A Review on Customer Loyalty as a Main Goal of Customer Relationship Management

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Abstract

The purpose of this paper is to make more clarification by reviewing on customer loyalty as a main goal of customer relationship management (CRM). It is because; despite of all findings provided by researchers and practitioners, customer loyalty confronts high percentage of failure in CRM implementation. In this study customer loyalty is reviewed and classified into those aspects which should be considered in order to enhance lifetime value of the customer. In this sense, customer loyalty is discussed by offering a review on the importance of customer loyalty, and customer loyalty dimensions. Furthermore, the most frequent measurements of customer loyalty are provided as well. Finally, the paper finds out, in spite of having almost complete perspective and understanding of customer loyalty, there is still a gap in the main precedents of customer loyalty theoretically and empirically. In this regard, more investigation required to specify the most important precedents which have significant impact on customer loyalty.

Keywords: Customer loyalty; customer relationship management (CRM)

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1.0 INTRODUCTION

The ultimate goal of firms is to build customer loyalty (Eakuru and Mat, 2008). Customer loyalty is essential if a company is going to retain its current customers. Loyalty in clients is one of the most sought after objectives on the market today. Moreover, customer loyalty is a strategy that creates mutual rewards to benefit firms and customers (Reichheld and Detrick, 2003). One benefit is that firms can increase the revenue. In return, customers acquire special benefits and feel secure. It is increasingly evident that the most profitable customers are those who have an enduring relationship with the company; customers who are loyal to one or several of the products or services that company provides. Reichheld and Sasser (1990) clearly state that an improvement of 5 percent in customer retention leads to an increase of 25 percent to 85 percent in profits. On the other hand, Wills (2009) states that it costs more than five times as much to obtain a new customer than to keep an existing one. In this regard, Ford Motor Company has estimated "the value of a one-point percent increase in owner loyalty to be worth $100 million in profit" (Oliver, 1999).

In addition to the importance of customer loyalty, it should be mentioned that loyalty involves more than simply retaining the client. It is connected to an evolution of the satisfaction of the client and the relationship between client and company over time. With loyal customers, companies can maximize their profit because loyal customers are willing to (1) purchase more frequently; (2) spend money on trying new products or services; (3) recommend products and services to others; and (4) give companies sincere suggestions (Reichheld and Sasser Jr, 1990) Thus, loyalty links the success and profitability of a firm (Eakuru and Mat, 2008).

2.0 CUSTOMER LOYALTY

Loyalty can be defined as the personal identification felt by the client in regards to the performance of a product or service, and how this feeling drives the client’s behaviour (Barnes, 2001). In addition, Loyalty can be also defined as a state of mind, a set of attitudes, beliefs, desires, etc (Zineldin, 2006). Loyalty is closely related to performance: having the right product or service, at the right price and at the right time and place. It also involves a connection and successfully satisfying the client’s needs (Mendoza et al., 2007). According to Uncles et al. (2003), loyalty is a behaviour that consumers may exhibit to brands, services, stores, product categories, and activities. Moreover, Uncles et al,(2003) also stated that customer loyalty can be a commitment to continue do business with a company on an on-going basis. Hence, a company takes...
advantage from customer’s loyal behaviour. On the other hand, loyalty is a relative state of mind as it prevents loyalty to some other suppliers. Whereas, customers can be loyal to more than one company or brand.

Furthermore, customer loyalty is a deeply held commitment to re-buy or re-patronize a preferred product or service in the future despite there are situational influence and marketing efforts having the potential to cause switching behaviour (Oliver, 1999). It has been argued that for loyal buyers, companies must invest in relationship building and customer intimacy. Building such relationship and intimacy will also conclude to stronger loyalty (Ndubisi, 2005).

Following definitions addressed the same contexts as preceding definitions did in other words, but the combination could offer stronger literature. Loyalty is the consumer's predisposition towards a brand as a function of psychological processes (Bennett and Rundle-Thiele, 2002). In other definition Brown (1953) states that loyal customer tends to repurchase a particular brand because of some real or imaginary superiority attributed to that brand. Whereas, in year 1994, Dick and Basu explained that using attitude and behavior together as loyalty was the strength of "the relationship between the relative attitude toward an entity (brand/service/store/vendor) and patronage behavior (Dick and Basu, 1994).

In other definition by Matell (1972) loyalty was repeat purchasing based upon cognitive, affective, evaluative, and dispositional factors- the classic primary component of an attitude. And finally, Zeithaml, Berry, & Parasuraman (1996) describe that Loyalty consumers would have (1) high purchase intention, (2) less price sensitivity, (3) feedback to the firm (internal complaining behavior), (4) do more business (frequent purchase and no switch).

