

CUSTOMER LOYALTY – THE GUARANTEED SUCCESS OF AN ORGANIZATION ON THE MARKET

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Abstract:

Managing customer value by offering qualitative services is considered a critical component of the marketing strategies. Customer value ensures the loyalty building. Orientation towards the customer, keeping in contact with customers, and a commitment to live up to customer expectations are the new rules of strategic management of customer relationships. Consumers have become more willing than ever to pick the sides of those organizations perceived as offering quality. The satisfaction and loyalty of customers, ensured by high quality products and services that offer value for money, are essential for long-term survival, let alone the long-term success. This article aims to address the importance of relationship marketing in ensuring the loyalty of clients, the types of loyalty, the need for an organized database of customers as well as means to ensure customer loyalty.

Keywords: *organization, relationship marketing, loyalty, customer loyalty, behavioral loyalty*

JEL Classification: *D78, M30, M31*

1. Introduction

The relationship with the customer is achieved through a continuous interaction between the client and organization, relationship that needs to be developed and nourished. Organizations consider the client a financial asset that must be managed and maximized just like any other asset, though its value is not even found in accounting (Kotler p., 2004). A big challenge for organizations is to be able to keep customers for a period as long as possible, without considering the products or developments. Unfortunately, organizations fail to understand the importance of building customer loyalty and they spend the largest part of their effort to win new customers at the expense of keeping existing customers and increasing transactions with them.

The research methodology used includes bibliographical documentation based on three main stages: identification of literature, selecting it, synthesizing the data. The literature is based on a series of studies, mostly conceptual. National and international studies show a fundamental theoretical orientation towards customer loyalty. The methods used are focused on conceptualizing and describing the terms: relationship marketing and customer loyalty, making it necessary to examine closely these concepts taking into account the opportunities they can offer to organizations.

We have selected the literature according to content focus (the meaning of the term relationship marketing, customer loyalty, forms of approach, the need for creating a database of customers and loyalty means) and analysed it to identify the points of interaction among them. After the identification and analysis of the conceptual framework, based on literature and/or examples, we have outlined ways to ensure customer loyalty that could be useful to decision makers in an organization.

2. Relationship Marketing – The basis of customer loyalty

Relationship marketing has experienced greater development after the 90s, consisting of a change in which customer satisfaction is a priority and makes the existence of the organization, with a focus on quality and superior service. By using relationship marketing,

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the organization aims to ensure the loyalty of regular customers who become increasingly volatile, with higher expectations and tastes more difficult to satisfy, and attracting clients from new markets.

According to the prestigious American Marketing Association (AMA), *Relationship marketing is the marketing with the conscious aim to develop and manage long-term and/or trusting relationships with customers, distributors, suppliers, or other parties in the marketing environment.* (A.M.A.,, 2004, p. 17-18).

Relationship marketing is the action of gathering a faithful clientele, based on continuous cooperation with it. It is the opposite of transactional marketing, focused on winning new customers, making no effort to keep and satisfy the existing clients.

Chart. no.1 Comparative analysis: Relationship marketing vs. Transactional marketing

Transactional marketing	Relationship marketing
Focusing on the acquisition of new customers	Focusing on customer loyalty
Increase market share	To ensure a good position in the spending budget of the customer
Static brand sustained by advertising	Permanent dialogue with the client, involved in transaction
Undifferentiated marketing strategy	Personalized marketing
The focus is on the tenderer's offer	The focus is on a brand with high degree of recognition
Market-oriented resource management	Client-oriented resource management

Source: Kotler P., 2004

The importance of the application of the concept of "relationship marketing" is proven by the analysis of earnings of firms or companies, earnings resulted from the establishment of a long-term relationships with consumers. Having long-term relationship with a consumer means having a satisfied customer, who may become a real promoter and can even bring new customers.

Marketers have exceeded the period during which a lost customer did not pose a risk for the company, because they had the misconception that in the market there are many other potential customers that can be turned into actual customers. Today, it is considered that the loss of a valuable client is not only the loss of profit which would be obtained from a specific transaction, but it means a long-term loss, much larger. In fact, the organization loses the entire flow of sales and profits which would have been generated by a relationship with its client over the long and medium term.

Consequently, organizations who want to capitalize the potential offered by applying the principles of relationship marketing are calculating and monitoring an extremely important indicator: *customer value*. This indicator can be interpreted in several ways, namely (Iordache M. C., D. Parpandel, 2009, p.65):

→ „*the present value of the customer* ", i.e. through the sale of services rendered to the client that sought services for the first time from the organization

→ „*the future value of the same customer* ", in terms of potential revenue opportunities you will be able to obtain in the period to come

→ „*the value of the customer throughout his relationship with the entrepreneur*” (the value of the customer through its "life" alongside the organization, as the sum of the above-mentioned two values).

