A Study on the Different Elements of Customer Loyalty and its Impact on Overall Business

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Abstract – Customer loyalty manifests itself in behavioral consequences, including repurchase behavior, spreading positive word of mouth communication, resistance to counter persuasion and reduced product category search. A measure of Perceived Behavioral Control is integrated into the model to account for purchase occasions where the decision is not entirely volitional. Managers in virtually any market can use this robust model as a template to optimize loyalty. Customer loyalty is considered a dual-dimensional construct, comprised of cognitive and affective loyalty. Customer loyalty is essential to sustain the business. The business sectors' progress and success depend on their loyal customers. The business sectors must give first priority to their customers then only think about the profit. They must have the motto of 'Serve first, sell second'. Customer satisfaction is the key element or leading indicator of every business to uplift as well as to create loyal customers. Therefore, the needs of customers should be cared by every business. In this 21st century, many companies are getting established to compete with each other. In this competitive environment if the company gets success to build a solid and loyal customer by providing the excellent services or products with affordable price then it is not far to be a number one company with high volume of customers as well as name and fame.

Key words: Customer loyalty, Customer loyalty programs, Customer satisfaction, Products and Services

1. INTRODUCTION

There are several brands which consumers generally buy from the same provider repeatedly or again and again over time rather than buying the same product from different suppliers within the same group. It also refers to the degree to which a consumer generally purchasing the same brand within a defined product class. Traditional marketing concepts have always given stress on the importance of brand loyalty; and marketers have always believed that the customer relationship has come from the brand loyalty, and that help them to make the best use of customer lifetime value. If someone follows the special academic literature, will able to understand that there are several articles on some of these modernized concepts like brand loyalty etc, and how it is being used in the service industry or their effect on company's sales etc., these articles basically suggest certain cautious ways of applying these concepts. Marketers are supposed to have deep knowledge about the basic and advanced concepts of loyalty to understand the consumers' buying patterns before they are opting for loyalty schemes. Traditional approaches to brand loyalty have stressed the importance of the fact because of its cost effectiveness and it said that due to comparatively less expensive to maintain with already existed consumers than to get new more customers. Consumers whosoever are considered as loyal to a particular brand are actually going to spend or pay more on that particular thing and also will help in positive word of mouth to other consumers, and thus the customer becoming actually advocates of the brand.

Some of the very common and acute loyalty-based challenges faced by today's marketers are:

- How should networks be used to build loyalty in the service industry?

- How should one loyalty program be organized so that they are realistically become profitable to companies too unlike several programs which do not get much better value for the brand of that particular company?

Main intension of various marketing activities whichever done by service industry is to acquire as many new customers as possible. As the service industries mature and competition increases, this becomes a big issue. Thus the service sector change or convert their different marketing strategies towards customer retention and loyalty instead of new customer aquisition (Kandampully & Suhartanto, 2003).

2. OBJECTIVES

The objectives of the research paper are mentioned below:

- To study the various aspects of the customer loyalty.
- To understand the origin and implications of customer loyalty.

3. LITERATURE REVIEW

This research makes a unique contribution to the customer loyalty literature stream in several ways. First, a topology of company-controllable factors that are utilized by firms to fashion the Total Customer Experience (TCE) is developed. This will provide managers with diagnostic capabilities for understanding which dimensions of the TCE are the most important drivers of customer loyalty in their specific context. Second, two independent pathways to customer loyalty were developed one calculative (cognitive) and one emotional (affective). Managers who are cognizant of the underlying mechanism of loyalty formation in their customer base can make better strategic decisions. For instance, if customers of a firm are purely cognitively loyal, loyalty strategies that rely on community-building tactics are unlikely to be effective. Third, the present approach takes a holistic perspective of customer loyalty. A "loyalty program" is defined as when the customers make repeated purchase from a firm that allows them to get some free rewards. Such a program rarely benefits consumers in one purchase but is intended to foster customer loyalty over time. Thus, promotions that works as "one-shot deals". Oliver's (1999) define consumer loyalty as "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future." According to Oliver, consumer loyalty can occur at four different levels: cognitive, affective, conative, and behavioral. Although all four facets of consumer loyalty are important, the current research focuses on behavioral loyalty. Loyalty is "a deeply held commitment to re-buy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same-brand-set purchasing, despite situational influences" (Oliver, 1999). So the factors that make a customer become loyal and keep patronizing the same service sector are – satisfaction, quality service, brand image, service performance, customer recognition, pleasant experiences, flexibility, and technology (Lee, 2001). Now-a-days service industry transforms into a global industry, technology becomes more important to customers (Lee et al., 2001). Customers' services are customized and that can have every facility from the convenience of their home.