In summary, As explained in prior definitions, Barnes (2001) sates customer loyalty as the personal identification felt by the client in regards to the performance of a product or service, and how this feeling drives the client's behaviour, moreover, as Mendoza et al., (2007) illustrated. Loyalty is closely related to performance: having the right product or service, at the right price and at the right time and place. In this sense, it is approved that the desired performance of a product or service at the tight price, time and place could gain customer loyalty.

### 3.0 THE IMPORTANCE OF CUSTOMER LOYALTY

The organization relationship management strategy is described as the ability of organization to enhance long-term customer relationships and satisfy its customers (Zineldin, 2006). The main focus of those organizations is on customer satisfaction and customer loyalty. It means that they retain customers and encourage them to repeat orders. In addition, customer loyalty and retention has significant impact on company profitability (Zineldin, 2006). The issue of customer retention must be followed in the context of the existing level of customer loyalty. Retaining existing customers reduce the necessity of attracting new customers, which can lead to the cost reduction of offensive marketing (Esfahania et al., 2012). On the other hand, the service provider acquires lower costs as the expense of acquiring new customers is reduced due to sales, marketing, and set up costs can be decreased over a longer customer lifetime (Reichheld and Teal, 2001).

The benefits of having loyal customers should be considered in order to offer more tangible picture to practitioners, to those who are going to implement CRM so as to gain customer loyalty within their organisations. That is why; these benefits are well documented in the literature. Loyal customers can lead to increased revenues for the firm (Reichheld, 1996); spend more money than non-loyal customers (O'Brien and Jones, 1995); result in predictable sales and profit streams (Aaker, 1992); are more likely to purchase additional services (Reichheld, 1996); typically lead to low customer turnover (Reichheld and Sasser Jr, 1990); often generate new business for a firm via word-of-mouth recommendations (Reichheld and Sasser Jr, 1990); and play a powerful role in the decision making of others (Rowley and Dawes, 2000).

Customer relationship management involves customer retention and how this could be gained by creating long-term customer loyalty (Zineldin, 2006). In other words, companies want to create committed customers, not customers who are temporary. Customers who are not committed are not likely to stay for a long time if an alternative company makes a satisfactory offer. Commitment and promises are important concepts in RM and CRM (Gronroos, 2000). The promises made by the company contain product quality, delivery and inventory management, and others, but for long-term relationships they must also fulfill higher flexibility to the customers. The promises made by the customer also must exceed those contractual terms of payment. The customer’s promises must cover the commitment and loyalty. “The first step in handling a loyalty-base business is acquiring the right customers: customers who will provide regular cash flow and a profitable return on the firm’s investment. Customers, whose loyalty can be won and kept” (Reichheld, 1996).

In addition, customer satisfaction may drive to higher customer retention, higher customer loyalty, higher revenue, and higher profitability. Long-term loyal customers could help organization to conduct business better and create more familiar environment for customers who cause fewer questions and fewer problems. In this way, costs of serving customers will be reduced. All of these positive impacts of customer loyalty increase the lifetime value of the customer.

Loyalty will be enhanced over time if the elements of the relationship are planned and implemented correctly. To improve effective acquisition and retention strategies, organizations should realize the customers’ needs and behaviour (Zineldin, 2006). In this sense, Relationships are going on automatically. Satisfied customers buy again from a company after the initial satisfactory purchase. They have a natural incentive to buy from the same company rather than the competitors. This action could give added value to the company, but it may not be quite enough. That company can actively keep stronger relationships with its customers. Loyal customers believe they are served with better services because they are loyal... Therefore, customers decide to purchase goods based on perceived value, or the satisfaction degree of their needs and expectations about product quality, service quality, and price (Duchessi, 2004). With an understanding of company’s goals, and strategies and of its customers’ needs and expectations, a company can improve a value proposition for offering superior value to customers. This method will allow the company to attract new customers, retain existing customers, and gain significant profits. If a company maximizes value for its customers, success will be guaranteed in the future (Zineldin, 2006). In fact, the critical success factors in today’s business world are the ability to realize what is valued in the mind of customers and ability to deliver those values to the customers as they expected and better than other competitors (Duchessi, 2004).

To summarize the above literature, Managing customer loyalty and retention is an important factor of CRM (Zineldin, 2006). For acquiring customer loyalty as a main focus of organizations, it is crucial to know what value is and how
organization could offer value to its customers. As Duchessi (2004) indicates that the critical success factors in today’s business world are the ability to realize what is valued in the mind of customers and ability to deliver those values. Furthermore, customers decide to purchase goods based on perceived value, or the satisfaction degree of their needs and expectations about product quality, service quality, and price (Duchessi, 2004). Therefore, in light of what Duchessi (2004) states, product quality, service quality, and price are three dimensions which could create value and bring customer loyalty. And finally, If a company maximizes value for its customers, success will be guaranteed in the future (Zineldin, 2006).

