5.46
2001	2,194	17.37
2002	2,408	9.74
2003	2,019	-16.15
2004	1,807	-10.51
2005	2,067	14.41
2006	3,073	48.65
2007	4,465	45.30
Average	2,366	13

Source: (Central Statistical Agency, 2010)

denatured alcohol production accounts to 8% of pure alcohol production. Therefore, based on this assumption local production of denatured alcohol is shown in Table 2-3

As can be seen from the above Table, during the period 1998 – 2007, the yearly local Production of denatured alcohol ranged from 1,780 hectoliters to 4,465 hectoliters. The highest volume of production was registered in year 2007, while the lowest was in 1998. During the same period, local production of denatured alcohol has registered an average annual growth rate of 13%.

2.5 Market Share

Sales of alcoholic liquors by NALF have shown a remarkable growth in recent years. Sales have grown from 33,232 HL in year 2002 to 50,348 HL in year 2007 registering an average annual growth rate of 9.50% (see Table 2-4). The growth is attributed to the fairly long period of existence of the factory in the alcoholic beverage market; which enables it to enjoy customer loyalty. However in the contrary, the market share of the factory shows a declining trend which has dropped from as high as 97.75% in year 2002

to 42.08% in year 2007. The decline in market share of NALF is however, not due to lack of demand for the factory's products; rather it is due to the low production capacity of NALF and the emergence of new private alcoholic liquor producers among which the major one is Balezaf Alcohol And Liquors Factory Plc. The factory has a distillation capacity of 30,000 liters/day of potable alcohol (97%) and 3,000 liters of industrial alcohol per day.

Table 2.4 Market Share of NALF (in HL)

Year	Total Local Production	Production by NAF	Market share (%)
2002	33,997	33,232	97.75
2003	41,538	35,794	86.17
2004	51,675	36,836	71.28
2005	64,650	47,945	74.16
2006	84,962	43,109	50.74
2007	119,650	50,348	42.08
Average	66,079	41,211	70

Source: (Central Statistical Agency, 2010)

The highest market share captured by NALF was 97.75% in year 2002; while the lowest was 42.08% in year 2007. However, during the period 2002 – 2007 on average the market share of the factory was 70%.

2.6 Marketing Mix

Marketing is an essential role of every business organization and marketing activities must be performed, to some extent, for the survival of every business organization. Although many factors affect an organization's marketing strategy, all marketing decision-making can be classified into four strategy elements, sometimes referred to as the marketing mix or the four P's: Product, price, place (distribution) and promotion. While these four factors are important individually, their real significance lies in the mix,

the unique way they are combined into a careful plan or strategy. The combination of these four factors is the foundation of any marketing plan.

2.6.1 Product

A consumer's view on the quality of a certain brand of alcoholic liquor is influenced by a number of factors including the chemical and physical attributes of the alcoholic beverage, its package type, the brand and the labeling.

Alcoholic liquor is a drink the taste of which can be accustomed in a repeated consumption. The ordinary consumer will customarily evaluate the taste of the alcoholic liquor against the taste he/she regularly encounters, which indicates the importance of consistency in alcoholic liquor quality.

The ideal alcoholic liquor must appear fresh, bright and without faults to the consumer and hence the quality is a matter of great concern. The alcoholic liquor must also be free from micro-organisms to ensure wholesomeness and biological stability. Visually the finished alcoholic liquor must have an attractive color.

2.6.2 Distribution

Distribution refers to the distribution of the product to the consumers by the producer while channel of distribution is the network of middlemen through whom the products flows till it finally reaches to the hands of the actual users or consumers. It becomes difficult for a manufacturer to adequately follow market trends and serve target markets if a proper distribution channel and organizational set up are not in place. Some markets are excessively supplied, while others experience frequent shortages. Intermediaries often and deliberately introduce artificial shortages in some brands to boost the marketability of a weaker brand.

A distribution system for any tangible product comprises two principal elements.

- A physical distribution, or logistics, system that is concerned with the transportation and storage of a product from the time production is completed until the product is delivered to the consumer; and

- A set of organization relationships among the manufacturer and the various intermediaries, or agents, who influence the product's passage through the physical distribution system.

Although the two elements make up a complete channel of distribution, the term will be used in its narrower sense only, that is, to designate the manufacturer and the set of existing intermediaries and to indicate the appropriate intermediaries.

Sales or distribution channels are the chain connecting producers and consumers. This mediation function is usually performed by specialized enterprises, agencies or representatives, using their own marketing instruments. In addition, these channels are also lines of information between manufacturers and consumers. Channel of distribution varies in its form and length from consumer goods to industrial goods and within one class of goods; it varies from product to product. For a consumer market a retailer is essential, whereas in the industrial market the retailer can be eliminated. For a perishable commodity, the producer prefers few and controlled levels of distribution, while for durable and standardized goods a longer and diversified channel may be necessary. Size and average frequency of customer's orders also influence the channel decision.

The producer must also choose whether to employ intensive, selective or exclusive distribution. For convenience goods, which are frequently purchased, have low unit price and are bought by the consumer at the most accessible retail outlet, shortly after a need for them is felt, the distribution strategy should be the unloading of the product through every possible outlet with a view to achieving an extensive distribution.

Shopping goods, which are purchased after a careful consideration and comparison of quality, price and suitability and unlike convenience goods, have a high unit price, are sold in few retail outlets, thus, selective distribution strategy may be profitable. In the purchase of specialty goods, the consumer insight on a specific brand and do usually have adequate product information and have already made up their minds to go for a specific brand. For such products, exclusive distribution, where only certain dealers distribute the product will be ideal.

Currently, the distribution channel of NALF and other liquor producers in the country is a combination of:



NALF employs three types of distribution arrangements. In Addis Ababa and its surroundings; the factory distributes the products to retailers directly using its own vehicles and directly sell to consumers from factory premises. In other routes, it distributes through agents.

The local market offers large and rapidly growing markets for alcoholic liquor. However, final consumers are widely scattered in different geographical area of the country. Therefore, the existing number of agents employed by the factory will not be able to efficiently cover the whole market. Moreover, there is over lapping of agent's territory in some areas. The core problem revolves around lack of effective and efficient regional distribution network covering the entire market in the country. Currently and also in the past, distribution has been centered at Addis Ababa (where the factory distribute its products using agents and also directly to retailers and consumers). Lack of branch sales outlets and/or sufficient number of agents and clear market territories of agents has resulted with the failure of the factory's products reaching regional markets.

2.6.3 Pricing

Pricing a product is an important and critical activity since it is the major factor in determining revenue. If a lower price is fixed, it will affect the profitability of the company, and if a higher price is fixed, the product will not be able to stand in market competition and may be forced out of the market. Therefore, the right price has to be fixed.

In general, price setting is done by selecting one of the two frequently used pricing approaches. The simplest method is cost-based approach (Cost-plus pricing), which

involves adding a standard mark-up to the cost of the product, and competition based approach (going-rate pricing), which bases its price largely on competitors' prices.

At present, there are a number of local alcoholic liquor producer, which means NALF, have to work within a competitive environment. In a competitive market, a straight cost plus pricing is not desirable as it is not sensitive to demand and competitors' price. Furthermore, the Ethiopian market is, by-and-large, price conscious and consumption demand is very much sensitive to price.

2.6.4 Promotion

Market promotion is an important part of the marketing mix, as it is required to create and increase consumer awareness, knowledge and readiness to buy through media communications (advertising and through special offers to trade and / or consumers (sales promotion)). However, it is important to realize that, on its own; market promotion will not replace selling, change long-term trends, or build long-term customer loyalty. It has to be supported by quality and distribution efficiency.

Local liquor producers practiced advertisements through different Medias Initially; the objective of advertisement should concentrate in attracting attention for the product. Once product acceptance has been achieved, advertisement usually concentrates on building brand image and loyalty.

However, in order to be successful and advertising campaign have to convey the right information to the right people in the right way. Thus, message creation and media selection should be considered carefully. While choosing the message or content of an advertisement in view of the target audience culture, age, sex and life style, the words, pictures, associations and images to be used should carefully be selected. The advantages, benefits and uses of the product to be advertised should be relative to the target audience.

Selection of the media channel involves choosing among available advertising media and deciding how they can be used; given the type of message, target audience and the budget available.

Currently, in Ethiopia various media channels are available for liquor producers an advertiser can use one or a combination of the media channels available. However, it should achieve an optimum combination of “coverage” and “frequency” within a given budget. In other words, whichever channel or channels used the advertisement should reach as many prospects as possible within the target group (coverage),while at the same time each of the prospects should be reached by a sufficiently large number of advertisements (frequency).The promotional efforts of NALF are viewed by customers to be less aggressive than other brands.

2.7 Major competitors of NALF

The demand for alcoholic liquors is met both through import and local production. The latter source constitutes of the lion's share, on average accounting for more than 89% of the country's total alcoholic liquor consumption during the period 1998 – 2007.

There are 17 local alcoholic liquor producers (excluding NALF) that supplying different brands of alcoholic liquors to the local market (see Table 2-5).

Table 2.5 Competitors of NALF

Sr. No.	Factory Name
1	Balezaf Alcohol And Liquors Factory
2	Asnake Liquors Factory
3	Molla Maru Liquors Factory
4	Kokeb Liquors Factory
5	Meskerem Liquors Factory
6	Ponu monu Liquors Factory
7	Silva Liquors Factory
8	Wondu Assefa Liquors Factory
9	Addis Ouzo Liquors Factory
10	Victory Liquors Factory
11	Fantu Liquors Factory
12	Merkebegna Liquors Factory
13	Bereket Liquors Factory
14	Wolwolo Liquors Factory
15	Desta Liquors Factory
16	Walia Liquors Factory
17	Sholkan Food and Liquors Factory

Source: (Central Statistical Agency, 2010)

These liquor factories have been in the market for many years, some of them as many as 30 to 40 years old and others are established only in recent years. NALF, which is the oldest distillery in the country, until recently has managed to command the largest share of the liquor market. However, in recent times the market share of the factory shows a declining trend which has dropped from as high as 97.75% in year 2002 to 42.08% in year 2007. The decline in market share of NALF is however, not due to lack of demand; rather it is due to the rapidly increasing demand, inability of the factory to increase its production capacity in line with the increasing demand and the emergence of new private alcoholic liquor producers.

At present Balezaf Alcohol and Liquors Factory (BALF) with a distillation capacity of 30,000 liters/day of potable alcohol (97%) and 3,000 liters of industrial alcohol per day have the largest potable alcohol production capacity in the country followed by NALF. The other local producers of alcoholic liquor are mostly small scale. Moreover, most of the liquor factories produce one brand; which is in most of the cases is Gin. Only BALF and NALF have a range of brands.

Table 2.6: Brands Produced by NALF and BALF

Sr. No.	Type of Liquor	NALF		BALF	
		Products	Concentration % v/v	Products	Concentration % v/v
1	Gin	✓	41	✓	41
2	Ouzo	✓	41	✓	41
3	Double Ouzo	✓	43	✓	42
4	Fernit	✓	37	✓	37
5	Bitter	✓	15	X	-
6	Brandy	✓	41	✓	41
7	Lome Areki	✓	30	✓	30
8	Aperitif	✓	32	✓	32
9	Amanas Areki	✓	30	✓	30
10	Super mint	✓	24	X	-
11	Cognac	✓	37	✓	37
12	Zebib	X	-	✓	41
13	Perno	X	-	✓	41

Source: (Central Statistical Agency, 2010)

As can be seen from the above Table 2-6, except for few differences, the two factories supply similar types of products. NALF is slightly different in that it supplies Bitter and

Supper mint while BALF supplies Zebib and Pernound. Otherwise both factories are competing for the same types of liquors along the same line of business. Alcoholic content of the two factories products are also similar, except for a slight difference in Double Ouzo, makes the competition to be much tougher. The above table shows that the two major factories' products are homogeneous. In an industry where brand products are homogeneous customer can easily switch from one product type to another since the cost of changing from one brand to another is very low. Therefore service related issues can be a source of competitive advantage for Alcohol and liquor industries (ALI).

Although there are attempts made to export to neighboring countries, the total production of alcohol liquor in the country is almost geared to the local market. This makes the liquor market to be fierce and liquor producers are forced to design different strategies to get a lion's share of the market. The strategies they pursue have different dimensions. As a first strategy, they try to intensify their marketing efforts in selected territories. For instance, NALF target Addis Ababa as its market territory. This strategy has the advantages of creating customer loyalty as people have the natural tendency to favor alcoholic liquor, which is available regularly.

The other dimension of competition is the type and diversity of promotional mixes they employ to catch the attention of their customers.

CHAPTER 3

3.0 Theoretical Foundation and Literature Review

INTRODUCTION

This chapter will give an overview of literature and models that are related to the research problem presented in the previous chapter. Within the context of the research objectives, the first part of this chapter discusses theories and studies with regard to the service ,Service characteristics, the SERVQUAL model and application thereof, the Gap model and service quality. The latter section of this chapter discusses theories and studies with regard to customer satisfaction.

3.1 Satisfaction and service quality

3.1.1 Definition of services

There is no generally accepted and complete definition of services. Services could basically be referred to as dynamic activities and processes, while goods are static things. International Business Machine (IBM), in their ongoing research program *Services science*, lists a random selection of efforts to define services from the literatures and suggests that services are ‘a provider-client interaction that creates and capture value (Michael and Susan t, 2010).

Furthermore the increasing interest in the services sector has been accompanied by considerable and debate as to what constitutes a service and whether services marketing are a distinctive subject area. In review of a wide variety of definitions Payne (1993) summed it up when he said,

“A service is an activity which has some element of intangibility associated with it which involves some interaction with customers or with property in their possession, and does not result in a transfer of ownership. A change in condition may occur and production of the service may or may not be closely associated with a physical product.” In simple terms “Services are deeds, processes, and performances” (Zeithaml and Bitner, 2003).

However, in a more broader definition, Fitzsimmons and Fitzsimmons (2001) citing Quinn, Baruch and Paquette (1987) and Zeithaml and Bitner (2003) indicate that

"services include all economic activities whose output is not a physical product or construction, and is generally consumed at the time of production, and provides added value in forms such as convenience, amusement, timeliness, comfort, or health which are essentially intangible in nature". Kotler (1994:464), on the other hand, defines services as "any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything". He affirms the view that "services are intangible, inseparable, variable and perishable and also added that services normally require more quality control, supplier credibility, and adaptability". According to Gronroos (2000), services are "activities or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems". It is noted that "services are non-material equivalent of goods and service provision is essentially an economic activity that does not result in ownership"(Encyclopedia Britannica, 2010: paragraph 1).

Fitzsimmons and Fitzsimmons (2001); Perrault, and McCarthy (1999) and Zeithaml and Bitner (2003) in an attempt to differentiate between goods and services, indicate that goods and services should be distinguished on the basis of their attributes. They explain that "goods are tangible physical objects which can be created and transferred, and can exist over time and therefore can be stored and used later". According to their definition "services tend to be intangible, and unlike goods or manufactured products, are created and used simultaneously or near simultaneously.

Services are generally defined as an act offered from one party to another (Lovelock and Wright, 2001:5). A service is not a thing, but relies on things for performance (Fisk & John, 2004). Services are activities that create value and benefits to a customer (Lovelock and Wright 2001:5).

The types of relationships between a customer and the service provider depend on the level of contact between the two parties. Whether a service contact is high, medium or low determines the total service system (Lovelock and Wright 2001:60). The total

service system comprises of three units, service operations system, service delivery system and service marketing system (Lovelock and Wright 2001:60; Baron, Harris & Hilton, 2009:45).

The service operations system is the part of the total service system where the inputs are processed and the elements of service are produced. These are operations that are usually invisible to the customer such as training and stock replenishment, as well as visible attributes such as the contact personnel (Baron, Harris, Hilton, and 2009:45). The terms back-stage (invisible) and front-stage (visible) are used by some service providers to dramatize service as a performance (Lovelock and Wright, 2001:60).

The final assembly of elements in the delivery of the service to the customer takes place in the service delivery system and consists of only visible attributes (Lovelock & Wright 2001:61). In many service firms, positive on-site interaction can contribute vastly to the overall perception of the service by the customer (Baron *et al.*, 2009:47).

The third system of the total service system is the service marketing system. This is where the firm has any form of contact with the customer from advertising to billing. As with the service delivery system, the service marketing system can contribute to the overall customer perceptions of the service (Lovelock and Wright, 2001:67).

From the above discussion, it is evident that intangibility is the key detriment of whether the offering is a service or not. The next section discusses the main characteristics and seek to highlight on the inherent differences between goods and services, and further explain how these differences affect the way and manner customers perceive service quality as opposed to product quality.

3.1.2 Difference between goods and services

Much has been made of the differences between goods and services based on variations in product characteristics Straughan & Cooper, (2002). Although the distinction between goods and services is somewhat artificial, since the success of goods manufacturers is vitally dependant on the services they provide, there are four

commonly cited characteristics of services that result in somewhat unique, or at least different, management challenges for service businesses Rust, Zahorik, & Keiningham, (1996). These distinctive characteristics that have come to characterize the essence of services marketing are as follows.

3.1.2.1 Characteristics of services

As stated in the above section there are inherent differences between goods and services, this section outline the main characteristics or attributes of services. According to Kotler (2006) there are four major characteristics of services that greatly affect the design of marketing program and these are intangibility, inseparability, and variability and perish ability (see Figure:3-1). These characteristics of services are discussed below.

Intangibility: Because services are performances or actions rather than objects there is a lack of tangible assets, to be seen, touched, smelled, heard, or tasted prior to purchase. Services are transient performances that can be experienced only as they are delivered. Intangibility may represent the most critical difference between services and goods, and presents several implications for marketing. Accordingly services cannot be inventoried, and therefore fluctuations in demand are often difficult to manage. Services cannot be seen, tested felt, heard, or smelled. To reduce uncertainty, buyers look for “signals “of service equality from the place, people, price, equipment and communications that they can see. Therefore, the service provider’s task is to make the service tangible in one or more ways and to send signals about quality.

Physical goods are produced, then stored, later sold, and still later consumed. In contrast, services are first sold, then produced and consumed at the same time.

Perishability: The second characteristic of services is perishability. Perishability of a service refers to the fact that services cannot be inventoried or stored, resold or returned, since they are performed in real time. Periods of peak demand can’t be prepared for in advance by producing and storing services. A service opportunity occurs at a point in time, and when it’s gone, it’s gone forever. Because services cannot be resold or returned there is a need for strong service recovery strategies when things go

wrong. An organization's ability to become accustomed to environmental contingencies depends partly on the expertise of boundary role personnel in selecting, transmitting, and interpreting information originating in the environment (Aldrich and Herker, 1977). Also due to the fact that services cannot be inventoried implies that forecasting demand levels and planning ahead for capacity utilization are challenging areas for marketers (Zeithaml and Bitner, 2003).