Customer value for an organization can be calculated according to the following procedure: (Ali, M., Brookson, S., Bruce, A., Eaton, J., Heller, R., Johnson, R., Langdon, K., Sleight, S., 2001, p.630-633):

- I. The average sale amount (RON annual sales divided by the number of transactions);
- II. The number of transactions a regular customer makes each year;

- III. The average number of years in which a customer buys from organizations;
- IV. The average number of references/recommendations a client annually makes;
- V. Sales per customer per year (I x II);
- VI. Customer sales during the relationship (IV x III);
- VII. Potential gross sales from references/recommendations (V x IV)
- VIII. **TOTAL CUSTOMER VALUE (VI + VII)**

This value is calculated as the present value of the stream of profits your relationship with the client generates, considering a medium or long period of time.

Customer value throughout his relationship with the organization is even greater if the associated costs are lower. Carefully monitoring costs will allow the entrepreneur to increase customer profitability.

The interest for estimating the present value of profits that customers will generate, will increase the importance of retention strategies and customer loyalty. The more the customer will cooperate with the organization, the higher the amount of profits for the organization will be.

Fig. no. 1.1 The link between the relationship marketing and economic success of an organization



Customer satisfaction, loyalty and the enthusiasm of customers are considered to be elements of measurement for a successful relationship marketing. If in the past customer satisfaction was merely a side-effect of efficient marketing, nowadays the customer loyalty is essential and must be achieved through various actions and marketing programmes, designed on the basis of providing benefits for the clients. To have loyal customers represents the most powerful competitive advantage of an entrepreneur because they can not be persuaded by competitors, as long as they are managed effectively. The resources involved in maintaining relationships with them are much lower than those needed to attract new customers and develop relationships with them. More recently, entrepreneurs have started to surprise clients by anticipating expressed needs or even by creating non-expressed ones by implementing personalized offers.

3. Bidimensional fidelity approach

Fidelity is the inclination of consumers to purchase only from one organization, to rebuy from the same brand or to visit the same store, if you need to repeat a purchase. It is a behavior expressed in time, as a result of the experience gained by trying many available alternatives. If until now, fidelity was seen as a one-dimensional behavioral approach, we can now speak of a two-dimensional approach: behavioural and attitudinal loyalty.

► Behavioral Fidelity:

This kind of fidelity is given by the consumer's tendency to repeat buying a service, demonstrated by behavior that can be measured and which has a direct impact on sales (Hammond, k., Ehrenberg, a. &, 1996). It can be defined by a series of quantitative indicators: the number of purchases, the frequency of purchase, share purchase, probability of purchase and the likelihood to purchase other goods/services.

There are, however controversies caused by the measurement of the clients behaviour, surprised at some point and that doesn't allow an understanding of the factors underlying the acquisition, and thus they may lack motivations and commitment to the company.

There are cases where the explanation to justify repetitive behavior can be found in the existence of other factors that were not taken into account. For example, the purchase of

electricity or phone services repeatedly, may be due to the lack of another vendor, financial considerations or habit. From this perspective in which the behavioral fidelity involves merely the repetition of the act, the term is much closer to the concept of customer retention (Philip, a., 2009). Therefore is necessary to analyze the attitudinal loyalty.

► **Attitudinal loyalty:**

To describe the concept of loyalty, some researchers consider that the act of purchasing a good or service is determined by the intensity of preferences and affective disposition of the customer. (Patterson, p., Smith, t., 2003, p. 107-120).

Attitudinal variables contain elements which can predict future purchases, while behavioral variables capture the situation of present or even passed shopping. Some authors argue that attitudinal loyalty consists of the specific desire to work with a specific provider (Czepiel, j., Gilmore, r., 1987, p. 91-94) or as a psychological attachment of a client for a particular service provider (Butcher, k., Spark, b., O'Callaghan., 2001, pp. 313-327).

Attitudinal loyalty, based on its components, cognitive and emotional, can be analyzed through the forms of loyalty it generates:

- *the emotional loyalty* is affective commitment toward a particular product or service consisting of positive feelings and some attachment to a particular brand, manifested on the occasion of its purchase or declared intention of acquisition.

- *cognitive fidelity* is psychological preference for one brand based of belief and positive thoughts about the purchase of a product or service on manifested on the occasion of the next purchase

To measure attitudinal loyalty the following variables are deemed relevant: the intention to repeat purchase, willingness to recommend the service provider, unavailability towards competitors and the ability to withstand changing a supplier (Bahjat a. Shammout, f., 2007). Attitudinal loyalty may be the equivalent of the overall perception that the client has about the relationship. Thus, a positive attitude can be a good indicator of relationships between supplier and customer.

An approach only from the point of view of attitudinal loyalty may not fully capture the loyalty process because it would not take into account the behavior that leads a particular client to keep their service provider or in the case where there are competitors in relation with the client and he has the same kind of fidelity, competition could not be identified.