In addition, many services are having photographs explaining the services and facilities as well as links and information on nearby attractions. Such web-based facilities give customers a better total service experience starting from before getting the service to the actual use of services, which basically leading to the competitive advantage, better customer services, and enhanced loyalty. Despite of having all these kinds of initiatives, building customer loyalty challenges the service industry. Thus, service providers roll out the loyalty programs to encourage the customers to use their different services again and again. Loyalty programs basically help in to build economic as well as emotional barriers to prevent the customers from switching (Keller, 1993).

Whatever research is being done till date that indicates a very healthy and positive relationship between customer loyalty and profitability. This is a very strong reason due to which the whole service industry used these loyalty programs. This is basically starts from 1990 and the major service sectors introduced frequent programs for the guests.

There are at least four cognitive-based determinants of satisfaction. First, expectancy disconfirmation theory indicates that customers form expectations as benchmarks from which performance is rated (Oliver, 1980). Disconfirmation has been found to be an important determinant of satisfaction. Second, perceived performance also influences satisfaction evaluation (Tse & Wilton, 1988). Support for both performance evaluations and expectancy disconfirmation in a customer satisfaction context has been established (Oliver, 1995; Oliver & Burke, 1999). Third, equity influences satisfaction (Oliver & DeSarbo, 1988). In a study of payment equity, normative comparisons of payment were found to directly affect satisfaction (Ruth N. Bolton & Lemon, 1999). Finally, fairness has been shown to be potentially the most important cognitive factor of satisfaction (Oliver & Swan, 1989). Fairness has been operationalized as perceived gains and losses in a service relationship (Ruth N. Bolton, 1998). In summary, there is substantial evidence that distinct cognitive factors influence satisfaction.

Some common loyalty programs frequently used different discounts, points and many other things which reward the customers for reaching certain points or spending certain amounts at participating hotels (Noordhoff, Pauwels, & Schroder, 2004; Palmer et al., 2000). These loyalty programs are having dual functions. Firstly, they encourage customers to return by offering incentives to repurchase. Secondly, they allow hotels to track customer usage patterns, thus building customer databases for subsequent marketing (Palmer et al., 2000). Recent research work that is done suggests that face recognition and name recall help create a sense of belonging to the organization. The Internet allows service providers to create personalized website, email coupons and permission email marketing to develop online loyalty (Lewis, 2004).

Despite these many loyalty program activities, customers still switch from one service provider to another service provider. It can happen that, for some of the customers, flexibilities and facilities provided by the companies may be important but for others, availability and frequent-guest programmes could drive repeat visits to the same service provider. Several researches done on hotel industry and the researchers still not very clear on which components actually

develop loyalty, as not all aspects of hotel services are equally important to particular customers (Kandampully et al., 2003). Resource allocation is especially very important factor for technologies to increase loyalty, such as the Internet and customer relationship management systems. This is basically an uncertainty situation which raises several applied and academic questions. Which technology components or which issues should managers consider and looking for while designing loyalty programmes? How do these components relate to each other and ultimately to the customer loyalty? Would adding, removing, and changing components affect program attractiveness? If so, which components or aspects should managers add, remove, or change?

A constant enthusiasm toward loyalty programs is the increasing competition among rival programs, especially in sectors such as airline, financial services, retail and hotel. In the credit card industry, for example, half of general purpose credit cards offer a reward program (Visa USA Research Services 2006) that means credit card industry also trying to get customers via loyalty programs. Similarly a very high adoption rates have been noticed in the retail sector across multiple countries (Van Heerde and Bijmolt 2005). So these kinds of loyalty programs become a necessary cost of doing business in almost every service industries, especially for new entrants into those industries. Some author said that the membership in multiple loyalty programs may eventually cancel out the effects of each individual program (Mägi 2003). So two questions are being raised. First is, facing a large number of competing loyalty programs, are firms are going to earns profits to win business? And secondly – are loyalty programs an excellent strategy which can increase revenue potentials, even with competitive offerings that are offered by the same marketers in the same market? Now the questions those are asked have accumulated in recent years, but the answers are still unrevealed. Not only does the impact of loyalty programs vary across different consumer segments within a firm (e.g., Lewis 2004; Liu 2007), but some kinds of mixed results are also found for firm-level outcomes (e.g., Leenheer et al. 2007; Mägi 2003; Sharp and Sharp 1997). The divergence and difference that are found in existing findings can be attributed to a lack of considering the actual market environment in which loyalty programs operate practically. Most of the studies the things that are examined – a single program in isolation, But in reality, in actual situation multiple loyalty programs are often offered by the competing firms. But it is not clear much that how these competitive forces give shape to the performance of a loyalty program. Several marketing scholars has done more research on loyalty program competition (Leenheer et al. 2007; Liu 2007;).