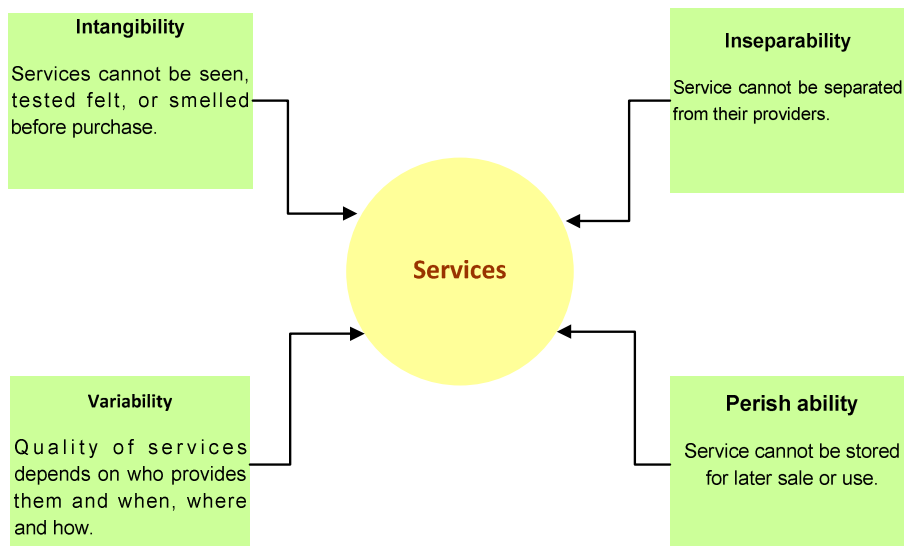
Inseparability: A third characteristic of services is inseparability. Inseparability is the simultaneous production and consumption of services. Goods can be produced and then sold at a later time, services cannot. Because the service must be performed and consumed at the same time, the quality of the service is highly dependent on the ability of the service provider, and the quality of the interaction between the service provider and the customer. Customers are usually present while the service is being produced and therefore views and in many cases, is involved in the production process. Because services often are produced and consumed at the same time, mass production is near impossible. The quality of customer satisfaction will be highly dependent on what happens in 'real time', including actions of employees and the interactions between employees and customers (Zeithaml and Bitner, 2003).

Variability/ Heterogeneity: The last unique characteristic of services is variability. Because a service is produced and consumed simultaneously, and because individual people make up part of the service offering, it can be argued that a service is always unique. It only exists once and is never exactly repeated. Different customers expect and respond to different types of performances (Bettencourt & Gwinner, 1996:3-20). The implication is that frontline employees are required to adjust their behaviour for individual customers to meet the customers' expectations and overall satisfaction (Czepiel, Solomon, Surprenant & Gutman, 1985), therefore the frontline service provider has the opportunity to tailor in real-time not only the services the firm offers, but also the way in which those services are delivered. Variability is primarily caused by the human element, although machines may malfunction causing a variation in the service. The employees delivering the service often are the service in the customer's eyes, and people may differ in their day-to-day performances (Hartline, Maxhem & McKee, 2000),

thus insuring consistent service quality is challenging. Quality depends on many factors that are difficult to control by the service provider, for example the ability of the consumer to clearly express his/her needs, the ability or motivation of personnel to satisfy those needs, the presence of other customers, and the intensity of demand for the service (Zeithaml and Bitner, 2003). In such instances, where the environment is heterogeneous, frontline employees are required to exercise discretion to ensure customer satisfaction (Aldrich and Herker, 1977).

Because of these basic differences between goods and services, marketers of services face some very real and distinctive challenges. According to Zeithaml and Bitner (2003) these challenges circle understanding customer needs and expectations for service, making the service offering tangible, dealing with countless people and delivery issues, and keeping promises made to customers, and perhaps more importantly to employees.

Figure 3.1: The service characteristics



Source: (Kotler and Armstrong, 2006:258).

3.1.3 Services Marketing Mix

The traditional marketing mix is composed of the four P's: product, price, place, and promotion. However, as shown above, due to the fact that services have some unique characteristics, service marketing managers have found the traditional four P's of marketing inadequate to describe the characteristics of the service marketer's job (Rust, Zahorik & Keiningham, 1996). As a result service marketing managers must attend to three additional P's (Bitner, Mary Jo, Bernard, & Mary, 1990). These include people, physical evidence, and process.

People

“All human actors who play a part in service delivery and thus influence the buyer's perceptions:- namely, the firm's personnel, the customer, and other customers in the service environment” (Zeithaml and Bitner, 2003).

Many services require personal interactions between customers and the firm's employees, and these interactions can strongly influence customer's perception of services quality. As a result, service organisations face a tremendous challenge in selecting and training all of their employees to do their jobs well, and, more importantly, to motivating them to care about doing their jobs and to make an extra effort to serve their customers well. Employees must believe in what they are doing and enjoy their work before they can, in turn, provide good service to customers (Rust, *et al.*, 1996). Establishing a customer-oriented culture and empowering employees to provide quality service should be established throughout the firm as a major priority in any service organisation. Management leadership, job redesign, and systems to reward and recognise outstanding achievement are among the issues that a successful service marketer must address (Rust, *et al.*, 1996).

Because services are often experienced at the provider's facilities, the 'people' component also includes other customers that may be present in the delivering of a service and other such customers can also enhance or detract from one's satisfaction with a service.

Physical evidence

“The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service “(Zeithaml and Bitner, 2003)

This element of the expanded marketing mix is concerned with the ‘tangible’ components of the service experience and firm’s image. The ‘servicescape’, that is, the ambiance, the background music, the comfort of the seating, and the physical layout of a service facility, can have an immense effect on customer’s satisfaction of the service experience (Rust, *et al.*, 1996). Particularly with services, because consumers have little on which to judge the actual quality of service they tend to rely on such cues. Many firms have attempted to standardize the intangible components of the service encounter by scripting their employees (Lashley, 1998). However, the physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organizations purpose, and the nature and quality of the service (Zeithaml and Bitner, 2003).

Process

“The actual procedures, mechanisms, and flow of activities by which the service is delivered the service delivery and operating systems” (Zeithaml and Bitner, 2003)

The actual delivery steps the customer experiences, or the operational flow of the service, also give customers evidence on which to judge the service. A distinguishing characteristic of the process that can provide evidence to the customer is whether the service follows a production line/standardised approach or whether the process is an empowered/customised one (Zeithaml and Bitner, 2003).

3.1.4 Service quality

To understand what service quality is, Zeithaml, Parasuraman & Berry (1990:5-7) describe the characteristics of service leaders.

Service vision

This refers to the service as an integral part of the firm itself. Service leaders see the quality of service as the foundation for competing. Service leaders also understand that

service quality is never ending, requires continued improvement and regular adaption (Zeithaml *et al.*, 1990:5-6).

Setting high standards

Service leaders aim to offer legendary service as goods themselves are not sufficient to differentiate from competitor firms. Attention to detail is paramount and attention to small actions that competitors may see as trivial sets the tone for handling the bigger issues. Service leaders are enthusiastic about the service being right the first time with zero defects and improving the reliability of the service (Zeithaml *et al.*, 1990:6).

In the field leadership style

Service leaders lead in the field and not from their desks. Not only are they then visible to the customer, but also to the customer contact personnel. As a result, service leaders are able to see the customer interaction and guide their staff accordingly. In the field approach can also stimulate teamwork in the firm (Zeithaml *et al.*, 1990:7).

Integrity

Service leaders show the essential characteristic of integrity. Integrity is achieved by doing the right thing even if the circumstances don't call for it. A premium is placed on being fair, consistent and truthful. The reward for this integrity is the trust of those associated, and without trust there won't be any followers. Service leaders recognize the interconnection between service excellence and employee pride, and appreciate that it is formed by their management (Zeithaml *et al.*, 1990:7).

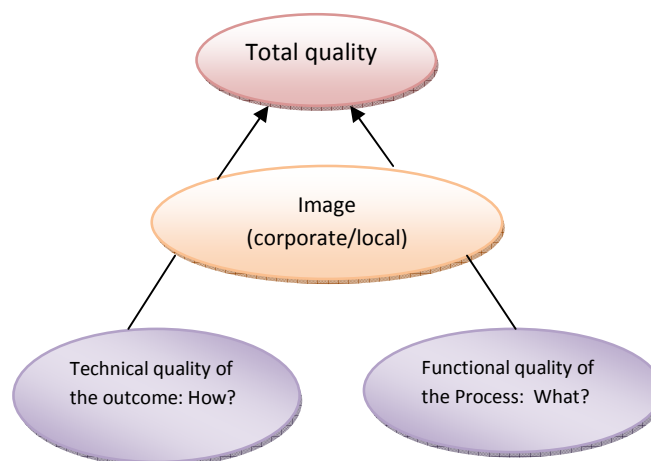
Other researchers view service quality as "the function of what customers expect and how well the service firms perform in providing the service" (Lewis and Mitchell, 1990:11;Dotchin and Oakland, 1994a:24; Asubonteng *et al.*, 1996:62; Wisniewski and Donnelly,1996:357, Nitecki, no date, paragraph 1). Parasuraman *et al* (1985) define service quality as "the degree and direction of discrepancy between customers' service expectation and perception". They explain that "if customer expectations are greater than performance, then perceived service quality is less than satisfactory and vice

versa". It is anticipated that by doing so service firms are able to meet or exceed customer's service quality expectations by delivering consistently higher service quality than competitors (Kotler, 1994).

Two service quality dimensions

Grönroos (2007:73) describes the service experience on the basis of technical and functional elements. As shown in Figure 2.4. Technical elements refer to what the customer receives from the service. The functional elements refer to how the service is delivered. This model emphasizes that firms need to be careful of their promises to customers, in that their marketing activities used to promote services must be realistic.

Figure 3-2: Two service quality dimensions



Source: (Grönroos, 2007:74).

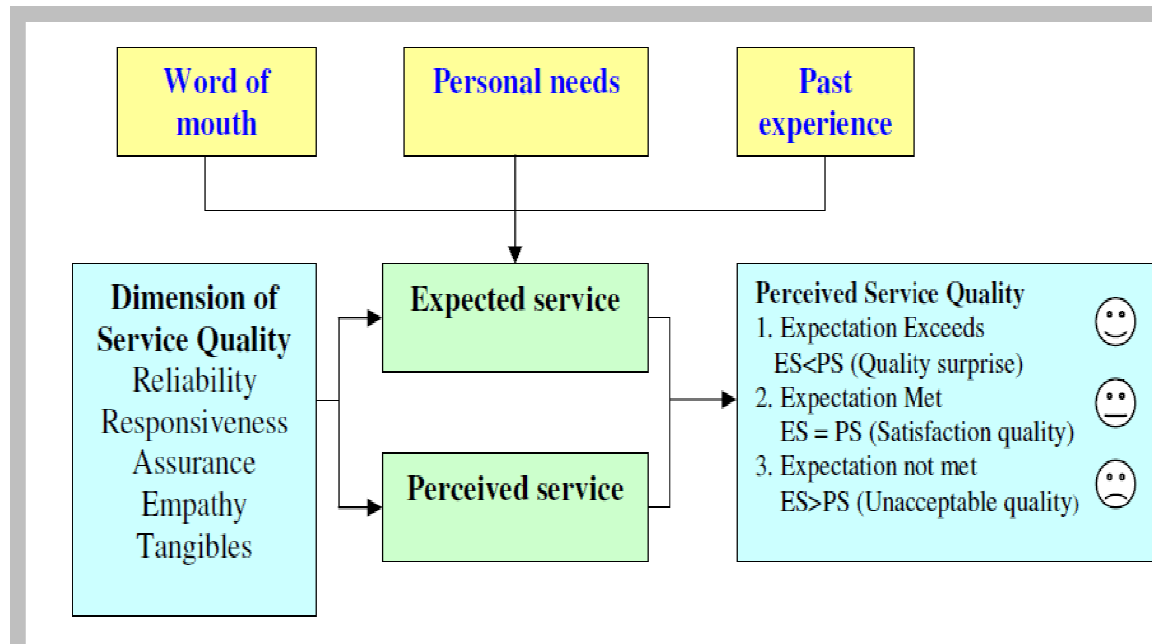
Previously, the majority of service research has been conducted on product quality. According to Zeithaml *et al.* (1990:16), service quality research has revealed the following:

The customer's view of service quality

The quality of service is more difficult for customers to perceive than that of product quality. As a result, marketers find it difficult to comprehend the criteria that customers use to evaluate service quality.

Customers consider both the process of service delivery and the outcome of the service during the evaluation of service quality. During service quality evaluation, customers only consider their criteria for service quality.

Figure 3-3: Perceived Service Quality



Source: (Fitzsimmons and Fitzsimmons, 2001)

As depicted in Figure 3-3 above, Fitzsimmons and Fitzsimmons (2001) indicate that "assessment of quality of service is made during the service delivery process; and each customer contact is referred to as 'a moment of truth' (i.e. an opportunity to either satisfy or dissatisfy a customer)". They conclude that "if the perceived service (PS) falls below the expected service (ES), then the level of service quality is perceived by customers as unacceptable or unsatisfactory, otherwise, it is perceived as a *quality surprise* (i.e. beyond expectations)".

Generally it is important to understand what customers are really looking for and what they evaluate. Too often improving quality is mentioned as an internal goal without any explicit references to what is meant by service quality. To talk about better quality without defining it, how it is perceived by customers, and how it can be improved and

enhanced is of limited value. In service quality literature, it is noted that the quality of a particular service is whatever the customer perceives it to be (Gronroos, 2000).

3.1.5 Service quality model

Today the concept of quality has been changed due to the voice of the customer and customer awareness. Therefore service providers are required to evaluate the quality level from customer requirement & satisfaction benchmark point of view.

Several quality models are introduced to reduce the gap between customer & service providers. With the help of these quality models, the service provider can understand customer requirements from quality perception in a better way. Some of the models which are taken in to consideration during this study are:-

- Service quality model (Gronroos)
- SERVQUAL model
- Five Gaps model
- The Service-Profit Chain model
- Kano Model

3.1.5.1 Service quality model (Gronroos)

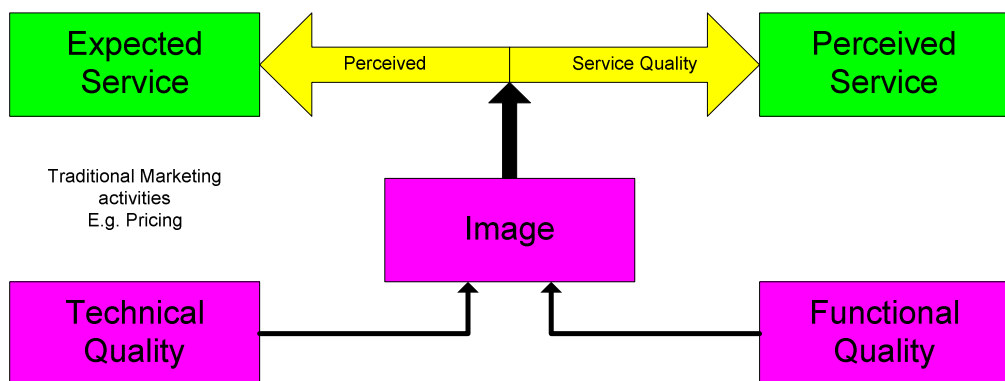
According to Gronroos (1984), the quality of service as perceived by customers has two dimensions; a *technical or outcome dimension* and a *functional or process-related dimension*. As illustrated in figure 4, there are the two basic quality dimensions, namely, What the customer receives and How the customer receives it; the technical result or outcome of the process (technical quality) and the functional dimension of the process (functional quality). An organization's image is an important variable that positively or negatively influences marketing activities. Image is considered to have the ability to influence customers' perception of the goods and services offered (Zeithaml and Bitner, 1996). Thus; image will have an impact on customers' buying behavior. Image is considered to influence customers' minds through the combined effects of advertising, public relations, physical image, word-of-mouth, and their actual experiences with the goods and services (Normann, 1991). Similarly, Grönroos (1983) using numerous researches on service organizations, found that service quality was the single most important determinant of image. Thus, a customer's experience with the products and

services is considered to be the most important factor that influences his mind in regard to image. Furthermore Gronroos also emphasized the importance of corporate image in the experience of service quality, similar to the idea proposed by Lehtinen (1982).

Customers bring their earlier experiences and overall perceptions of a service firm to each encounter because customers often have continuous contacts with the same service firm (Gronroos, 2001). Therefore, image is another important component in the perceived service quality model. A favorable and well-known image is an asset for any firm because image has an impact on customer perceptions of the communication and operations of the firm in many respects. If a service provider has a positive image in the minds of customers, minor mistakes will be forgiven. If mistakes often occur, however, the image will be damaged. If a provider's image is negative, the impact of any mistake will often be magnified in the consumer's mind. In a word, image can be viewed as a filter in terms of a consumer's perceptions of quality.

Figure 3-4: The service Quality model

A Service Quality Model & its implication to marketing



Source: Adapted from (Gronroos, 2001).

As illustrated in Figure 3-4 expected services is a function of factors, namely, marketing communication, word of mouth, company/local image, price, customer needs and values. Marketing communication includes advertising, direct mail, sales promotion,

websites, internet communication and sales campaigns. These are directly under the control of the company unlike the image and word of mouth factors which are indirectly controlled by the company. Image of the company plays a central role in customer perception of service quality. Thus, it is imperative that image be properly managed. External impact on these factors could possibly occur, but they are a basically a function of the previous performance of the firm, supported by for instance advertising, while the perceived service on the other hand is a result of consumer's perception of the service itself. Gronroos (2001) states that perceived performance can be divided into two sub process; namely the instrumental performance and expressive performance. The instrumental performance is the technical result of the service where as the expressive performance is 'psychological' in terms of buyer –seller interactions in the form of contacts that the consumer has with the various resources and activities of the supplier firm.

3.1.5.2 SERVQUAL Model

The SERVQUAL model was first introduced by Parasuraman and colleagues in 1985 in the United States. Since its inception SERVQUAL has become a popular method for measuring service quality (Bojanic and Rosen ,1993). Service quality is defined as the result of the comparison that customers make between their expectations about services and their perceptions of the manner in which service has been performed (Gronroos, 1990). It involves measuring both customer perceptions and expectations of service along key service quality dimensions.