4. Customer database - the basic component of loyalty policy

Getting precise information concerning the customer is crucial to define the attributes of an organization, to promote their innovative goods/services, to adapt constantly to the needs of customers and develop marketing strategies oriented towards clients, the ultimate goal being to acquire and retain valuable customers. Every interaction with the client can increase or decrease the value of the relationship, but the impact of future contacts can be anticipated easily depending on the information and behavior that the employees earned over time. For example, in the tourism sector, improving functional and interpersonal aspects of services (customization, personal recognition, speed, efficiency of check-in and check-out etc.) is one of the attributes that make the greatest contribution to the value that is represented by the clients, in two stages: at the point of purchase and during their stay (Dubé, l., Renaghan, l. m., 1999, pp. 78-88).

Customers generally provide information about their preferences and requirements to the hotel from the moment they decide to purchase, up to their arrival and during their stay. In turn, managers of the hotel staff provides them with information about their services and communicate the clients requests to different departments/functions in the hotel (for example, room service, food and drink etc.).

To be able to centralize information, there must be made a distinction among customers of an organization:

- **uncommon customer** – he/she consumes the products of the organization only as an exception. Because of this **undifferentiated marketing**, any investment in them is not profitable;

- **ocasional customer** - he/she practices a **differentiated marketing**; frequency and volume of purchases is important;

- **regular customer** – for him/her there must be applied a **concentrated marketing** based on personal information and the data on purchases they make. They constitute the target for customer loyalty;

- **exclusive customer** - he/she purchases goods/services only from that organization or belonging to a certain brand. The best option is applying a **custom marketing** since they provide most of the profit.

This distinction is important to maximize the ability of an organization to store data and to establish the basic profile of the customers, in particular for those profitable.

The basic profile of the client must contain three important parts:

1. Personal information, such as name, gender, contact details, nationality, language spoken, if the person has special physical needs, business office address (if it is a tourist business), means of payment, etc. These include primary data (e.g. date of birth) and the secondary (e.g., allergies, special diet).

2. Information regarding all aspects of each customer's purchase history, such as: the typology of products purchased by the customer, the quantities ordered, the frequency of orders, the payment behaviour (seriousness, method of payment, amount of reimbursement), kinds of messages to which he responded favorably, the behavior about various communication channels (for example, in the case of the Internet, the page used to enter/exit/site supplying undertaking, length of visit, what pages were visited by the customer, the banners that have captured your interest etc.). This information includes "mandatory" data as well as data about behavior and blandness.

3. Complaints and customers' opinions concerning quality standards of the products/services of the supplier and the performance of the staff (especially in the field of services), which can be collected during registration or after consumption (client satisfaction) by printed forms or online surveys.

All the information collected should be stored and processed in the database of the provider, to identify each client registered and recognized online based on the previous visit details (Robledo, M.A., 2001). A database of customers includes a set of detailed information about existing or prospective customers, organized in such a way as to be current, accessible and usable in the interest of the supplier.

The database is made available to customer contact centers who have become privileged networks of the suppliers who want to achieve their objectives of enlargement of the customer database.

Among the main advantages of the use of information technology in managing relations with customers we can mention (d. Blumberg, 2002):

- **The ability to contact and manage a large number of potential customers:** creating databases and record information relating to customers is the basis of contacting clients, particularly through web solutions;

- **Speed:** systems of distributed databases and web technologies allow information sharing with customers in real time;

- **The increased reactivity:** the ability to quickly notice any changes in the behaviour of consumers at different promotional actions or external factors and to react through an adaptation of the offer;

- **Personalization:** ability to adapt the offer to the customers' individual needs by placing on-line forms on the website, to allow customers to participate effectively in the design of offers;

• ***Optimizing the sales potential at every contact with customers:*** every interaction with customers via the web and multimedia technologies represents a favorable opportunity for the company to make new offers.

To be successful, the supplier must firstly adopt a customer-centered cultural mentality which implies a shift in cultural norms, organizational structures, and the way in which employee performance is measured and rewarded. Secondly, they must develop a functional integration among the various functions and information systems (booking, marketing, sales, administration etc.) to accelerate the processes and to facilitate the exchange of information for customers. Finally, they should take a strategic view of the IT investment, make sure it is administered properly and to adopt a broad approach on the use and integration of IT systems (Ryals, I., Knox, S., 2001, pp. 534-542).

The use of telecommunications, IT, media and use of stored data or search data techniques facilitates the relationship management the supplier with customers and supports collecting and processing data from every point of interaction (Cline, R. S., 1999, pp. 376-386). Call center, email, website, point-of-sale (POS) etc. are just some examples of these applications. Via specific electronic devices (e.g. payment system per viewing, interactive TV etc.), suppliers can also store immense quantities of information regarding a customer's satisfaction, which are very useful every time the customer returns and, in general, to assist in the marketing plan actions (frequency of purchase, special discounts etc.) for different market segments.