Prior to these research works has documented the mixed outcomes and responses of loyalty programs has come though operating in the same markets. For example, Meyer-Waarden and Benavent (2006) compare a consumer panel's observed purchases at seven grocery stores and find less number of stores are attributable to loyalty programs i.e. only for only three stores. The loyalty programs that Leenheer and colleagues (2007) studied also varied in a different way and that affects their profitability. A natural question rises from these mixed results is why loyalty programs exhibit different performance. Although this phenomenon may not be surprising because a systematic understanding of the factors are coming to diverse loyalty program performances is important because it can aid in managers' assessment of whether a loyalty program is appropriate in a certain context and can help identify ways of improving the effectiveness of such programs (Bolton, Kannan, and Bramlett 2000). Whenever studying loyalty program performance, it is always very important to recognize that loyalty programs do not operate separately in an isolated environment. The success of these people depends not only on the programs themselves but also on other factors those are present in the environment. Specifically, there are three sets of factors that represent the main market entities involved: the focal loyalty program, the consumers (i.e., target market), and rival programs and firms (i.e., competition). Of these, different programs related factors firstly explain a firm's internal strategies that are being sincerely made by the firm itself to earn customer loyalty which actually can contribute to the success of any kind of loyalty program, where consumer and different competition factors are coming from the other external environment that are equally important to loyalty program performance. But it is the joint force of all these factors that determines the eventual outcome of a loyalty program. This will basically leads to other studies of marketing strategy, in which the initiation and outcomes of marketing strategies are affected by both the internal environment of the firm and external market and industry environments.

We can get a better understanding of loyalty programs in three ways. First, although the evidences are just coming and start accumulating recently but still we can study the effectiveness of loyalty program, we can say that the field is still underdeveloped, and a clear picture has yet to come. Addressing this issue, Bolton, Kannan, and Bramlett (2000) suggest that "to determine the long-term efficacy of a loyalty rewards program, a company must quantify the program's influence on future purchase behavior (e.g., usage levels)." The current research work has been done by quantifying heavily the effectiveness of a loyalty program in the convenience store industry. The key research question is whether different loyalty programs really able to change the consumers' acceptance levels and exclusive loyalty power to the respective firm. These outcomes are very important to study because they are somehow directly related to consumer profitability and the financial success of a loyalty program.

Secondly, it is being observed that consumers' behavior and mind set about the company change after they join a loyalty program. The long-term orientation of loyalty programs and their transformation can convert single purchase into multiple decisions; it is natural that their effectiveness should be examined thoroughly. It is proved that studying loyalty programs over time leads to self-selection bias. Because loyalty program members are already frequent customers of the firm and they are more likely to find the program attractive, simply comparing the behavior of loyalty program members with that of nonmembers cannot establish a conclusive causal relationship (Leenheer et al. 2003). Third, it is being studied that how the individual consumers influence behavior changes that occur after they join a loyalty program. Previous research has shown that the idiosyncratic fit of an individual with a loyalty program can influence his or her likelihood of joining the program (Kivetz and Simonson 2002).

4. IMPLICATIONS

The research work that is already being done gives managers a structured and systematic approach for assessing loyalty programmes. Its applications explain that how different issues and their relative things contribute to make program effective. As managers are having limited resources (e.g., money, time, and manpower etc.) to implement loyalty programmes, this will help them out to utilize the limited resources in a systematic manner. To calculate the customer satisfaction level, it is very difficult to quantify the returns that have come from the input given by the company. But the total research helps the managers in a proper way to understand the output comes from the input means to understand the customer loyalty level from loyalty program. This will also help managers to understand the budgeting part for loyalty program.

5. CONCLUSION

It is being taken that loyalty as an attitude, and the papers are helping out to understand the customer loyalty program and its effectiveness. The papers makes the concept quite understandable and simple which will help the scholars for further study and help the managers to do loyalty program effectively. In addition to that attitude measures derived from the framework that can serve as benchmarks for budgeting and resource allocation. Most importantly the proposed framework that is mentioned in the articles gives a feedback on customer perceptions of the attractiveness of the loyalty programmes. So at the end we can say that different initiatives whichever is taken by any company like service quality and combined with customer satisfaction programmes, this helps ultimately to increase sales of the company.

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