Examining differences or gaps between the desired level of services and that actually delivered reveals where improvements in the service mix are required. In the original paper Parasuraman *et al.* (1985) identify the 10 core components of service quality as reliability (consistent performance and dependability), responsiveness (willingness /readiness to serve), competence (possessing knowledge and skills), access (approachability and ease of contact), courtesy (politeness, consideration and friendliness of staff), communication (updating and listening to customers), credibility (trustworthy and reputable, with customer interest and listening to customers), security

(freedom from danger and risk), customer knowledge (understanding needs and personalized attention), as well as tangibles (facilities and physical features).

In subsequent research (Parasuraman *et al.*, 1988, 1991, 1994a), the service dimensions are collapsed into five categories tangibles, reliability, responsiveness, assurance, and empathy. They are assessed using a 21 item scale, with customers providing performance and expectation or importance scores using Likert scales.

These five attributes are described as follows:-

Reliability: Delivering on Promises

Reliability is defined as the ability to perform the promised service dependably and accurately. “In its broadest sense, reliability means that the company delivers on its promises—promises about delivery, service provision, problem resolution, and pricing”. Customers need to do business with companies that keep their promises. Of the five dimensions, reliability has been consistently shown to be the most important determinant of perception of service quality gap (Zeithaml *et al.*, 2006).

Responsiveness: Being Willing to Help

Responsiveness is the willingness to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customers request, questions, complaints, and problems. Responsiveness is communicated to customers by the length of time they have to wait for assistance, answers to questions, or attention to problems. Responsiveness also captures the notion of flexibility and ability to customize the service to customers need (Zeithaml *et al.*, 2006).

Assurance: Inspiring Trust and Confidence

Assurance is defined as employees’ knowledge, courtesy, and the ability of the firm and its employees to inspire trust and confidence. This dimension is likely to be particularly important for services that customers perceive as high risk or for service of which they feel uncertain about their ability to evaluate outcomes. For example, banking, insurance, brokerage, medical etc. in the service context the company seeks to build trust and

loyalty between key contact managers, employees, and customers (Zeithaml *et al.*, 2006).

Empathy: Treating customers as Individuals

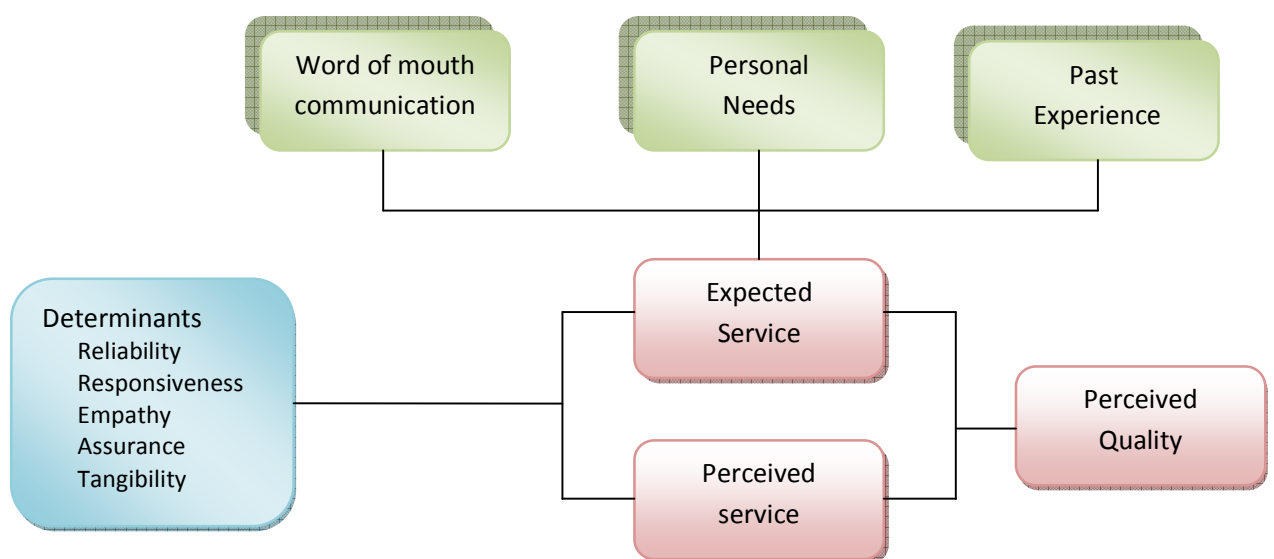
Individualized attention that the firm provides its customers, the essence of empathy is conveying, through personalized or customized service, that customers are unique and special and that their needs are understood. Customers want to feel understood by and important to firms that provide service to them (Zeithaml *et al.*, 2006).

Tangibles: Representing the Service Physically

Tangibles are the appearance of physical facilities, equipments, personnel, and communication materials. Tangibles provide physical representations or image of the service that customers, particularly new customers, will use to evaluate quality (Zeithaml *et al.*, 2006).

The SRVQUAL model is used to measure the gap between the expected and perception services. The first part of the model component attempt to show the customer precipitation of the service while the second component of the model designed to show the service provided by a specific company. The figure 3-5 below is a visual presentation of the concepts behind this model.

Figure: 3. 5 - SERVQUAL Model



Source: (Parasuraman *et al.*, 1985:41-54).

According to Zeithaml and Bitner (2003:63), "because customer expectations play a critical role in customer evaluation of services, it is important to understand factors or forces that influence them". As shown in the model there are three factors that impact on expected service namely; word of mouth, personal need and past experience.

In the case of *personal needs*, Zeithaml and Bitner (2003) explain that "these are states or conditions essential to the physical or psychological well-being of the customer" conserving the other two components of expected service, Kotler (1994) affirms that customer's expectations for services are also formed from past buying experiences, word-of-mouth, and the information and promises made by firms and competitors. Kotler (1994) further adds that "customers choose service providers on this basis, and after receiving the service, they compare the perceived service with expected service". In other words upon receiving a service a customer would make a comparison between what he expected and the actual service he received and the judgment is made based on the five determinants of the service. Fitzsimmons and Fitzsimmons (2001:44) indicate that "assessment of quality of service is made during the service delivery process; and each customer contact is referred to as 'a moment of truth' (i.e. an opportunity to either satisfy or dissatisfy a customer)". They conclude that "if the perceived service (PS) falls below the expected service (ES), then the level of service quality is perceived by customers as unacceptable or unsatisfactory, otherwise, it is perceived as a *quality surprise* (i.e. beyond expectations)".

Service quality perceptions judged by customers will create a competitive advantage in the alcoholic beverage industry as the competition all offer homogeneous products and the service levels can be differentiating factors. In this study, perceived service quality in the Alcohol beverage industry is the key variable. The components shown in the SERVQUAL model namely; Expected and Perceived services are independent variables while the actual service quality is dependent variable. Favorable service quality perceptions will also impact on profitability as customers are more satisfied with

the service offered. Loyalty is increased and retention leads to repeat services and reduced costs to attract new customers (Kotler, 2000).

Lee (2002) defines the key drivers of customer satisfaction, as the customer basic needs. He argues that customer satisfaction studies have paid too much attention to service quality attributes instead of customers' basic needs. He criticizes the use of SERVQUAL's five service dimension of tangibles, reliability, responsiveness, assurance, and empathy saying the model has become the standard customer satisfaction survey design. He argues that the five SERVQUAL dimensions are not customers' basic needs and says that they will not accurately predict customer satisfaction. His criticism is however incomplete because it fails to propose alternative feasible factors or dimensions which constitutes basic needs.

Despite criticisms of the general applicability of the perceived service quality model (SERVQUAL instrument) by Cronin and Taylor (1994), this instrument is a concise multiple-item scale with good reliability (Lewis & Mitchell, 1990) and has been widely accepted as a valid instrument (Carman, 1990; Clark *et al.*, 1992; Finn & Lamb, 1991; (Fisk, BROWN, & BITNER, 1993) in the measurement of service quality. Furthermore the SERVQUAL model as a measuring tools "remains the most complete attempt to conceptualize and measure service quality" (Nyeck, Morales, Ladhari, Pons, 2002). Parasuraman *et al.* (1985) summarized the customer's view of service quality into ten dimensions as shown Table 3-1.

Table 3- 1: The ten dimensions of service quality Dimension and definition
<p>Tangibles</p> <ul style="list-style-type: none"> □ Includes the physical evidence of the service. <ul style="list-style-type: none"> o The physical service facilities; o Appearance of service personnel; o Tools or equipment used to provide the service; o Physical representations of the service; o Other customers in the service facility.

Reliability

- Involves consistency of performance and dependability.
- o The firm performs the service right the first time;
- o It also means that the firms keep promises.

Responsiveness

- Concerns the willingness or readiness of employees to provide service.
- o Also involves timeliness of service.

Competence

- Possession of the required skills and knowledge to perform the service.
- o Knowledge and skill of the contact personnel;
- o Knowledge and skill of operational support personnel;
- o Research capability of the firm.

Access

- Involves approachability and ease of contact.
- o The service is easily accessible by telephone;
- o Waiting time to receive service is not extensive;
- o Convenient hours of operation for the service;
- o Convenient location of the service facility.

Courtesy

- Involves politeness, respect, consideration and friendliness of contact personnel.
- o Showing consideration for the customer's property;
- o Clean and neat appearance of public contact personnel.

Communication

- Means keeping customers informed in a language they can understand and listening to them. It may mean that the firm has to adjust its language or sophistication for different customers.
- o Explaining the service itself;
- o Explaining how much the service will cost;
- o Explaining the trade-offs between service and cost;
- o Assuring the customer that a problem will be handled.

Credibility

- Involves trustworthiness, believability and honesty. It involves having the customer's best interests at heart.
- o Firm name and reputation contributes to credibility;
- o Personal characteristics of the contact personnel;
- o The degree of hard-sell involved in interactions with the customer.

Security

- Is the freedom from danger, risk, or doubt and involves:
- o Physical safety;
- o Financial security;
- o Confidentiality.

Understanding and knowing the customer

- Involves making the effort to understand the customer's needs.
- o Learning the customer's specific requirements;
- o Providing individualized attention;
- o Recognizing the regular customer.

Source: Adapted from (Parasuraman *et al.*, 1985).

3.1.5.3 Five Gaps model

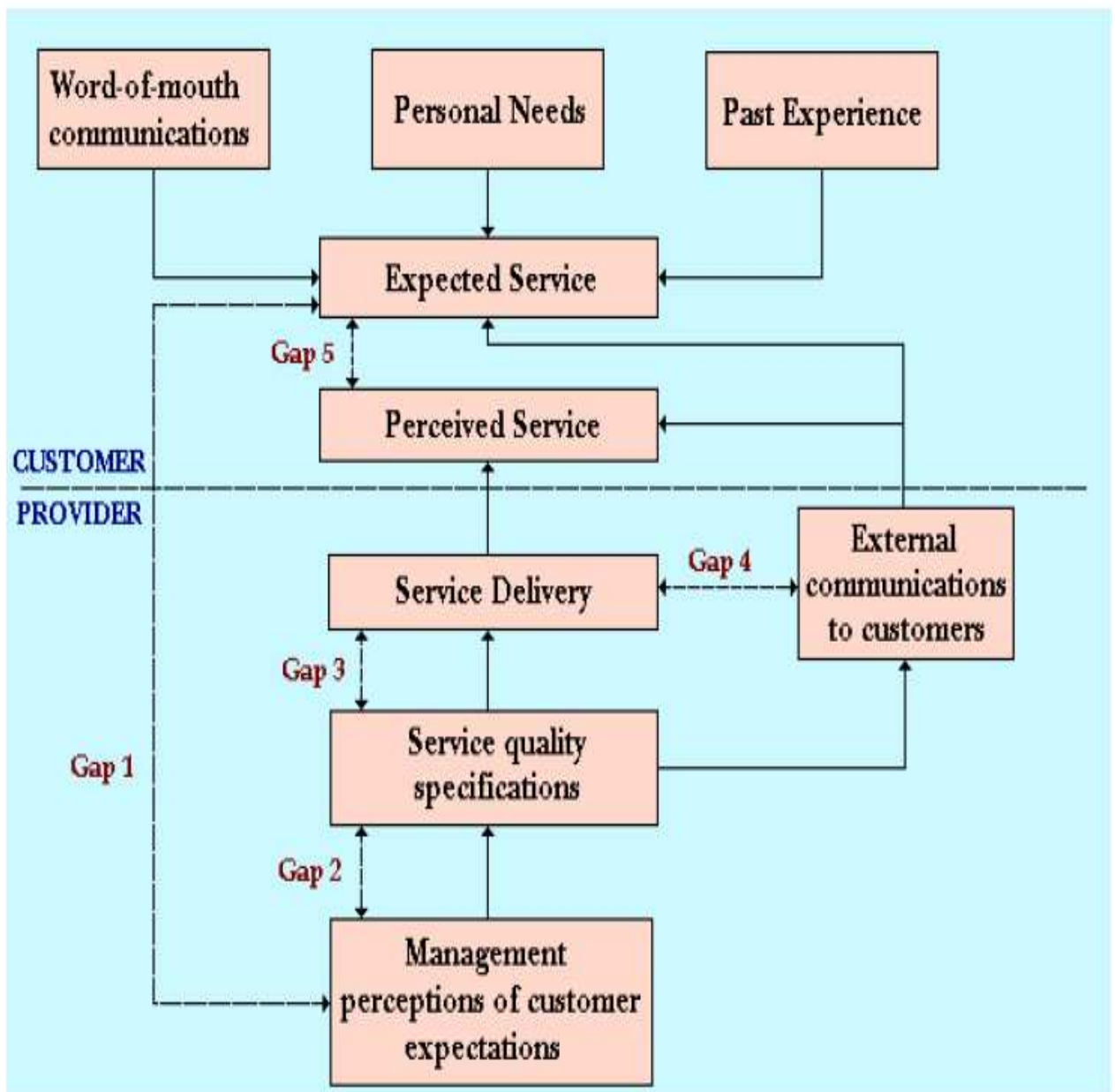
The Gaps Model was developed by Parasuraman *et al.*(1985) based on results from empirical research. The in-depth study of service businesses consisted of personal interviews with executives from various areas of the firms, to understand their perception of service quality expectations versus focus customer groups. The Gaps Model identifies five organizational gaps within the process of service design and delivery that causes deficits in quality, leading to unsatisfied customers. (Parasuraman *et al.*, 1985:43)

The gap model will help the researchers to describe what should marketing managers perceive to be service-quality from the customers' perspective? Which key criteria do they believe their customers used in judging the quality of service provided by their companies? Which problems they face and which one they give priority in delivering

high-quality service. Which steps, in what order they should take to control or improve the quality of their services? (Parasuraman *et al.*, 1990)

As illustrated in Figure 3-6 the Gaps Model locates and maps five generic gaps that apply regardless of the type of service.

Figure 3.6: The five gaps model of service quality



Source: (Parasuraman *et al.*, 1985).

Gap 1: Is the difference between the customer's actual expectations and that of management perceptions of customer expectations. There was a degree of correlation between the executive and customer perceptions of service quality, but there were some discrepancies in terms of confidentiality, security and the size of service firms determining the ability to offer quality service levels (Parasuraman *et al.*, 1985:44).

Gap 2: Is the difference between management perceptions of customer expectations and by the firm's stated service standard. The gap occurs when the service firm is not able to set the expected customer service standards due to lack of understanding (Parasuraman *et al.*, 1985:45).

Gap 3: Is the difference between the service delivered and the requirements stated in the firms' service standards. This gap occurs when the firm is not able to meet the service quality as set out in their standards (Parasuraman *et al.*, 1985:46)

Gap 4: Is the difference between the firms' stated service standard and the firms' external communication. This gap is as a result of inflated service standards being communicated to the customer and the firm is not being able to meet these standards (Parasuraman *et al.*, 1985)

Gap 5:

Gap 5: Is the difference between the expectations of the customer regarding the service delivered and the actual service experience. The key to ensuring good customer service is being able to meet or exceed the expectations of the customer. The result is this gap if the service quality cannot be achieved (Parasuraman *et al.*, 1985:46).

Customer perceived service quality depends on the extent of gap 5. The gaps associated with design, marketing and service delivery as reviewed impact the extent of gap 5, thus resulting into the equation as below (Parasuraman *et al.*, 1985:46).

$$\text{Gap 5} = f(\text{Gap 1}, \text{Gap 2}, \text{Gap 3}, \text{Gap 4})$$

3.1.5.4 The Service-Profit Chain model

Understanding the impact of employees' performance is critical in the service sector, because the intangibility of services leads customers to rely on employees' behavior in forming opinions about the service offering (Clark, 1997). Research has focused on the nature and the strength of links between employee satisfaction and customer satisfaction. There is growing evidence that supports a positive relationship between the two (Schneider, 1973; Hostage, 1975; Schneider et al., 1980; Carlzon, 1987; Schneider & Bowen, 1985; Schlesinger & Zornitsky, 1991; Schlesinger & Heskett, 1991a; Wiley, 1991; Rosenbluth & Peters, 1992; Dahlgaard *et al.*, 1998). Heskett *et al.* (1997) describe the relationship between employee and customer satisfaction with their analogy of the *satisfaction mirror*, which conveys the idea that business success results from employee satisfaction being reflected in terms of customer satisfaction. Schlesinger and (Heskett, 1991a) claim that staff frustrations lead to high turnover, merely reinforcing the organizational approach of minimal training, poor rewards and poor customer service in a *cycle of failure* (Schlesinger and Heskett, 1991a).

Several empirical studies have shown that it is impossible to maintain a satisfied and loyal customer base without satisfied and loyal employees. Those studies suggest a significant impact on customer satisfaction following an improvement in employee attitudes.

The service-profit chain (Heskett, Thomas, Gary, Sasser, & Leonard, 1994) is a research framework that comprises the linkages of employee variables, customer variables and organizational performance as shown in Figure 3-7.

Employee variables consist of employee perception of internal service quality which organization provides to its employees, employee satisfaction and employee loyalty. Customer variables comprise the customer's perception of the quality of the service delivered by employees, customer satisfaction, and customer loyalty. Causal relationships run from employee variables to customer variables and corporate profitability. The model provides an integrative framework for understanding how

employee variables are related to customer variables regarding the perception of the service and intended behavior, and how these ultimately translate into profit. The argument of the service-profit chain (Heskett et al., 1994) proceeds as follows:

“Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of the services provided to customers. Value is created by satisfied, loyal and productive employees. Employee satisfaction results primarily from high-quality support service and policies that enable employees to deliver results to customers.”

Accordingly the service-profit chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty, and productivity. The links in the chain (which should be regarded as propositions) are as follows: Profit and growth are stimulated primarily by customer loyalty. Loyalty is a direct result of customer satisfaction. Satisfaction is largely influenced by the value of services provided to customers. Value is created by satisfied, loyal, and productive employees. Employee satisfaction, in turn, results primarily from high-quality support services and policies that enable employees to deliver results to customers (Heskett *et al.*, 1994).