By anticipating consumer preferences and habits of certain clients, the suppliers seek to trigger an "active psychological shock" that intensifies the beneficial effects of perception of quality and professionalism even before consumption. Therefore, the customer profile can be considered as an operational tool useful in evaluating the potential consumer, reducing the risk of losing future business prospect. The potential of consumer demonstrates that when a client has instances when he is unsatisfied, he creates a gap between him and the provider who has lost opportunities for future business with the client.

5. Customer loyalty tools

While in the manufacturing sector there is rarely a direct contact with consumers, in the majority of the activities of services there is direct contact between staff with consumers. To create and improve relationships with consumers, many entrepreneurs create a database of customers that could be used for the design of personalized offers and a permanent communication with consumers. These data could be related to a preference for certain brands, principles of choice of a good/service, details on last visit etc. For example, special phone numbers for reservations in restaurants might be available for very important persons, so that they could be immediately identified as key clients that deserves attention. To encourage customers to return there must be a continuous direct communication with them (e.g. by email), inviting them to participate in special events, giving them special price discounts, informing them about new products/services and possibilities for developing a business cooperation.

Organizations have a variety of handy ways to gain the loyalty of customers. Some of them are:

- **emotional loyalty** – it is gained satisfying a customer by offering a customer-focused solution and by increasing the customer's satisfaction over the performance of the organization;

- **customer loyalty through economic conditioning** – it is achieved if the client considers any migration to another supplier disadvantageous because of its costs; the additional costs of migration are not always real, but their determination is often tedious and turn to a subjective appreciation; so, it comes down to loyalty to the original organization;

- **contractual loyalty** – it is established by the terms of sale and purchase contracts which are concluded between the organization and the customer;

- **technically-functional loyalty** - is achieved thanks to certain dependencies between technical-functional features of the original item and the complementary products.

To improve the relationship with consumers and provide a higher level of satisfaction, the essential requirements of building customer loyalty, there are different approaches in the implementation of marketing tools (L.L. Berry, a. Parasuraman, 1991):

→ The first approach is focused on adding **financial benefits in dealing with consumers**. For example, airlines offer bonuses in loyalty programs, car-rental companies offer bonuses for frequent renters, hotels offer a night or two for a longer stay or for a higher frequency in reservations, while companies give awards for frequent buyers with bonuses, refunds, coupons etc. In this way, the organizations determine customer loyalty and so is gaining more than if you would focus on attracting new customers to their services. However, these financial incentives and loyalty programs could easily be imitated by competitors, so that these tools could become insufficient in an attempt to differentiate long-term offer.

→ The second approach stresses the **social benefits**. In this way focuses on building strong social bonds with consumers according to their individual needs and desires. By searching in the customer database of the hotel, a manager can personalize and customize products and services to key customers. Organizations that use this approach transform the unknown customers in identifiable customers in detail of their personal files. If some consumers are served either on a undifferentiated basis or as an entire segment of the market, others are served on an individual basis.

→ The third approach is focused on **building strong relationships** with consumers on the basis of financial supplements and social assistance. For example, hotel lines open direct telephone lines, available for special frequent users, develop reservation systems for travel agents and airlines. They offer special rooms for first class customers and even airport transfers-hotel and vice versa in luxury limousines.

Improving personal relationships with consumers could be carried out through multiple modalities (Johnston, r., Clark g., 2001):

- Offering a level of quality of products/services over customer expectations through various forms such as: transparency of their use, trained staff, consultancy services etc.

- Contacts with customers-for example, such as communicating with regular users by email or over the phone, effective communication with clients, meeting with clients, effective feedback of information;

- Development of business system based on relationship with the customer, for example, organizing seminars for clients, assistance in banchmarketing, networks and organizing study visits.

- The development of social relations through special invitations, birthday gifts, anniversary greetings etc.

The organization must be selective in forming relationships with consumers by identifying the key importance to consumers and try to satisfy their needs in a way much more effectively than competitors.

6. Conclusions

At the basis of any successful business there is the number of clients and the extent of their loyalty. Awareness of the fact that keeping existing customers is just as important, perhaps even more important than attracting new clients, is the fundamental condition of existence of the organization over the long term. This is due to the enormous costs necessary to attract clients, which may be five times higher than the costs of building customer loyalty. At the same time, the profitability of old guest turns out to be higher than that of new clients.

Organizations should pay particular attention to relations with customers and to allocate financial resources to support marketing programs aimed at continuous improvement of the cooperation between the organization and the customer. The advertisement made by a satisfied customer is much more effective than many other promotional actions from the organization.

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