### 4.0 CUSTOMER LOYALTY DIMENSIONS

As a theoretical point of view customer loyalty can be classified as brand loyalty, service loyalty, and store loyalty (Dick and Basu, 1994). On the other hand, customer loyalty is commonly distinguished in three approaches: (1) behavioural, (2) attitudinal, and (3) combined attitude and behavioural loyalty approach. These three approaches are clarified in following parts. Furthermore, Terblanche and Boshoff (2006) cite empirical and anecdotal evidence to support the notion that loyalty is both a long-term attitude and a long-term behavioural pattern, which is reinforced by multiple experiences over time.

Behavioral customer loyalty begins to be researched only by a behavioural perspective, only repeat purchasing in the late 1960. Graham (1989) views loyalty as "the probability of buying the same brand now as the one purchased most recently" (p. 72). Zeithaml, Berry, and Parasuraman (1996) propose comprehensive multi-dimensional framework to measure customer behavioural intentions in services. In their research, loyal consumers have (1) high purchase intention, (2) less price sensitivity, (3) feedback to the firm (internal complaining behaviour), and (4) do more business (frequent purchase and no switching).

However, many researchers argue that without attitudinal dimension, strongly-held commitment is not true loyalty (Jacob and Chestnut, 1978). A purely behavioural definition of loyalty fails to explain the causes of loyalty behaviour. Loyalty is more than repeating purchasing behaviour; this is spurious loyalty, not true loyalty (Dick and Basu, 1994). A consumer may choose the same brand or shop at the same store for many reasons other than loyalty. For example, the usual brands are not available; there is no alternative in the store; or it is not worth the time on searching for alternatives. This kind of repeat purchase results from repeated satisfaction, not commitment. Bennett and Rundle-Thiele (2002) define loyalty as "the consumer's predisposition towards a brand as a function of psychological processes" (p. 194). In this sense, true brand loyalty should include attitudinal preference and commitment towards the brand. Attitudinal loyalty is the indicator of customers' loyal behaviour (Massari and Passiante, 2006). This helps to prevent the switching behaviour (Caceres and Paparoidamis, 2007), and to predict how long customers will remain loyal (Jacob and Chestnut, 1978).

According to previous statement about behavioural and attitudinal loyalty, it is inevitable that both of them should be taken into account when we are discussing about customer loyalty. Attitudinal loyalty interacts with behavioural loyalty. Brown (1953) first develops a composite perspective for loyalty. Brown defines loyalty as "one who tends to repurchase a particular brand because of some real or imaginary superiority attributed to that brand" (p. 255). He explores that behavioural loyalty must be based on deliberate attitude towards a brand. True loyalty defined by Matell (1972) is "repeat purchasing based upon cognitive, affective, evaluative, and dispositional factors- the classic primary component of an attitude" (p. 26). Dick, and Basu (1994) stress that using attitude and behaviour together as loyalty is the strength of "the relationship between the relative attitude toward an entity (brand/service/vendor) and patronage behaviour" (p. 100). Based on Matell (1972) and Dick and Basu's (1994) loyalty definition, Oliver (1999) finds that there is an additional stage after conation phase, that is action. He therefore adds the action phase to his loyalty definition. In his definition, loyalty involves four phases, namely cognition, affect, conation, and action as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour" (Oliver, 1999). In this regard, four phases of his definition which are cognition, affect, conation, and action illustrated as follows.

Oliver's (1999) perspective predicts that customers should go through four stages to be a loyal customer. First is a cognitive sense (belief). For example, a customer is attracted by sales promotion or high quality products of a firm at the first-time purchase. This customer has to confirm that his expectations about the goods or service are met. Second is the affective sense (favored attitude). Consumers are repeatedly satisfied from purchasing behavior. This leads to the conative stage that consumers have a behavioral intention - trust to a firm and commit deeply to buy. The intention leads to the fourth stage of action. Customers have the desire to overcome obstacles, such as attraction of other competitors or price increase by a firm, to achieve the actual purchase behavior (Oliver, 1999).