Reichheld and Sasser estimate that 5% increases in customer loyalty can produce profit increases from 25% to 85%. They conclude that *quality* of market share, measured in terms of customer loyalty, deserves as much attention as *quantity* of share.

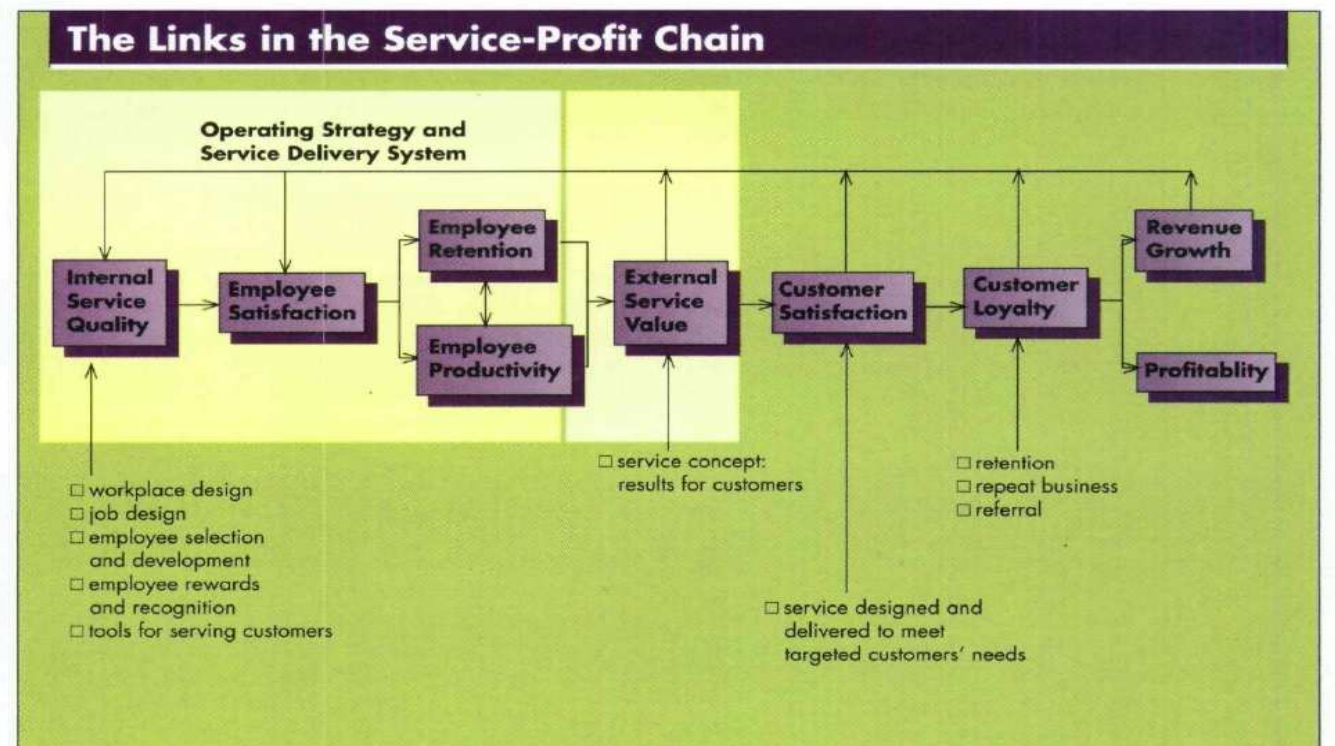


Figure 3.7: The service –Profit Chain Adapted from (Heskett et al., 1994).

3.1.5.5 The KANO Model

Kano (1984) gave the satisfaction model after considering three basic factors, which influences the customer satisfaction. Kano model divides the customer requirements in three broad categories: the normal requirements which must be fulfilled by the service providers, the exciting requirements which help in increasing the service value and the expected requirement which will make customer as happy if provided by the service provider.

- **Basic Factors.** (Normal Requirements are like Dissatisfies, which must have) – These are the minimum requirements, which will cause dissatisfaction if they are not fulfilled, but do not cause customer satisfaction if they are fulfilled (or are exceeded).
- **Excitement Factors.** (Exciting Requirements) (Satisfiers Attractive.) - Such factor increases customer satisfaction if delivered but do not cause dissatisfaction if they are not delivered. These factors surprise the customer and

generate 'delight'. Using these factors, a company can really distinguish itself from its competitors in a positive way. But if these additional schemes are not available then it won't increase the customer dissatisfaction level.

- **Performance Factors (Expected Requirement).** These are the expected factors, which cause satisfaction if the performance of such factors is high, and they cause dissatisfaction if the performance is low. Such attributes are like customer-care, handling bills or information from service providers. If the customers get the updated information from time to time then it increases the performance & so is the satisfaction level.

3.2.1 CUSTOMER SATISFACTION

Customer satisfaction has been the subject of considerable research and has been defined and measured in various ways (Oliver, 1997). Customer satisfaction may be defined as the customer's fulfillment response to a consumption experience, or some part of it. Customer satisfaction is a pleasurable fulfillment response while dissatisfaction isn't a pleasurable one (Buttle, 2004). Satisfaction and dissatisfaction are two ends of a continuum, where the location is defined by a comparison between expectations and outcome. Customers would be satisfied if the outcome of the service meets expectations. When the service quality exceeds the expectations, the service provider has won a delighted customer. Dissatisfaction will occur when the perceived overall service quality does not meet expectations (Looy, Gemmel & Dierdonck, 2003). Minazzi (2008) highlighted that customer satisfaction is the result of comparison between customer's expectations and customer perceptions. In other words customer satisfaction is seen as the deference between excepted quality of service and customers' experience or perceptions after receiving the service.

Customer satisfaction dependence on such dimensions: as reliability, responsiveness, assurance, empathy and tangibles and on additional elements like price, personal and situational factors that may occur during the service supply (Bateson and Hoffman, 1999).

Without doubt, service quality is an important factor of customer satisfaction. However, measuring of service quality is complicated, because service itself is an intangible product which can be evaluated differently by each individual. According to Erto and Vanacore (2002:166) the customer is actively participating in service process, and further more he is seen as a consumer of a service as well as an evaluator of service received. The most important goal of the service provider is to analyze customers' requirements' and after identifying them it is needed to translate into suppliers' service elements.

3.2.1.1 Reasons for measuring a customer satisfaction:

Customer satisfaction is considered to be one of the most important outcomes of all marketing activities in a market-oriented firm. The obvious need for satisfying the firm's customer is to expand the business, to gain a higher market share, and to acquire repeat and referral business, all of which lead to improved profitability (Barsky, 1992).

In order to achieve this one thing to be considered and addressed by the company is knowing of customers' requirements which is essential and it provides a better understanding of the way customers define the quality of the service and the product. If the company understands customers' requirements it is easier for service providers to satisfy them. Knowing of customers' satisfaction level and their requirements will also help in finding out the best direction in which the company needs to go on.(Hayes, 2008).Consumers becoming more sophisticated in their requirements and increasingly demanding higher standards of services. To them service means customer satisfaction, customer delight, customer relationship etc.

Therefore knowing customer satisfaction level for service provider is essential. It is widely accepted that it is easier to sell to an existing customer than to find a new one; that is why customer satisfaction level is a very important issue. Accordingly customers with problems usually don't react and only 4% of them complain; normally a person with problem tells 9 other people about it; while satisfied customers tell 5 other people about their good experiment; keeping a current customer costs about 1/7 of the cost of acquiring a new customer. Therefore, organizations need to understand that to what extend their customers would be satisfy.

3.2.1.2 Service Excellence

Customer satisfaction no longer constitutes the convincing focus for success; it has been replaced by customer delight (Brown, Brown D.E. & Swartz, 1992). In today's competitive environment, customers' expectations and technological innovation demand that service leaders distinguish themselves from the competition by truly delighting the customer (Kandampully, 1997).

According to Timmers and Van der Wiele (1990) satisfying the customer is not enough: there is a compelling need to delight the customer if a competitive advantage is to be achieved. Exceptional service which delights customers requires that organizations under take continuous service innovation. Service innovation, as defined here, is a process involved with the transformation of an organization's dormant assets (service elements which include technology, service processes, environment and people) into something of substantially greater value to both the customer and the organization.

Customers' perception of exceptional service is often associated with the personal interaction of the employees (Kandampully, 1993). Services management literature has repeatedly emphasized the importance of the human element in the delivery of superior service (Crosby & Stephens, 1987; Gronroos 1990b; Parasuraman *et al.*, 1985). Moreover, the human propensity for the delivery of superior service is greatly enhanced by continuous service innovation. Indeed, technological implementation and the subsequent changes in the service process not only has the potential to affect employee customer interaction positively, but may actually augment the importance of the human element as an organization's competitive edge. Service excellence is now an integral part of any superior service (Berry & Parasuraman, 1992) it is not the value-adding peripheral but actually constitutes the core of the service promise (Kandampully, 1996). Accordingly In many services, emotion is an element of the service delivery process (Kandampully, 1993) and plays an important role in shaping the customer's perception of service quality.

Therefore Johnston (2004) proposes four major issues that determine service excellence. These are:

Delivering the promise - which means “walking the talk” by doing what you say to the customer. Under-delivery on a promise(s) amounts to letting down the customer and will cause them to be dissatisfied and be disloyal to the organization. Marketers should thus desist from this tendency of “over promising” to their customers. Besides just the product, in this case NALFs, customers’ judge quality through the time taken to deliver a service, its condition, and order accuracy, adherence to schedule, were assisting the client with proper stocking patterns and after- sales follow - up. If the company delivers its service as communicated to customers, customers become satisfied, if not they become dissatisfied. Previous performance of the company and performance of competitors affect the judgment made by customers and will determine whether customers become satisfied or not.

Personal touch - means giving the customer adequate attention when dealing with him. This may involve giving the customer more time, developing an understanding in order to know him/her well and their business and building a long term or permanent relationship that goes beyond the usual business transaction. Eye contact and always smiling are some of the etiquettes required when dealing with a customer.

Going the extra mile – Contact employees should go out of their way to explain things in detail. Whenever a promise is made and is not met, the staff responsible for that action should call back customers and advise on the situation. The staff should take the initiative to contact clients and redress situations and not wait for customers to follow up on them because this will result in poor relations between the customers and the organization.

Solving problems and queries refers to the ability to take responsibility in dealing with problems. Sales staffs for instance are expected to be open, honest and show integrity to the customers. When customers have queries on issues such as non availability of certain brands, poor product quality concerns or price increases they expect quick solutions to their problems.

3.2.1.3 Service Recovery

The real test of the customer orientation of a service provider takes place when service failure has occurred. Ideally, quality should be high throughout and failures should not occur in the service processes. However, in reality employees makes mistakes, systems break down, customers in the service process may cause problem for other customers, etc. Service recovery is a strategy for managing mistakes, failures and problems in customer relationships (Gronroos, 2001).

As defined by Tax and Brown (2000) (in Grönroos 2001),

“Service recovery is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system.”

According to Grönroos (2007) the real test of service provider’s ability comes in with service recovery. Ideally quality should always be of the highest level and failures should not occur, but that is not reality and service providers need to be equipped to handle this in a fast and effective manner. Research has shown that service providers are often given a second chance by customers who have experienced poor service, if their issue is addressed to meet their needs. Research on the characteristics in the service industry has revealed that customers who are found to complain about service received tend to be customers who are generally loyal. The percentage of complaining customers is usually low and service providers often find it difficult to identify them and implement corrective action. (Baron, Harris & Hilton, 2009:207).

Firms, whilst considering failure prevention, should also implement strategies to effect recovery of disgruntled customers. The recovery process will shape the affected customer’s perception of the failure. Even if the outcome is not the desirable one, the customer may feel that the firm has done all they could to resolve the situation.

Four scenarios exist for a customer’s service experience (Slack, Chambers, & Johnston, 2001).

- The service is delivered to the customer's expectations without any issues.
- There are faults in the service delivery, but the customer does not complain.
- There are faults in the service delivery, the customer complains but has their pleas rejected and thus resulting in no customer satisfaction.
- There are faults in the service delivery, the customer does complain but feels satisfied with the service provider's response to the situation.

In order to turn the negative of a service failure into a positive, a firm needs to plan for failure. The first stage is to determine the exact nature of the failure by understanding what has happened, who was affected and why the failure occurred. The next stage is to act on failure by informing all affected parties of the proposed solution including most importantly, the customer. When the resolution is in place it is also important to ensure the consequences of the failure are contained to ensure no spread to other customers. Then follow up with the affected customers to ensure the actions have resolved the failure. The next stage is to ensure that there are lessons learned from the occurrence and implementing necessary changes to ensure no reoccurrence. The final stage is to revisit the failure plan and document appropriate procedures as a result of the failure experience (Slack *et al.*, 2001).

3.2.1.4 Complaints management

Customers complain under one or both of the conditions: their expectations being underperformed to a degree that falls outside their zone of tolerance or unfair treatment. Complaints management process should be developed to take a positive view of customer complaints. Customers who complain provide an opportunity for the service firm to identify root causes of problems as well as win back unhappy or dissatisfied customers to retain their future value (Buttle, 2005). A complaints management process should allow company to capture complaints before customers spread a negative word-of-mouth or take their business elsewhere (Buttle, 1998). Up to two-thirds of customers who are dissatisfied do not complain to the organization (Richins, 1983). However, they may complain to their social networks. Dissatisfied customers are likely to inform twice

as many people about their experience than customers with a positive experience (TARP, 1995 in Buttle, 2005).

According to Wilson (1991) only 4 percent of the dissatisfied customers actually complain, providing valuable feedback to the company. The remaining 96 percent choose to simply leave the business and go elsewhere. Companies choose to deal with complaints efficiently to bring about customer retention, continuous improvement in service quality and build a customer- focused organization (Looy, Gemmel & Dierdonck, 2003).

Conclusion

As mentioned in the introduction section the factory implemented a system which has given a considerable improvement in terms of product quality, cost reduction and customer compliant management. However, casual look at the factory indicates that comparison of customers' perceptions with their expectations of service quality is an area that has not been given sufficient attention and also proactive establishment of perceptions of its customers in the area being studied has been given little or no attention in the past beside this service quality perceptions judged by customers will create a competitive advantage in the alcoholic beverage industry since all offer homogeneous products and the service levels can be differentiating factors. In this regard several quality models are introduced to reduce the gap between customer & service providers among these quality models, the researcher tried to understand customer requirements from quality perception in a better way by using SERVIQUAL model, therefore this study is grounded on the SERVQUAL and Gaps models because they are popular and have been tried and tested over the year which is evidence of their reliability. Both models have been modified and adopted for this research.

The SERVQUAL model is easy to use. A modified SERVIQUAL questionnaire comprising a multiple rating scale with 21 item items, based on five service quality dimensions is used in this research. In general identifying which type of service has a poor and which one has best service quality by itself for NALF management considered to be good, but for further analysis it is mandatory to see all possible areas that helps to

improve the quality of service offering by the Factory, one of the area which shall be given attention by the NALF's management should be Employees performance because customer satisfaction follows an improvement in employee attitudes with this regard the above mentioned models has rolls to initiate the study.

CHAPTER 4:

4.0. RESEARCH METHODOLOGY

In the previous chapter relevant to the research topic such as service, characteristics of service, service quality, service dimension, measurement of service quality and customer satisfaction explained briefly. This chapter begins with an explanation of the chosen method for this research followed by sampling method, questionnaire design, and data collection. Finally the reliability and validity and statistical analysis tool will be explained.

4.1. Research Method

Research methodology is also known as the research paradigm. A paradigm is a mindset, a philosophy or a way of thinking. A paradigm can be used at three levels: to reflect basic beliefs about the world, to provide guidelines about how the researcher should conduct his or her endeavors, and to specify the methods and techniques which should ideally be adopted when conducting the research (Collis & Hussey, 2003:47). As a result, it is important to recognize and understand the paradigm used in the research, as it determines the way in which the research is designed, how the data is collected and analyzed, and the way the thesis is written. Two types of paradigms have been identified, namely the positivistic and phenomenological paradigms (Collis & Hussey, 2003:47).

In a phenomenological paradigm, also known as a qualitative paradigm, a smaller sample is examined with the understanding of human behavior from the participant's own frame of reference being the main concern. A case study may consist of as little as one participant. Interviews and open-ended questions are often used to gather the information needed in the study. Reliability is normally low and validity high in this paradigm. This paradigm is concerned with generating theories and generally produces qualitative data. The phenomenological paradigm generalizes from one setting to another. The nature and importance of the variables are assessed by the qualitative paradigm (Collis & Hussey, 2003:53-55).

In a positivistic paradigm, also known as a quantitative paradigm, a larger sample size is utilized in comparison with the phenomenological paradigm. The data generated

tends to be quantitative, and involves working with numbers, and is highly specific and precise. This paradigm is used when testing relationships between variables and uses hypothesis testing to assist in determining these relationships. Reliability is high and validity low in this paradigm. This paradigm generalizes from the sample to the population (Collis & Hussey, 2003:52-53).

The research project followed a quantitative paradigm approach because the study requires an analysis of the service quality dimensions which impact on customer satisfaction at publically owned Factory (NALF). The relationships among variables statistically tested, which required a quantitative approach and also used hypothesis testing to determine the relationship.

According to (Bryman and Bell, 2003) quantitative research can be construed as a research strategy that emphasizes quantification in the collection and analysis of data and that:

- Entails a deductive approach to the relationship between theory and research, in which the accent is placed on the testing of theories;
- Has incorporated the practices and norms of the natural scientific model and of positivism in particular; and
- Embodies a view of social reality as an external; Objective reality.”

4.1.1. Questionnaire Design

In this research, a self-completion questionnaire with closed questions was developed. The self-completion questionnaire is very familiar method of business research, and the research instrument has to be especially easy to follow and its questions have to be particularly easy to answer (Bryman and Bell, 2003). Meanwhile, whether to ask a question in an open or closed format is one of the most significant considerations for many researchers. According to Bryman and Bell (2003) closed questions have some advantages: it is easy to process answers; it enhances the comparability of answers, and makes them easier to show the relationship between variables. It is better than open question for this research.

The questionnaire consisted of three major sections. The first section contains questions about personal profiles of the respondents including gender, age, type of business and period with service providers. The second section contained SERVQUAL questionnaire and it comprises 21-item statements relating to the five service quality dimensions, namely; reliability, responsiveness, assurance, empathy and tangibles. Subsequently, statements 1 to 4 of SERVQUAL related to *tangible* dimension which deals with appearance of physical facilities, equipment, personnel, and communication materials. Statements 5 to 8 related to the *reliability* dimension which is the ability to perform the promised service dependably and accurately.

Statements 9 to 12 relate to the *responsiveness* dimension which basically depicts the service provider's willingness to help customers and provide prompt service to customers.

Statements 13 to 16 relate to *assurance* dimension which deals with knowledge and courtesy of employees of the service firm and their ability to convey trust and confidence.

Lastly, Statements 17 to 21 relate to the *empathy* dimension which involves the caring and individualized attention that a service firm provides to its customers and third section comprises 4 items that measure customer satisfaction. Several items on each construct are developed and adopted from relevant literatures. All of the items were measured by using a five-point Likert-type response scales, anchored at 5 strongly agree and 1 strongly disagrees.

Questionnaires are administrated in different ways: face to face, telephone, postal, e-mail and Web. In this study face to face questionnaires administration method has been chosen. This study chose face to face questionnaire to collect data about people's attitude of customer satisfaction and the selected influencing factors: *tangible, reliability, responsiveness, assurance and empathy* dimensions.

4.1.2 Defining the population of Interest

McDaniel and Gates (2001) define *population of interest* as "the total group of people from whom we need to obtain information". According to Bless and Higson-Smith

(2000) "the population of interest is the set of elements that the research focuses upon and to which the results obtained by testing the sample should be generalized". According to the Factory's 2011 budget year first quarter sales performance statistics there are 4200 customers in 11 sales routes currently in operation in Addis Ababa city who purchase NALF's products for the purpose of resale as a retailer. The population of interest for this study shall include all customers in Addis Ababa. Since it is impractical to obtain information from the entire population of interest, a specific sample was selected to actually participate in the survey.

4.1.3 Sampling Frame

According to McDaniel and Gates (2001) and Bless and Higson-Smith (2000) a sampling frame is a list of the population elements or members from which we select units to be sampled. This research focused on customers of NALF in Addis Ababa with respect to 11 sales routes and the sample was taken from each routes based on the actual number of customers based on 2011 budget year first quarter sales performance data. The sampling method used for this study is discussed here under.

4.1.4 Sampling Method

According to Cooper and Schindler (2001) the sampling method selected for the research depends on the requirements of the project, its objectives, the funds available and time constraints. There are two types of sampling method: namely probability (or random) sampling methods and non-probability sampling methods (Bless and Higson-Smith, 2000). According to Bless and Higson-Smith (2000) probability sampling occurs when the probability of including each element of the population can be estimated. In other words, a researcher can estimate the accuracy of the generalization from a sample to population. Bless and Higson-Smith (2000) refers to non-probability sampling method as "the case where the probability of including each element of the population in a sample is unknown". Here, it is not possible to determine the likelihood of the inclusion of all representative elements of the population into the sample.

According to Aaker, Day, & Kumar, (2004), probability sampling involves four considerations. Firstly, the target population must be specified. Secondly, the method for selecting the sample needs to be developed. Thirdly, the sample size must be determined, and finally, the non-response problem must be addressed.

In this study, probability sampling was used and self-administered questionnaires were distributed by the researcher personally and with the help of company's sales drivers to 300 selected participants of the study. The next section discusses determination of sample size and data collection methodology.

4.1.5 Sample Size

According to Bless and Higson-Smith (2000) a very important issue in sampling is to determine the most adequate size of the sample. They state that "a large sample is more representative but very costly; and a small sample is much less accurate but more convenient". Although Copper (2003) states that a sample size exceeding 5% of population is representative, this study about 7.14 % to calculate the sample size in order to minimize bias. The study has taken into consideration the number of groceries, super markets, and public recreation centers (Kebele), hotels and others to determine sample proportions.

According to the Factory's first quarter 2011 sales performance statistics there are 4200 customers in 11 routs currently in operation who purchase NALF' products for the purpose of resale in Addis Ababa. Based on the following simple calculation method sample of 300 was taken which is 7.14% of the total population to increase the margin of accuracy.

Sample = $0.071429 \times 4200 = 300$ customers.

The study used the actual number of customers on 2011 first quarter NALF's sales performance data for each 11 sales routes to determine the sample size. The table below shows the breakdown of the number of customers on each route.

Table 4.1: Sample break down by Factory's route in Addis Ababa

No. of routes	No. of customers	%	No. of questionnaires distributed to customers
1	480	11.43%	34
2	460	10.95%	33
3	500	11.90%	36
4	390	9.29%	28
5	340	8.10%	24
6	440	10.48%	31
7	520	12.38%	37
8	300	7.14%	21
9	400	9.52%	29
10	150	3.57%	11
11	220	5.24%	16
	4200	100	300

Source: (NALF First quarter sales performance, 2011)

4.1.6 Data Collection

The study has both components of primary and secondary data. Primary data is collected by means of questionnaire. Secondary data is collected by means of consulting available literature on the subject under investigation. In order to distribute the questionnaires to the selected respondents/customers the researcher personally participated and also used the factory's sales drivers as a means to reach to the selected respondents.

The survey was conducted during mid-November and December 2011. The target population includes the customers of the NALF in Addis Ababa. The researcher planned the activities carefully and allocated the required resources before starting the survey and committed on fulfilling the job. Upon the distribution of questionnaires the researcher has got full support from Factory' sales drivers by identification respondents location. Nearly 17% of the respondents were not return the completed questionnaires within the prearranged time on top of that some of the respondents were not available for days on the contrary many of the respondents were willing and completed the

questionnaires within the given time. The researcher continued collecting data until 300 responses from the respondents were completed. Doing the job took 10 weeks with continuous follow up which of course required the researcher commitment and support from other involved parties.

4.1.7 Data Analysis

The process of data analysis started as soon as the completed questionnaires were returned. The first step was to ensure that the data collected was accurate. The raw data was then converted from this state to reduced and classified form that was more appropriate to analysis. This process can be described as “preparing the data for analysis by means of editing and coding “(Diamantopoulos and Schlegelmilch, 2000). The second step involves transforming the data into results.

Editing aims at avoiding errors in the data matrix questionnaires (Diamantopoulos and Schlegelmilch, 2000). This process was dealing with ambiguous and missing data from the questionnaires. This will be done by the researcher and it was the responsibilities of the researcher alone.

Coding is very important step in the data preparation process because once a mistake is made during coding it become very difficult to trace the error and to correct at a later stage. The completed questionnaires were “transformed into symbols which can be understood by the computer” “(Diamantopoulos and Schlegelmilch 2000) in the data entry process.

The data base created above from number that was given answers to the questionnaires was then analyzed by the Statistical Package for the Social Science (SPSS) for windows version 13.0 using multiple linear regression analysis and Pearson’s correlation.

4.1.7.1 Reliability and Validity

Reliability is defined as be fundamentally concerned with issues of consistency of measures (Bryman and Bell, 2003). There are three prominent factors related to

considering whether a measure is reliable: stability, internal reliability and inter observer consistency. In this study, internal reliability was considered. Bryman and Bell (2003) suggested that a multiple-item measure in which each answers to each questions are aggregated to form an overall score, we need to be sure that all our indicators are related to each other .It can be tested using Cronbach's alpha method. The result of 0.7 and above implies an acceptable level of internal reliability as suggested by Hair et al. (2003).

Validity is defined as how much any measuring instrument measures what is intended to measure. Bryman and Bell, (2003) also suggested that the important issues of measurement validity relates to whether measure of concepts really measure concept.

“Validity refers to the issue of whether an indicator (or set of indicators) that is devised to gauge a concept really measures the concept. Several ways of establishing validity are: face validity; concurrent validity; predictive validity; construct validity; and convergent validity (Bryman and Bell, 2003).

In this research, construct validity has been used. For construct validity in terms of discriminate validity test, correlation analysis between the variables was performed. For construct validity in terms of convergent validity, confirmatory factor analysis was performed. KMO and Bartlett's test, as well as factor loadings for each measurement item, were examined.

4.1.7.2 Statistical Analysis

The results of the survey were analyzed using descriptive statistics. There are many basic techniques for analyzing quantitative data. In this study, the research chose the software of SPSS for Windows version 13.0 to analyze the exploratory factors. SPSS for Windows is probably the most widely used computer software for analysis of quantitative data for social scientists. SPSS, which originally was short for Statistical Package for the Social Sciences, has been in existence since the mid-1960's and over the years has undergone many revisions, particularly since the arrival of personal computers (Bryman & Bell, 2003). It is easy for the research to operate. Given the

scales of items for a construct, the Cronbach's alpha's are calculated to assess the reliability of those items. For construct with alpha under certain threshold (0.7 in this report), items within each construct are to be checked in order to ensure that the items have high correlations.

After reliability confirmed, the summated averages of the items in each construct will be studied further. Correlation matrix is calculated to show the pair-wise correlations between constructs, which provides useful but limited information about hypotheses testing. To account for the effects of other construct, multivariate linear regression is applied for the hypotheses. These measures provide more information on the correlation structure between constructs and therefore facilitate a further step in hypotheses testing.

The SERVQUAL instrument was applied to determine perceptions and quality of service using the five dimensions of empathy, responsiveness, reliability, tangibles and assurance as was done by Parasuraman, Zeithaml and Berry In their study in 1998. The result of the survey was analyzed using descriptive and inferential statistics. In this study the researcher used SPSS 13.0 for windows to analyze exploratory factors. Given the scales of items for a construct, the Cronbach's alpha's were used to assess the reliability of those terms. Items within each construct were examined to ensure the reliability. In order to determine how the variables are related to each other, measures of relationship were applied to determine the correlation. By determining the correlation coefficient the researcher was able to establish the direction of the correlation as well as the strength.

Inferential statistics was once more used to make inference about the variables about the variables measured for the large population by estimating the population parameter from the random sample selected and testing the hypothesis by applying statistical to the numerical data collected. The numerical was analyzed using regression analysis and Pearson correlation. These are parametric tests which are superior tests when it comes to accuracy.

4.2 Limitation of the research

The following limitations were experienced during the research

- Some of the respondents did not turn up the questionnaires on the scheduled time. This was a barrier to the speedy data collection therefore additional time was allocated by the researcher to collect all the questionnaires personally.
- The sample was confined to the existing customers of NALF located in Addis Ababa only. The study didn't cover the lost customer of NALF and other alcoholic beverage industries. This is in line with the geographical scope that was identified and also in line with the limited time that was available to carry out this study. However it would have been useful to apply the research into other areas wherever the factory's customers exist in order to get more view on this research topic.
- Only four key factors influencing customer satisfaction are taken into consideration for this research due to the fact that the time for the researcher is limited to address all vast volume of the literatures and research studies. This may limit the generalizability of the output to all factors affecting customer satisfaction in the selected field of study.

4.3. Conclusion

In spite of the above limitations experienced during the research the data collection exercise was concluded in 10 weeks time. The response was 100% which turned out to be much better than the researcher expected at the beginning of the questionnaires distribution.

CHAPTER 5: RECERCH REASULTS

5.1 Introduction

In this chapter the results from the study is presented in graphical and tabular format based on the responses given by the respondents. The results are impersonal, rule based and formal. It has therefore been interpreted within the limitations and constraints of the research, with responsibility and honesty.

A total of 300 respondents received questionnaires and all of them responded and the response rate of 100% was achieved and deemed acceptable. Descriptive and inferential statistics were used to analyses the data.

5.2 Descriptive Results

The following are the demographic distributions of the sample.

5.2.1 Age Distribution

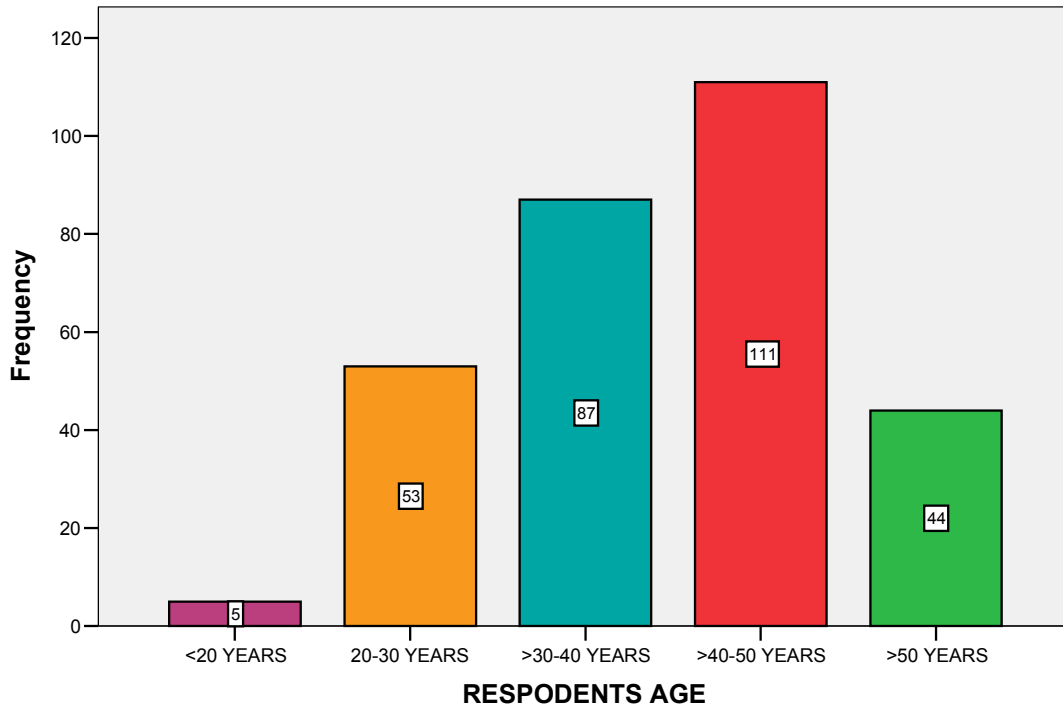
The table below gives a breakdown of the age groups of the respondents who participated in the study.

Table 5.1 Age Distribution of the Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid <20 YEARS	5	1.7	1.7	1.7
20-30 YEARS	53	17.7	17.7	19.3
>30-40 YEARS	87	29.0	29.0	48.3
>40-50 YEARS	111	37.0	37.0	85.3
>50 YEARS	44	14.7	14.7	100.0
Total	300	100.0	100.0	

The graph below presents a graphical presentation of the data in table 5.1 above.

Figure 5.1 Age Distribution of the Respondents



Respondents represented customers from a range of ages. The highest percentage of 37% of the respondents was in the age group of 40-50 years of age. 29% of the respondents were between 30 and 40 years of age. 17.7 % % of the respondents were between 20 and 30 years of age while 14.7% was above 50 years of age. The lowest percentage 2.71% was for respondents below 20 years of age. The different age groups were therefore well represented in the study.

5.2.2 Gender Distribution

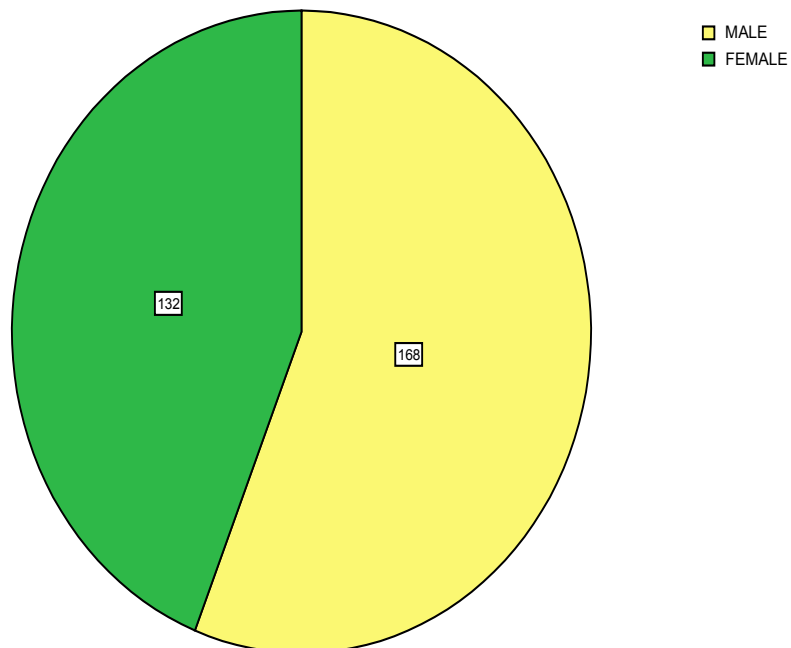
Table 5.2 below shows the gender distribution of the respondents who participated in the study.

Table 5.2 Gender Distribution of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	MALE	168	56.0	56.0	56.0
	FEMALE	132	44.0	44.0	100.0
	Total	300	100.0	100.0	

The following pie chart shows the percentage gender distribution of the data in table 5.2 above. The number of male and female respondents was therefore well distributed and these findings indicate that the sample was representative of the population.

Figure 5.2 Gender Distributions of the Respondents



5.2.3 Period with Current Service Providers

The table below gives a breakdown of the respondent's period with the current service provider, NALF who participated in the study.

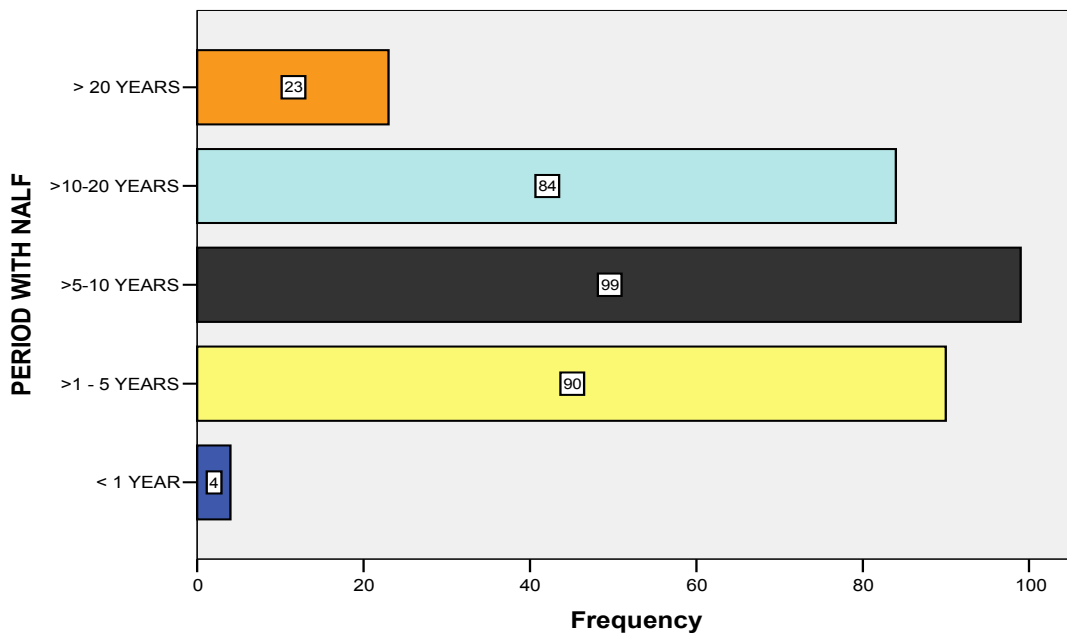
Table 5.3 Periods with NALF

PERIOD WITH NALF

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid < 1 YEAR	4	1.3	1.3	1.3
>1 - 5 YEARS	90	30.0	30.0	31.3
>5-10 YEARS	99	33.0	33.0	64.3
>10-20 YEARS	84	28.0	28.0	92.3
> 20 YEARS	23	7.7	7.7	100.0
Total	300	100.0	100.0	

Graph 5.3 below gives a breakdown of how long the respondents have been trading with National Alcohol and liquor factory.