### 5.0 CUSTOMER LOYALTY MEASUREMENT

According to the suggestions of limitations and recommendations of empirical studies, first, customer loyalty should be measured by actual purchasing behaviour besides of measuring by attitudinal or behavioural intention dimensions (Caceres and Paparoidamis, 2007). Many studies use behavioural intention to measure customer loyalty. Although these studies confirm that behavioural intention could lead to customer loyalty, it is just a prediction, not the actual loyalty behaviour. Second, regarding the scale items, in most cases, loyalty is isolated measured by positive word-of-mouth, price insensitivity, and purchase intentions. For instance, Zeithaml, Berry, and Parasuraman (1996) propose comprehensive multi-dimensional framework to measure customer behavioural intentions in services. In their research, loyal consumers have (1) high purchase intention, (2) less price sensitivity, (3) feedback to the firm (internal complaining behaviour), and (4) do more business (frequent purchase and no switching).

Most studies measure customer loyalty outcome by behavioural loyalty dimensions such as word-of-mouth communication, purchase intentions, and price insensitivity (Ibrahim and Najjar, 2008). This occurs because the attitudinal components such as perceived value, satisfaction, trust, and commitment are viewed as the antecedents of customer loyalty. This confirmed the findings of Dick and Basu (1994) that viewing loyalty as an attitude-behaviour relationship allows integrated investigation of antecedents and consequences of customer loyalty.
Customer loyalty has been measured by different measurements which have been presented in following. Cognitive is one of the customer loyalty measurements comprised of its components which are quality, cost, benefit, and belief (Chowdhury et al., 1998; Huddleston et al., 2009; Swoboda et al., 2007). Affective elements is the other measurement which includes like, satisfaction, involvement, and preference as its components (Chowdhury et al., 1998; Huddleston et al., 2009; Swoboda et al., 2007). Moreover, trust, commitment (Chi et al., 2008; Eakuru and Mat, 2008; Swoboda et al., 2007) and purchase intention (Bloemer and Odekerken-Schroder, 2002; Chi et al., 2008; Chowdhury et al., 1998; Cronin et al., 2000; Dimitriadis, 2006; Eakuru and Mat, 2008) are the other popular measurements of customer loyalty.

In addition to above measurements, positive word-of-mouth communication (Bloemer and Odekerken-Schroder, 2002; Chi et al., 2008; Chowdhury et al., 1998; Cronin et al., 2000; Dimitriadis, 2006; Eakuru and Mat, 2008), complaining behavior (Ibrahim and Najjar, 2008) and price insensitivity (Bloemer and Odekerken-Schroder, 2002; Chi et al., 2008; Dimitriadis, 2006; Eakuru and Mat, 2008; Ibrahim and Najjar, 2008) are presented as the other measurements. And finally, switching behavior (Ibrahim and Najjar, 2008), first choice (Lee et al., 2004; Parasuraman et al., 2005; Wong and Sohal, 2006), and do more business (Parasuraman et al., 2005; Zeithaml et al., 1996) are the rest of measurements that have been offered by prior studies. In short, Word-of-mouth communication, purchase intention and price insensitivity are the most frequent measurements of customer loyalty respectively. Moreover, the other measurement is first choice for future purchase which presented by many researchers as a measurement. Moreover, many researchers emphasize the imitation of attitudinal and purchase intention and importance of actual purchasing behavior as one of the important measurement of customer loyalty. In spite of those emphases, there is still lack of empirical studies about actual purchase behaviour measurement.

In addition, according to recommendations of future studies, it is necessary to measure actual purchasing behavior besides of measuring loyalty as behavioral or attitudinal intention. Furthermore, trust and commitment vary in terms of different cultures. Therefore, future studies should be conducted in different cultures.

6.0 CONCLUSION

As explained in customer loyalty definitions, Barnes (2001) states customer loyalty as the personal identification felt by the client in regards to the performance of a product or service, and how this feeling drives the client’s behaviour. Moreover, as Mendoza et al. (2007) illustrated, Loyalty is closely related to performance: having the right product or service, at the right price and at the right time and place. In this sense, it is approved that the desired performance of a product or service at the tight price, time and place could gain customer loyalty.

Moreover, in customer loyalty dimensions approach, attitudinal and behavioural components of loyalty are interdependent. Loyalty without attitude is not true loyalty. However, loyalty without behavioural phase is aborted. Viewing loyalty as an attitude-behaviour relationship allows integrated investigation of antecedents and consequences of customer loyalty (Dick and Basu, 1994). Finally, according to the suggestions and recommendations of empirical studies, customer loyalty should be measured by actual purchasing behaviour instead of measuring by attitudinal or behavioural intention dimensions (Caceres and Paparoiamidis, 2007). Anyway, although a lot of researchers illustrate the importance of actual purchasing behaviour measurement, it still needs more research in current empirical research.

References