Figure 5.3 Periods with the NALF



The 33% of respondents currently trading with NALF has more than 5 years but less than 10 years period. Similarly 30% of the respondents trading with NALF has an age more than 1 year and less than 5 years, out of the total respondents the two groups cover 63%. This therefore means that the respondents who participated in this study are

well informed about the type of service they are currently receiving from the service providers. These respondents were therefore able to give their perceptions of the quality of service by answering the questionnaire.

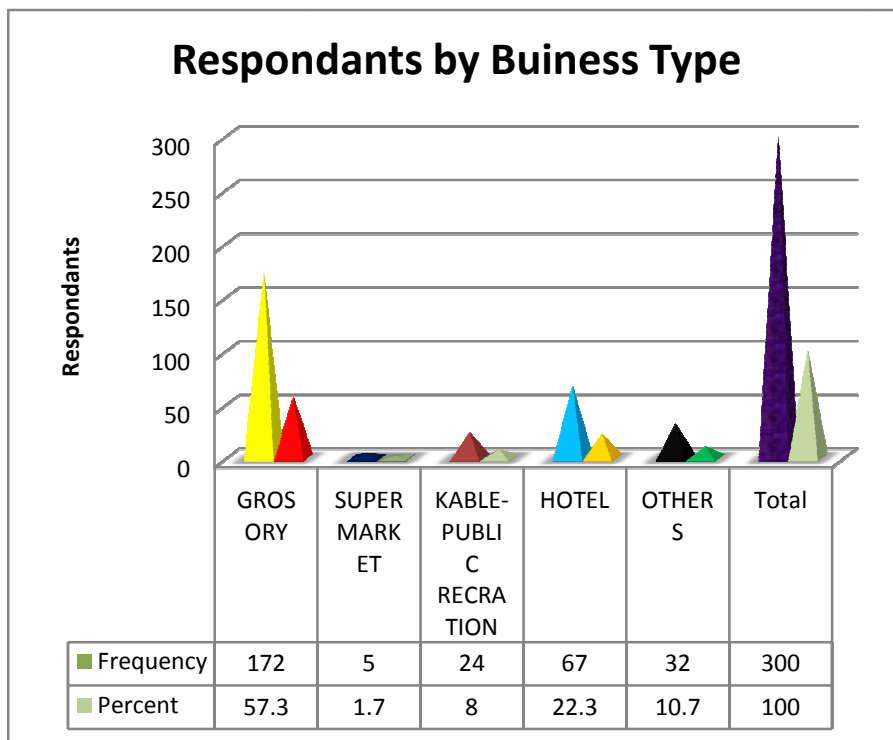
5.2.4 Business type

The table below shows a breakdown of the business type in which the respondents are working.

Table 5.4 Type of Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	GROSORY	172	57.3	57.3	57.3
	SUPERMARKET	5	1.7	1.7	59.0
	KABLE-PUBLIC RECRATION	24	8.0	8.0	67.0
	HOTEL	67	22.3	22.3	89.3
	OTHERS	32	10.7	10.7	100.0
	Total	300	100.0	100.0	

Figure 5.4 Respondents by Business type



57.3 % of the Respondents are in Grocery business while 22.3 % of the respondents in Hotel Business .The lowest percentage 1.7 % were respondents in supermarket business and others were 10.7% which consisted of different type of business namely shops, bars, Restaurants and night clubs. The different business types were therefore well represented in the study.

5.2.5 Descriptive Measures of the SERVQUAL Scale

The following table below gives a breakdown of the descriptive measures of the five dimensions of service quality that were tested by the questionnaire.

Table 5.5 Descriptive Measures of the Service Quality Dimensions

Dimensions	Items	N	Minimum	Maximum	Mean	Std. Deviation
Tangibility	T1-The factory has modern equipment	300	3	5	3.78	.657
	T2-The factory has visually appealing material associated with the service.	300	3	5	3.64	.621
	T3-The facilities of Factory are visually appealing.	300	3	5	3.68	.682
	T4-Employees have a neat & professional appearance.	300	3	5	3.59	.609
Reliability	R1-Factory employees provide service as promised	300	3	5	3.72	.723
	R2-Factory employees are dependable in handling customer's service problem	300	3	5	3.79	.640
	R3-Factory employees perform service right at the first time.	300	3	5	3.69	.679
	R4-Factory employees provide services at the promised time.	300	3	5	3.65	.597
Responsiveness	RP-1Factory employees are ready to respond to customers request	300	3	5	3.81	.650
	RP-2 Factory employees provide prompt services	300	3	5	3.89	.668
	RP-3 Factory employees are always willing to help customers	300	3	5	3.78	.632

Dimensions	Items	N	Minimum	Maximum	Mean	Std. Deviation
	RP-4 Factory employees are never to busy to respond to customer	300	3	5	3.75	.679
Assurance	A1-Factory employees instill confidence in customers	300	3	5	3.82	.685
	A2-Factory employees make customers feel safe in their transaction	300	3	5	3.64	.682
	A3-Factory employees are consistently	300	3	5	3.76	.770
	A4-Factory employees have a knowledge to answer customer questions	300	3	5	3.71	.726
Empathy	E1-Factory employees understand the individual needs for their customers	300	3	5	3.92	.715
	E2-Factory employees giving customers individual attention	300	3	5	3.89	.686
	E3-Factory employees have the customer's best interest at heart	300	3	5	3.84	.672
	E4-Factory employees deal with customers in caring fashion	300	3	5	3.93	.683
	E5-Factory has hours convenient to all customers	300	3	5	3.98	.628
	Valid N (listwise)	300				

The analysis in table 5.5 above indicates that the lowest mean is 3.64 on T2 and all the means lie between 3 and 4. The findings indicate that the highest mean is on E5 at 3.98. On average therefore the respondent's opinions were above average regarding the service offering by NALF on the different elements of the service quality dimensions. However, none of the means for the 21 questions of the service quality dimensions lie above 4. These findings indicate that the customers still expect more in the quality of service given by the service providers.

5.2.6 Calculation of the Service Quality Dimensions Composite Scores

The various perceptions under each service quality dimension were grouped into 5 constructs and calculated its individual average to get composite scores. The modified version of SERVQUAL as proposed by Parasuraman *et al.*, (1998) which involve five dimension of service quality is used to group the various perceptions of items and the composite scores were calculated. The table below shows the result of the service quality dimensions composite score. The composite scores calculated are given in table 5.5 below.

Table 5.6 Descriptive Statistics of the Service Quality Dimensions Composite scores

Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Tangibility	300	3.00	5.00	3.6725	.45861	.210
Empathy	300	3.00	5.00	3.9113	.49452	.245
Responsiveness	300	3.00	5.00	3.8083	.47944	.230
Reliability	300	3.00	5.00	3.7117	.51786	.268
Assurance	300	3.00	5.00	3.7317	.55477	.308
Valid N (listwise)	300					

Empathy has the highest score of 3.9113 followed by responsiveness with a score of 3.8083. The least important perception according to the finding is tangibility with a score of 3.6725. These findings indicate that the composite mean scores are all less than 4 for each service quality dimension and yet the maximum possible score is 5. The mean composite scores are above average but less than the mean maximum score. The findings of the study indicate that currently the service providers are perceived by the customers to be offering moderate quality in service but that they still have room for improvement. The findings indicate further that customers perceive empathy to play a key role in determining the quality of service received whereas tangibility plays a smaller role as depicted by the mean composite score of 3.6725. This does not mean that it is not important as a service quality dimension. It is however ranked as the least important service quality dimension with a mean score above the average score of 2.5.

5.3 Inferential Statistics

5.3.1 Reliability and validity Test

In this study, there are 300 feedbacks from sample population. All the feed backs were complete that is no missing data in the questionnaires.

All items shows strong consistency and its constructs indicated by values of Cronbach's alpha higher than 0.70 as suggested by Hair *et al.*, (1998). This suggests that the items concerned adequately measure a single construct for each tested variable (tangibility, empathy, responsiveness, reliability, assurance and satisfaction). Reliability measurements for each construct are sown in Table 5.7.

Table 5.7 Reliability Statistics

Reliability Statistics

Variable	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
1.Tangibility	.709	.734	4

Variable	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
2. Reliability	.790	.785	4

3.Responsivene ss	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
	.777	.769	4

4.Assurance	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
	.777	.769	4

5.Empathy	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
	.781	.777	5

6.Satsfication	Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
	.777	.769	4

For construct validity in terms of the discriminate validity test, correlation analysis between the variables was performed. The result shows that correlation are low with values no higher than 0.9, as proposed by Hair *et al.*, (1998). This indicates that the constructs are distinct from one another and is deemed to be an acceptable level of discrimination. Consequently content validity is also established. Table 5.8 shows the analysis of coloration between the variables.

Table 5.8 Person Correlation

Correlations

		over all service quality	Tangibility	Empathy	Responsiveness	Reliability	Assurance
Pearson Correlation	over all service quality	1.000					
	Tangibility	.855	1.000				
	Empathy	.526	.124	1.000			
	Responsiveness	.771	.567	.499	1.000		
	Reliability	.890	.856	.211	.497	1.000	
	Assurance	.893	.827	.257	.513	.819	1.000
Sig. (1-tailed)	over all service quality	.	.000	.000	.000	.000	.000
	Tangibility	.000	.	.016	.000	.000	.000
	Empathy	.000	.016	.	.000	.000	.000
	Responsiveness	.000	.000	.000	.	.000	.000
	Reliability	.000	.000	.000	.000	.	.000
	Assurance	.000	.000	.000	.000	.000	.
N	over all service quality	300	300	300	300	300	300
	Tangibility	300	300	300	300	300	300
	Empathy	300	300	300	300	300	300
	Responsiveness	300	300	300	300	300	300
	Reliability	300	300	300	300	300	300
	Assurance	300	300	300	300	300	300

For construct validity in terms convergent validity, confirmatory factor analysis was performed. KMO and bartlett's test, as well as factor loadings for each measurement item, were examined. Based on Table 5.8 &5.9,all measurement items of each construct are significant at level 0.01 as suggested by Sanzo *et al.*,(2003) and the KMO index is more than 0.6, as suggested by Pallant (2001). Moreover, based on Table 5.9 most of the individual factor loadings are more than 0.50 as recommended by Sanzo *et al.*,(2003) except the items E5 and RP-4, for which it is 0.498 and 0.488. However,

factor loading is close to 0.50 and the KMO and Bartlett's test showed satisfying result. There for items is deemed as a valid item within the service quality variable. Over all, these results confirm that the measurement items of the same construct are highly correlated. In conclusion, based on the discriminate and convergent validity test, construct validity has been achieved in this study.

In general, the measurement scales used in this study are broadly valid and reliable, which permits further assessment of the relationships between independent (tangibility, empathy, responsiveness, reliability, assurance) and the dependant variable customer satisfaction.

Table 5.9 KMO and Bartlett's Test

KMO and Bartlett's Test

Tangibility	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.716
	Bartlett's Test of Sphericity	Approx. Chi-Square	464.716
		df	6
		Sig.	.000
Reliability	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.730
	Bartlett's Test of Sphericity	Approx. Chi-Square	772.457
		df	6
		Sig.	.000
Responsiveness	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.734
	Bartlett's Test of Sphericity	Approx. Chi-Square	895.342
		df	6
		Sig.	.000
Assurance	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.734
	Bartlett's Test of Sphericity	Approx. Chi-Square	895.342
		df	6
		Sig.	.000
Empathy	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.600
	Bartlett's Test of Sphericity	Approx. Chi-Square	1136.692
		df	6
		Sig.	.000

Satisfaction	Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.734
	Bartlett's Test of Sphericity	Approx. Chi-Square	895.342
		df	6
		Sig.	.000

Table 5.10 Factor loading

	Initial	Extraction
T1-The factory has modern equipment	1.000	.998
T2-The factory has visually appealing material associated with the service.	1.000	.836
T3-The facilities of Factory are visually appealing.	1.000	.822
T4-Employees have a neat & professional appearance.	1.000	.727
R1-Factory employees provide service as promised	1.000	.907
R2-Factory employees are dependable in handling customer's service problem	1.000	.669
R3-Factory employees perform service right at the first time.	1.000	.892
R4-Factory employees provide services at the promised time.	1.000	.779
A1-Factory employees instill confidence in customers	1.000	.771
A2-Factory employees make customers feel safe in their transaction	1.000	.855
A3-Factory employees are consistently	1.000	.938
A4-Factory employees have a knowledge to answer customer questions	1.000	.903
E1-Factory employees understand the individual needs for their customers	1.000	.919
E2-Factory employees giving customers individual attention	1.000	.947
E3-Factory employees have the customer's best interest at heart	1.000	.947
E4-Factory employees deal with customers in caring fashion	1.000	.928
E5-Factory has hours convenient to all customers	1.000	.498
RP-1 Factory employees are ready to respond to customers request	1.000	.734
RP-2 Factory employees provide prompt services	1.000	.667
RP-3 Factory employees are always willing to help customers	1.000	.794
RP-4 Factory employees are never too busy to respond to customer	1.000	.488

Extraction Method: Principal Component Analysis.

5.4 Normal Distribution

In order to check the distribution of a variable follows a particular form. By far, its most common application is in testing whether observed values can reasonably be thought to have come from a normal distributed population. In this context the one sample K-S test is an excellent check to apply before using statistical that rest on the assumption of normality (Diamantopoulos, & Schlegelmilch, 2000).

The following section gives the findings of the test for normality using Kolmogorov-Smirnov test and Blom's proportional estimation formula.

5.4.1 Kolmogorov-Smirnov Test

Table 5.7 below gives the output of the one sample Kolmogorov-Smirnov Test. The results show that the sample has a normal distribution.

Table 5.11 Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test

		Tangibility	Reliability	Responsiveness	Assurance	Empathy
N		300	300	300	300	300
Normal Parameters(a,b)	Mean	3.6725	3.7117	3.8083	3.7317	3.9113
	Std. Deviation	.45861	.51786	.47944	.55477	.49452
Most Extreme Differences	Absolute	.155	.187	.112	.184	.146
	Positive	.155	.187	.112	.184	.146
	Negative	-.122	-.134	-.092	-.122	-.082
Kolmogorov-Smirnov Z		2.683	3.239	1.936	3.188	2.520
Asymp. Sig. (2-tailed)		.000	.000	.001	.000	.000

a Test distribution is Normal.

b Calculated from data.

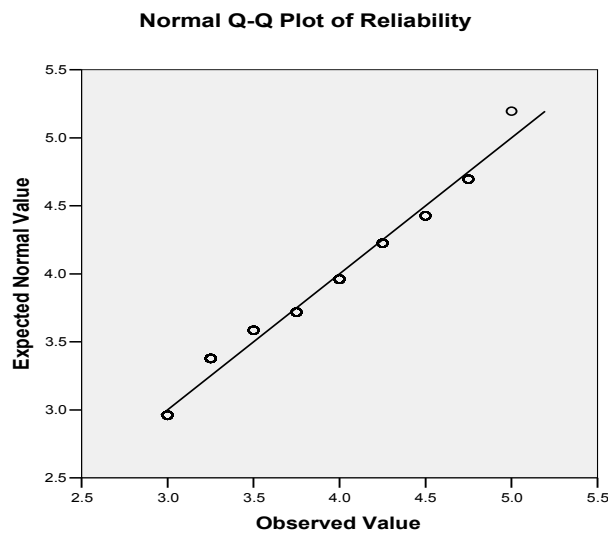
As indicated on the above Table 5.11 for each constructs the maximum deviation between tow most extreme is not significant there for the observed distributions do not depart from theoretical specifications.

5.4.2 Blom's Proportional

The expected normal quartiles were calculated using Blom's Proportional estimation formula. The means were then assigned to the ties for each dimension. The findings are presented in a graphical format using the normal Q-Q and the detrended normal Q-Q plots. The following graphs (5.6 to 5.15) below indicate the normal distribution for each service quality dimension. This is a further indication that the values in the study population are well distributed.

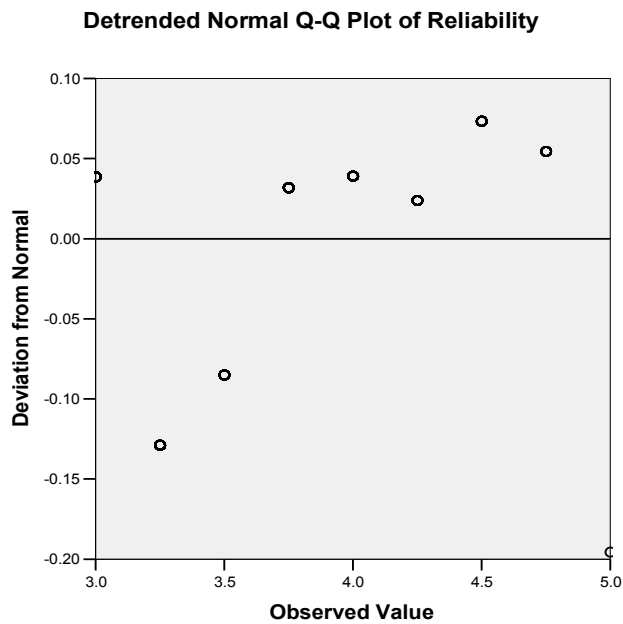
Reliability

Figure 5.5 Normal Q-Q Plot of Reliability



The normal Q-Q plot above shows that the data points representing the service quality dimension of reliability do not deviate seriously from the fitted straight line. They indicate that reliability is normally distributed.

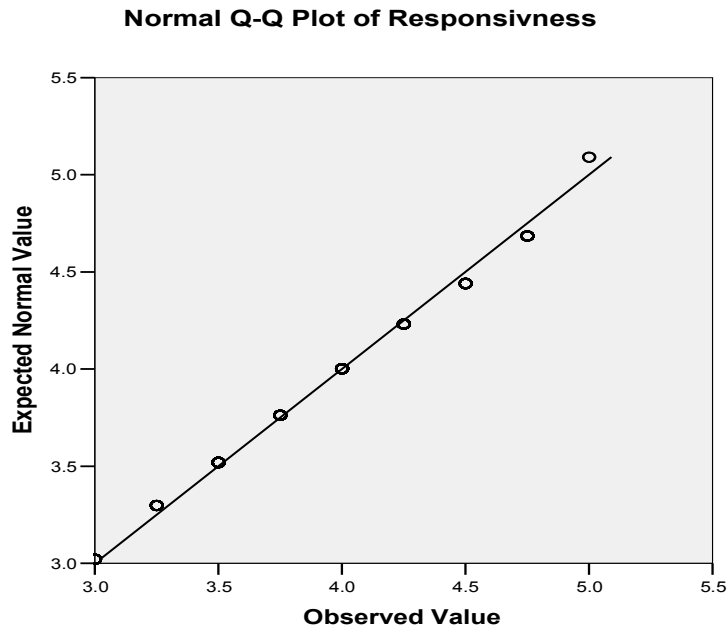
Figure 5.6 Detrended Normal Q-Q Plot of Reliability



The Detrended Normal Q-Q plot above shows the differences between the observed and expected values of a normal distribution. The distribution is normal because the points are clustered in a horizontal band around zero with no pattern. Figure 5-6, indicates the deviation is 0.12 from normal at the lower end and 0.07 at the upper end which is close enough to zero.

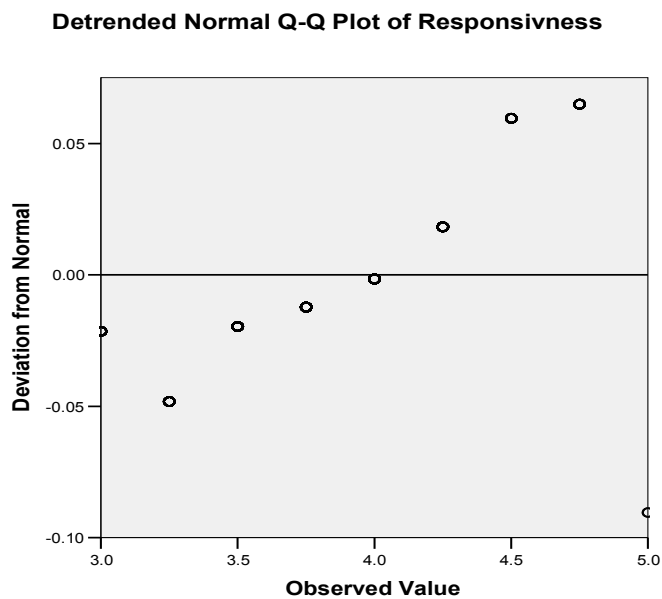
Responsiveness

Figure 5.7 Normal Q-Q Plot of Responsiveness



The normal Q-Q plot above shows that the data points representing the service quality dimension of responsiveness do not deviate seriously from the fitted straight line. They indicate that reliability is normally distributed.

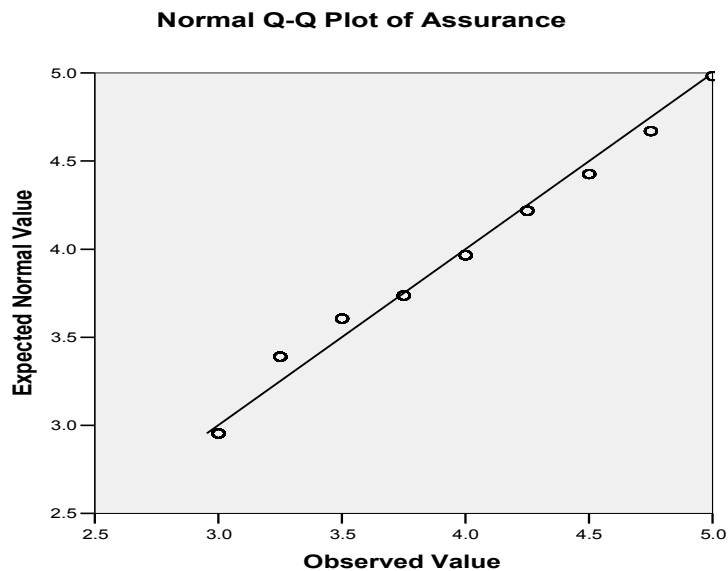
Figure 5.8 Detrended Normal Q-Q Plot of Responsiveness



The Detrended Normal Q-Q plot above shows the differences between the observed and expected values of a normal distribution. The distribution is normal because the points are clustered in a horizontal band around zero with no pattern. Figure 5-8, indicates the deviation is 0.07 from normal at the lower end and 0.05 at the upper end which is close enough to zero.

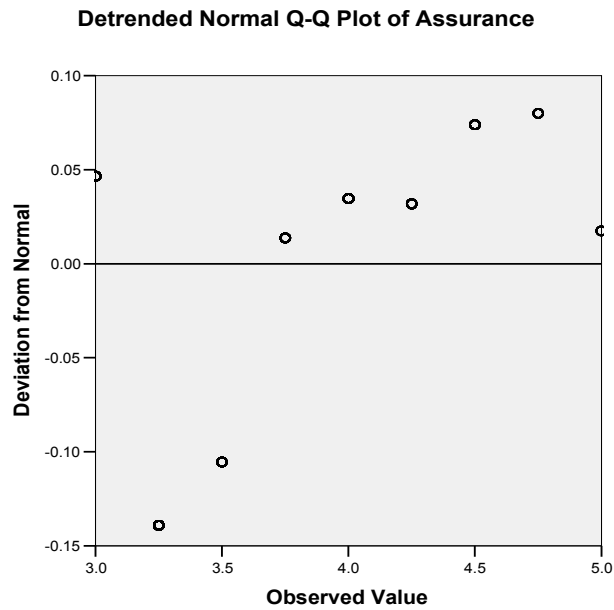
Assurance

Figure 5.9 Normal Q-Q Plot of Assurance



The normal Q-Q plot above shows that the data points representing the service quality dimension of assurance do not deviate seriously from the fitted straight line. They indicate that responsiveness is normally distributed.

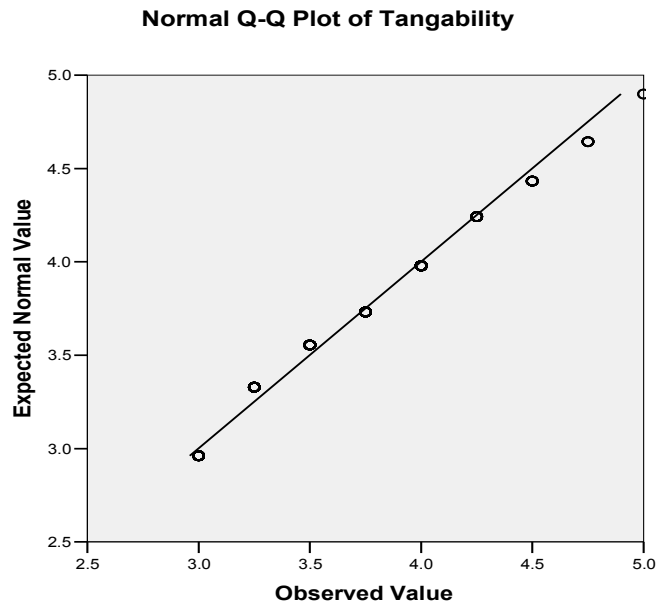
Figure 5.10 Detrended Normal Q-Q Plot of Assurance



The Detrended Normal Q-Q plot above shows the differences between the observed and expected values of a normal distribution. The distribution is normal because the points are clustered in a horizontal band around zero with no pattern. Figure 5-10, indicates the deviation is 0.13 from normal at the lower end and 0.08 at the upper end which is close enough to zero.

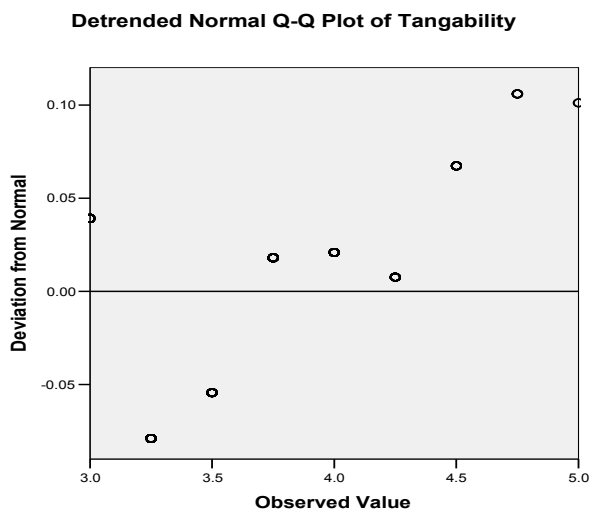
Tangibles

Figure 5.11 Normal Q-Q Plots of Tangibles



The normal Q-Q plot above shows that the data points representing the service quality dimension of tangibles do not deviate seriously from the fitted straight line. They indicate that responsiveness is normally distributed.

Figure 5.12 Detrended Normal Q-Q Plots of Tangibles



The Detrended Normal Q-Q plot above shows the differences between the observed and expected values of a normal distribution. The distribution is normal because the points are clustered in a horizontal band around zero with no pattern. Figure 5-12, indicates the deviation is 0.08 from normal at the lower end and 0.11 at the upper end which is close enough to zero.

Empathy

Figure 5.13 Normal Q-Q Plots of Empathy

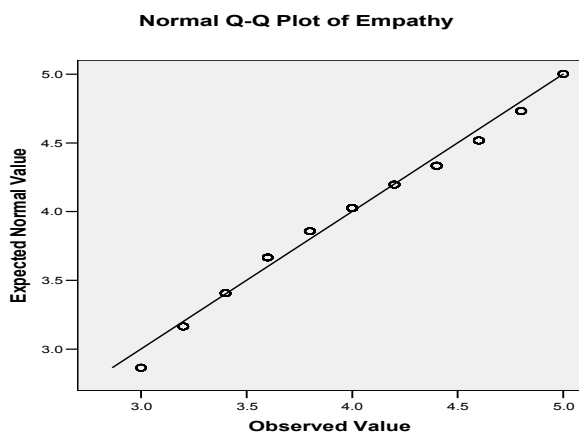
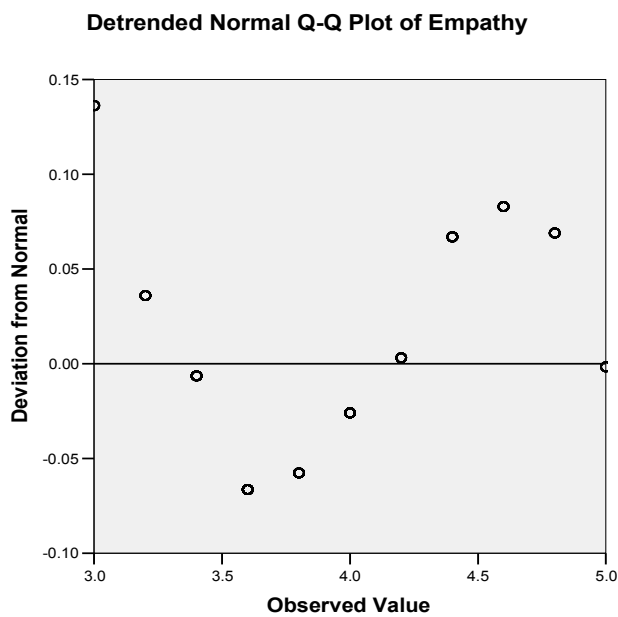


Figure 5.14 Detrended Normal Q-Q Plots of Empathy



The Detrended Normal Q-Q plot above shows the differences between the observed and expected values of a normal distribution. The distribution is normal because the points are clustered in a horizontal band around zero with no pattern. Figure 5-14 indicates the deviation is 0.07 from normal at the lower end and 0.10 at the upper end which is close enough to zero.

5.5 Hypothesis Testing

The following two tests were done to determine the correlations:

- Person correlation
- Regression analysis

5.5.1 Overall Service Quality

In this analysis the five dimensions of service quality were tested against overall service quality as the dependent variable. A multiple regression analysis was done to determine this relationship.

The following five hypotheses were tested to determine their significance to customer service.

H₁ Reliability has a positive influence on customer satisfaction.

H₂ Responsiveness has a positive influence on customer satisfaction.

H₃ Assurance has a positive influence on customer satisfaction.

H₄ Tangibles have a positive influence on customer satisfaction.

H₅ Empathy has a positive influence on customer satisfaction.

Below are the findings of the multiple regression analysis indicating the impact of the service quality dimensions on overall service quality.

5.5.1.1 The Impact of the Service Quality Dimensions on overall Service Quality

Table 5.11 Multiple Linear Regression Analysis (Overall service quality)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000(a)	1.000	1.000	.00000	1.000	3115431271 6398190.000	5	294	.000

a Predictors: (Constant), Assurance, Empathy, Responsiveness, Tangibility, Reliability

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.975	5	9.395	3E+016	.000 ^a
	Residual	.000	294	.000		
	Total	46.975	299			

a. Predictors: (Constant), Assurance, Empathy, Responsiveness, Tangibility, Reliability

b. Dependent Variable: over all service quality

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.61E-015	.000		.000	1.000
	Tangability	.200	.000	.231	4E+007	.000
	Empathy	.200	.000	.250	8E+007	.000
	Responsiveness	.200	.000	.242	7E+007	.000
	Reliability	.200	.000	.261	4E+007	.000
	Assurance	.200	.000	.280	4E+007	.000

a. Dependent Variable: over all service quality

The findings above indicate that the five service quality dimensions are positively related to overall service quality and are indeed drivers of service quality. The study findings indicate that all the standardized coefficients relating the four service quality dimensions: reliability, responsiveness, assurance and tangibles to overall service quality have the expected positive sign, are statistically significant and therefore are all

drivers of service quality. According to the findings above $P < 0.01$ indicating that there is a significant relationship between the five service quality dimensions and overall service quality. The five hypotheses are therefore supported at a 95% confidence interval. The study findings also further indicated that assurance was the most important driver of service quality among NALF's customer in Addis Ababa with a significantly high coefficient of 0.280. Assurance was followed by reliability with a significant coefficient of 0.261.

5.5.1. 2 Service Quality Dimensions against Customer Satisfaction

In this analysis the five dimensions of service quality were tested against customer satisfaction as the dependent variable using a multiple regression analysis. The following hypothesis was tested to determine the impact of service quality on customer satisfaction.

H₆Service quality has a positive influence on customer satisfaction

Below are the findings of the multiple regression analysis indicating the impact of service quality on customer satisfaction.

5.5.1.3 The Impact of Service Quality on Customer Satisfaction

Table 5.12 Person Correlation analysis

Person Correlation

Correlations

		Customer Satisfaction	Tangability	Empathy	Responsiveness	Reliability	Assurance
Pearson Correlation	Customer Satisfaction	1.000	.705	.246	.236	.610	.866
	Tangability	.705	1.000	.149	.435	.328	.827
	Empathy	.246	.149	1.000	.529	.665	.243
	Responsiveness	.236	.435	.529	1.000	.433	.395
	Reliability	.610	.328	.665	.433	1.000	.480
	Assurance	.866	.827	.243	.395	.480	1.000
Sig. (1-tailed)	Customer Satisfaction	.	.000	.000	.000	.000	.000
	Tangability	.000	.	.005	.000	.000	.000
	Empathy	.000	.005	.	.000	.000	.000
	Responsiveness	.000	.000	.000	.	.000	.000
	Reliability	.000	.000	.000	.000	.	.000
	Assurance	.000	.000	.000	.000	.000	.
N	Customer Satisfaction	300	300	300	300	300	300
	Tangability	300	300	300	300	300	300
	Empathy	300	300	300	300	300	300
	Responsiveness	300	300	300	300	300	300
	Reliability	300	300	300	300	300	300
	Assurance	300	300	300	300	300	300

Correlation matrix is used in this study to show the strength of relationship among variables considered in the hypothesis. The correlation matrix in Table 5.11 further indicates that service quality was positively and moderately correlated with customer satisfaction. The correlation coefficient between the independent variable (service quality) and dependant variable (customer satisfaction) were less than 0.90, indicating that data was not affected by a collinearity problem (Hair et al.,1998). These colorations are also further evidence of validity and reliability of measurement scales used in this research (Barclay et al., 1995; Hair *et al.*, 1998).

There was a significant positive relationship between five dimension of service quality and customer satisfaction, the highest correlation was between assurance and customer satisfaction ($r=0.866$, $n=300$, $p<0.01$), followed between tangibility and customer satisfaction ($r=0.705$, $n=300$, $p<0.01$) and between reliability and customer satisfaction ($r=0.610$, $n=300$, $p<0.01$).The weakest correlation were between responsiveness and customer satisfaction ($r=0.246$, $n=300$, $p<0.01$) and empathy and

customer satisfaction ($r=0.236$, $n=300$, $p<0.01$). In other words, the results indicate that most important service quality practice on customer satisfaction was assurance (i.e. with highest scores of correlation), which goes to prove that assurance was perceived as a dominant service quality. The findings displayed that the respondent who perceived a greater awareness of service quality practice exhibited the more positive reactions in favor of customer satisfaction. **Thus H₆ was supported.**

Multiple Regression Analysis

Multiple regression analysis was employed to examine the association between service quality dimensions and customer satisfaction. It is a constructive statistical technique that can be used to analyze the association between a single dependent and several independent variables (Hair et al., 1998). One of the vital considerations in multiple regression analysis (Hair et al., 1998) is the sample size of the data. According to Hair et al. (1998), a sample size to estimate parameter ratio of 15:1 or preferable with 20:1 is adequate to achieve meaningful estimates. The sample size of this study has an estimated parameter ratio of 60:1 for the customers. Accordingly, the researcher concluded the sample sizes to be adequate.

Based on this method, the five main independent variables (service quality dimensions) and dependent variable (customer satisfaction) were entered together. The detail of the regression output was shown in Table 5.12. Each of the variables had a tolerance value of more than 0.10 and a variance inflation factor (VIF) of less than ten. The finding indicated that no serious multicollinearity problem (Hair et al., 1998). From these analyses, it can be concluded that multiple regression model of this study met the assumptions required to ensure validity of its significance test (Ooi *et al.*, 2006, 2007a). This indicates that there was a statistically significant link between service quality dimensions and customer satisfaction.

Table 5.13 Correlation between service quality and customer satisfaction

Correlations

		servicequality	CUSSAT
servicequality	Pearson Correlation	1	.792**
	Sig. (2-tailed)		.000
	N	300	300
CUSSAT	Pearson Correlation	.792**	1
	Sig. (2-tailed)	.000	
	N	300	300

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation of service quality and customer satisfaction was .792, $p < .01$. It was significant enough to show the correlation of the two variables. Because the correlation was positive, service quality and customer satisfaction is positively related, which means the better service quality was the higher customer satisfaction.

Table 5.14 Regression Summary of Service Quality to Customer Satisfaction (N=300)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.918(a)	.843	.841	.20889	.843	316.608	5	294	.000

a Predictors: (Constant), Assurance, Empathy, Responsiveness, Reliability, Tangibility

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.502	.138		3.626	.000		
	Tangability	.119	.050	.104	2.391	.017	.282	3.543
	Empathy	-.110	.042	-.090	-2.620	.009	.455	2.200
	Responsiveness	-.189	.028	-.206	-6.837	.000	.588	1.700
	Reliability	.428	.038	.390	11.272	.000	.445	2.245
	Assurance	.657	.042	.696	15.522	.000	.265	3.777

a. Dependent Variable: Customer Satisfaction

In order to judge the magnitude of effects in this study, Cohen's rules for effects sizes can be used (Cohen, 1998 as cited by Jitpaiboon and Rao, 2007). According to Cohen (1998, p. 1309) as cited by Keng-Boon, Alain ,2008), R^2 between 1.0 and 5.9 percent is consider as small, between 5.9 and 13.8 percent is medium, and above 13.8 percent is large. It can be observed that the coefficient of determination (R^2) was 0.841, representing that 84.1% of customer satisfaction can be explained by the five dimensions of service quality. The proposed model was adequate as the Fstatistic = 316.608 were significant at the 1% level ($p < 0.01$). This indicates that the overall model was reasonable fit and there was a statistically significant association between service quality dimensions and customer satisfaction. The individual model variables revealed that tangibles, assurance ($\beta = 0.696$, $t = 15.522$, $p < 0.01$), reliability ($\beta = 0.390$, $t = 11.272$, $p < 0.01$), ($\beta = 0.104$, $t = 2.391$, $p < 0.01$), were found to have a significant and positive relationship with customer satisfaction. Meanwhile responsiveness ($\beta = -0.206$, $t = -6.837$, $p > 0.01$) and empathy ($\beta = -0.090$, $t = -2.620$, $p > 0.01$) were found to have a significant and negative effect on customer satisfaction.

5.6 Conclusion

The findings of this study indicate that NALF as a company need to critically analyze and understand the perceptions and expectations of the customers' and strive to deliver high quality customer service that plays a key role in determining customer satisfaction. Mean while most of the factories in Ethiopia put emphasis on the technical aspects of the products and services that they offer. However, the findings above indicate a need to review the quality of service being offered and also the level of satisfaction that the customers perceive to derive from these services and products.

CHAPTER 6: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

In this chapter a discussion of the results is done. An attempt therefore is made to answer the research Hypotheses and conclusions based on the theory and the results was drawn. Lastly implications for management, theory and suggestions for future research also indicated.

6.2 Discussion

The SERVQUAL instrument has a useful diagnostic role to play in assessing and monitoring service quality in NALF, enabling the NALF to identify where improvements are needed from the customers' viewpoint. From the statistical results, it was confirmed that the service quality and customer satisfaction scale were reliable and valid instruments for measuring the relationship in this study and also the research result gives several managerial implications.

The following hypotheses were tested to answer the problem statement and consequently address the objective of the study.

H₁ Reliability has a positive influence on customer satisfaction.

H₂ Responsiveness has a positive influence on customer satisfaction.

H₃ Assurance has a positive influence on customer satisfaction.

H₄ Tangibles have a positive influence on customer satisfaction.

H₅ Empathy has a positive influence on customer satisfaction.

H₆ Service quality has a positive influence on customer satisfaction.

Based on the results obtained from testing hypotheses H₁, H₂, H₃, H₄, H₅ and H₆ it can be concluded that customer service has a positive impact on customer satisfaction.

According to the findings of the study in chapter five above, the five service quality dimensions are positively related to overall service quality and are indeed drivers of service quality which in turn has an impact on customer satisfaction. The study findings indicate that all the standardized coefficients relating the service quality dimensions to

overall service quality and to customer satisfaction have the expected positive sign and are statistically significant.

The analysis was done in two stages. First customer service was analyzed by testing the five dimensions of service quality which define the perceptions that customers have on customer service. The results of this analysis gave an insight into their expectations. Secondly the overall service quality was tested against customer satisfaction.

The findings of the study show that each one of the five dimensions is perceived to be important to the respondents. This is indicated in Table 5.5 above.

According to these findings the respondents has an opinion above average at NALF's customer's service on the different elements of service quality dimensions that were tested in the study. The lowest mean score achieved from the answers to the 21 questions in this study was 3.64 whereas the highest was 3.98. These findings therefore support the findings of previous studies done to determine the perceptions that customers have of the five service quality dimensions.

In addition to this the hypotheses tested above show that there is indeed a positive relationship between each of the five service quality dimensions as well as the overall service quality and customer satisfaction. The findings indicate that all the standardized coefficients relating to the service quality dimensions had the expected positive sign, and statistically significant therefore for the dimensions are drivers of service quality and of customer satisfaction. These findings are thus confirmations of what the customers expect of their service providers.

According to Kim and Kim (2001:139) *to" deliver quality services to customers, we need to understand their expectations"*. It is therefore not surprising that *"delivering superior service quality appears to be a prerequisite for success, if not survival"* (Parasuraman et al., 1988:13). The findings of this study therefore agree with the findings of Kim and Kim (2001:139) in which they state that *"given accurate understanding of expectations, customer service, which can be regarded as a process that consists of several steps to satisfy customer requirements, should be redesigned to match them"*.

According to Wilson *et al.*,(2008:83)*“service quality will be the dominant element in customers’ evaluations”*. This finding from previous research appears to hold true in this study according to Table 5.5 in which the means of each question are presented, the scores are above average for all 21 questions. This shows the perceptions of the respondents to the different service quality dimensions.

The analysis of regression of the five factors of service quality with customer satisfaction was significant in all factors of service quality. More specifically, customers indicated high satisfaction with the five dimensions of service quality examined in the study (Reliability, Responsiveness, Empathy, Assurance, and Tangibles). In this regard it was interesting to note that the dimension of Responsiveness and empathy had the lowest mean ratings (different from the other dimensions); however, the correlation between Assurance and customer satisfaction was the highest, which implies that improvement in employees Assurance is an important issue that requires attention from NALF’s management. The research also concluded that service quality can be used to predict customer satisfaction.

Among all factors, Assurance has the greatest impact on customer satisfaction, which reached 0.696, while Empathy and responsiveness were found to have a significant least effect on customer satisfaction, which only reached -0.09 and -0.206 respectively. Therefore, for NALF, how to improve customer satisfaction is vital. From the statistical results in, it was confirmed that service quality perceptions and customer satisfaction of NALF’s customers in Addis were related. This result is in accordance with the research of (Parasuraman *et al.*, 1988; Zeithaml & Bitner, 1996; Parasuraman, Zeithaml & Berry, 1994; Oliver, 1993; Bitner, 1990; Reichheld and Sasser, 1990; Fornell, 1992; Anderson and Sullivan, 1993). All of the research above has shown a positive relationship between service quality and customer satisfaction. This research concluded that service quality is the basic and also most important factor that impacts customer satisfaction. This finding reinforces the need for NALF’s managers to place an emphasis on the underlying dimensions of service quality, especially on Assurance, and should start with improving service quality in order to raise customer satisfaction.

Finally the study is consistent with those of prior research in concluding that: service quality is a significant determinant of customer satisfaction, and service quality was the basic factor that affects customer satisfaction. Therefore, high quality service is an increasingly important weapon to survive, the higher service quality, and the higher customer satisfaction. If customers like the service quality, their satisfaction level will improve and NALF's will be able to maintain stable customer base. According to Bolton 1998:45, *"customer satisfaction can have an important financial implication for the organization because lifetime revenues from an individual customer depend on the duration of his/her relationship as well as the dollar amount of his / her purchases across billing cycles"*.

6.3 Conclusion

The answer to research hypotheses above is that the quality of service plays a key role in determining customer satisfaction. It is therefore important for the NALF to understand the expectations and perceptions of their customers. The findings of this study indicate that the customer perceives Assurance to be the most important driver of service quality and customer satisfaction therefore NALF should leverage this dimension as a way of ensuring that their customers get the satisfaction they expect in the services offered.

6.4 Managerial Implications

The findings of the study have important implications for managers of NALF especially in terms of: the quality of services that could be provided; and its significant influence on the customer's satisfaction.

In particular, managers should be aware that, among the various dimensions of service quality, Assurance was especially significant in fostering satisfaction for the customers of NALF in Addis Ababa. Assurance plays a key role in determining customer satisfaction implying that the technical aspects that management may leverage on to drive customer satisfaction are not of such importance to the customer. It is apparent that focusing on delivering high quality services, and improve service quality effectively is critical for customer satisfaction. In addition, the satisfaction of customers was

significantly influenced by the Assurance and Reliability. It is thus apparent that managers of NALF's could make assessing and monitoring service quality periodically, to enable the Factory to identify where improvements are needed from the customers' viewpoint, and to place an emphasis on the underlying dimensions of service quality, especially on Assurance, and should start with improving service quality in order to raise customer satisfaction.

This study also indicates that managers and decision makers in NALF's will get much more useful data if they base their assessment of service quality more explicitly on dimensions scores, and each of these dimensions should be examined using a list of appropriate items, may benefit by information about the effect of individual dimensions of service quality on customer satisfaction that can be specifically targeted for improvement, and use of these scores is likely to result in more appropriate decision-making and to identify the key service components that drive satisfaction.

Generally Management of NALF should keep track of the changes in perceptions and expectations of their customers. As indicated above this study indicates Assurance was the most important driver of service quality whereas according to the literature review reliability was the most important driver of service quality. These findings therefore indicate that management needs to keep abreast with the changes in perceptions and expectations. This will enable NALF to leverage on those key aspects that drive customer satisfaction and build loyalty.

6.5 Implications for Theory

Some of the findings of this study differ from those of previous studies done by other researchers. As has been indicated above tangibles is the most important driver of service quality according to the findings of this study. On the other hand though, the literature review indicated that reliability was the most important dimension. It is therefore clear that the existent theory is being challenged. The dynamic nature of customers needs and the dynamic nature of business require regular and detailed analysis of the perceptions and expectations of the customer in order to keep abreast with the changes in the customer needs, perceptions and expectations.

Today's customer has access to more information and knowledge than yesterday's customer. The level of exposure of the customer in today's business world/ environment is more intense than was the case previously. The use of the internet in disseminating information has increased at a very fast pace. Companies therefore need to gather information regularly in order to ensure that they are offering services and products that actually meet the needs of their customers.

The existing theory needs to be reviewed and updated to reflect the changes that have since appeared. However, some of the findings of this study concur with those of previous researchers when it comes to the five dimensions of service quality. All five dimensions still play a key role in determining the quality of service and customer satisfaction. This was indicated by the above average composite scores of each dimension as well as the findings of the regression analyses done.

6.6 Conclusions

According to literature review in chapter three above, the financial success as well as the growth of an industry is directly linked to the satisfaction of the customers. Customer satisfaction, in turn, is determined by the quality of service offered. The following hypotheses to test this assumption have all been supported.

H₁ Reliability has a positive influence on customer satisfaction

H₂ Responsiveness has a positive influence on customer satisfaction

H₃ Assurance has a positive influence on customer satisfaction

H₄ Tangibles have a positive influence on customer satisfaction

H₅ Empathy has a positive influence on customer satisfaction

H₆ Service quality has a positive influence on customer satisfaction

The findings also agree with those of previous studies done by other researchers. It is indeed very interesting to understand customer service from the perceptions of the customer and not from the assumptions of the service provider.

The perceptions of the customer are representative of what the customer values in service quality. These perceptions play a key role in determining the level of satisfaction

the customer derives from the service they are offered by the service provider. Companies should therefore strive to offer services that meet the specific needs of the customer. It is therefore very prudent to determine what these needs are in order to come up with value propositions geared towards satisfying these needs.

The market is saturated with different companies offering similar services to the customer. However, it is only those companies which are able to differentiate their services and create a competitive advantage that will be able to survive the intense competition. It is for this reason therefore that companies should strive to understand customer service from the perceptions of the customer and not from the assumptions of the service provider.

Wilson *et al.*, (2008:55) states that “*because customers compare their perceptions of performance with reference points when evaluating service quality, thorough knowledge about customer expectations is critical to services marketers*”. The findings of this research have indeed brought out those expectations that the customer wants the services marketers to understand and therefore to work on.

According to this study customers value Assurance over the other four service quality dimensions. Companies should therefore leverage on this dimension and make it a reference point for evaluating the quality of service. On the other hand all the five dimensions are perceived to be very important in evaluating the quality of service.

Companies should therefore ensure that they leverage on all five dimensions to ensure that when customers compare their perceptions of performance they have key reference points to use in their evaluations.

The objectives of this study were to:

1. To determine the customers' perceptions of the services rendered to them by NALF with respect to customer support service for each of the service quality dimension.
2. To determine NALF's customer perceptions of the service they currently receive for each of the service quality dimension,
3. To determine which dimension of the services are of poor' quality.

4. To determine which dimension of the services are of best quality.
5. To recommend implementation of appropriate service quality performance improvement procedures where necessary.

These objectives have indeed been met through the findings stated above.

6.7 Recommendations

This study provides useful basis for service quality in Alcohol and Liquor industries in Ethiopia. Like any other research, this study has several known limitations. The first limitation, this study had been implemented only in NALF therefore, the findings of this research should be used carefully in attempting to make generalizations into other industries particularly in Alcohol and Liquor factory in the country. For such generalization needs more additional supplementary research should be carefully designed and implemented periodically. The second limitation, the sample in this study was limited to customers living in Addis Ababa only where as the factory has customers across Ethiopia in 9 regions. The third limitation, the research findings are based on study conducted only in one big factory with more than three branch factories and hence, they may not necessarily be generalize able for other 17 factories currently working in the country. Future researchers can corroborate the research findings by undertaking similar studies in other beverage industries.

Forth, customers' satisfaction in this study was rather narrowly conceptualized in terms of five dimensions of service quality. Although 79.2% of the variation in customer's satisfaction was explained by the five service dimensions studied here, the remaining 20.8 % is explained by other factors that were not examined in this study. For example, customer's satisfaction might be influenced by such factors as price, and service variety. It might be desirable for future studies to include these (and other) factors.

In this study assurance was found to be the most significant predictor of service quality and customer satisfaction. Perhaps in different settings or environments the other dimensions may be discovered to be more important than assurance.

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Appendixes

I am doing research on customer's perceptions of service quality and I would appreciate it if you could please take few minutes of your valuable time and indicate the extent to which you agree or disagree with the following Perceptions. For each Perception statement, please **circle** the number that best describe your perception about **National Alcohol actual service offering** to their customers. If you **STRONGLY AGREE** that NALF offering services should possess the attributes described by each Perception statement, then circle **No. 5** if you **STRONGLY DISAGREE**, then circle **No. 1**. Otherwise **circle** one of the middle numbers (Note: circle **No. 3** for **NEITHER AGREES NOR DISAGREES**). There is no right or wrong answers. Thank you.

A. Respondents Profile:

1. Gender

Male

Female

2. Age

Below 20

20-30 years

31-40 years

41-50 years

Above 50

3. Type of Business

Hotels

Groceries

Kable

Super market

Others

4. Period with NALF

> 1 Year (1-5) years (5-10) years

(10-20) years >20 years

B. QUALITY OF SERVICE Questionnaire

Dimensions	Items	<div style="display: flex; justify-content: space-between; align-items: center;"> ← STRONGLY DISAGREE STRONGLY AGREE → </div>				
		1	2	3	4	5
Tangibility	T1-The factory has modern equipment	1	2	3	4	5
	T2-The factory has visually appealing material associated with the service.	1	2	3	4	5
	T3-The facilities of Factory are visually appealing.	1	2	3	4	5
	T4-Employees have a neat & professional appearance.	1	2	3	4	5
Reliability	R1-Factory employees provide service as promised	1	2	3	4	5
	R2-Factory employees are dependable in handling customer's service problem	1	2	3	4	5
	R3-Factory employees perform service right at the first time.	1	2	3	4	5
	R4-Factory employees provide services at the promised time.	1	2	3	4	5
Responsiveness	RP-1 Factory employees are ready to respond to customers request	1	2	3	4	5
	RP-2 Factory employees provide prompt services	1	2	3	4	5
	RP-3 Factory employees are always willing to help customers	1	2	3	4	5
	RP-4 Factory employees are never to busy to respond to customer	1	2	3	4	5
Assurance	A1-Factory employees instill confidence in customers	1	2	3	4	5
	A2-Factory employees make customers feel safe in their transaction	1	2	3	4	5
	A3-Factory employees are consistently	1	2	3	4	5
	A4-Factory employees have a knowledge to answer customer questions	1	2	3	4	5
Empathy	E1-Factory employees understand the individual needs for their customers	1	2	3	4	5
	E2-Factory employees giving customers individual attention	1	2	3	4	5
	E3-Factory employees have the customer's best interest at heart	1	2	3	4	5
	E4-Factory employees deal with customers in caring fashion	1	2	3	4	5
	E5-Factory has hours convenient to all customers	1	2	3	4	5

C. Customer Satisfaction

I would be grateful if you could spare a few minutes to complete this Customer Satisfaction Questionnaire. Please tick the appropriate box to indicate your degree of satisfaction. Where: 5 = Excellent, 4 = Good, 3 = Satisfactory, 2 = Poor, 1 = Very Poor

Sr.No.	Description	Rating				
		Very poor (1)	Poor (2)	Satisfactory (3)	Good (4)	Excellent (5)
1	PRODUCT QUALITY: How do you rate the company's products and did they meet your needs and expectations regarding quality and performance?					
2	DELIVERY: How do you rate the delivery on time performance and company's commitment to meet your delivery expectations?					
3	COMPETITIVENESS: How do you rate the competitiveness of our products and do they represent best value for total cost paid?					
4	General prices of the products					
5	OVERALL SATISFACTION: How do you rate NALF?					