

CUSTOMER RELATIONSHIP MANAGEMENT

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UNIT - 3

Customer Loyalty – Meaning, Definition, Significance, Customer Loyalty, Customer Loyalty Ladder, Loyalty Principles, Benefits of Customer Loyalty, Drivers of Customer Loyalty

Customer Loyalty

- Customer loyalty refers to a situation where a customer develops a long standing preference or loyalty towards a particular product or service. Customer loyalty is reflected in the repeated purchases the customer makes of a particular product and his favorable nature towards a product or service.
- Customer loyalty also helps to market the product positively in the customer's close friend and family circle.
- Customer loyalty tends the customer to voluntarily choose a particular product against another for his need.
- The loyalty may be product specific or it may be company specific. When a loyal customer has repetitive requirement of the same product, such customers may be described as being “brand Loyal.”
- Loyalty also means that customer is sticking to the supplier on certain grounds though he may be having other options also.
- Loyalty is demonstrated by the actions of the customer. But it Does not means that the customer satisfaction level can measure his loyalty.

❑ Measuring customer loyalty

- Measuring customer loyalty and developing a retention strategy are of great importance to an organization's success
- Customer loyalty is both an attitudinal and behavioral tendency to favor one brand over all others, whether due to satisfaction with the product or service, its convenience or performance, or simply familiarity and comfort with the brand.
- Customer loyalty encourages consumers to shop more consistently, spend a greater share of wallet, helping attract consumers to familiar brands in the face of competitive environment.
- Customer loyalty begins with customer satisfaction. Only when a customer is satisfied with the purchases he makes, can a company develop customer loyalty over a period of time.
- Customer loyalty usually results in long term profitability for business.
- Brands often develop a special loyalty program or loyalty discount packages for their customers to reward and retain their customer loyalty.

Over the years, customer loyalty and brand loyalty has become an integral part of brand management for any organization.

❑ Customer loyalty process

Customer loyalty develops over a period of time. The basic and the most important factor for customer loyalty is customer satisfaction.

The customer loyalty development process can be highlighted based on the below illustration.

Step 1: customer acquisition (the assurance phase)

Step 2: customer development (the education and bonding phase)

Step 3: customer commitment (the sales phase)

Step 4: customer retention (the continuation and activity phase)

➤ Customer loyalty ladder:

It is a systematic way of classifying customers of an organization into five different categories depending upon the business level engagement of customers with the organization.

Customer loyalty ladder helps customers to identify potential customers who can remain engaged with their business for long time and also become loyal to their brand.

Customer loyalty ladder classifies the product based on their engagement. People are classified as suspects, prospects, customers, clients and advocates.

Suspects: - they are potential customers for an organization. They may be aware of the promotional campaigns of the organization but are currently doing no business with that organization.

Prospects: - they are the ones who have been impressed with the organization's promotions and are in serious consideration of buying products of the organization. The organization must treat them cordially and solve all of their doubts.

Customers: - they have bought products of the organization for the first time and are currently using them. The organization must extend them all possible after – sales assistance in order to pacify their concerns. These customers can be engaged with a loyalty program or a loyalty discount.

Clients: - they are doing business repetitively with the organization and are willing to foster the engagement in future. Clients if well engaged can help boost business with their brand loyalty.

Advocates: - they are not only doing repetitive business with an organization but are also recommending the organization to their own acquaintances. They are the most valuable players and the organization must treat them royally with the highest priority.

❑ **There can be following two combinations of aspect when satisfaction & loyalty are treated together:-**

1. Satisfied but Disloyal Customer:- A customer can be fully satisfied but may not be loyal due to following reasons:

(a) Entrepreneur Customer: - these types of customers like to experiment a lot and hence try to create various options for them to get more benefits. So even if they are satisfied they diverge to other options available in the market.

(b) Pressure from competitors:- Due to the pressure in market the customer tends to follow the competitors path and divert from the existing supplier to remain sustain in the global marketplace.

(* a global market is where goods, service and labor are exchanged through the entire world)

(c) Outdated Suppliers: - the customer may be satisfied with the existing suppliers but sometimes feel that the product and services. He/she is using are outdated in market. Due to the changing technology there is always a need to update the technical aspects & product features even if the old products and services are satisfactory. Focusing on these facets the customers normally go to other suppliers for his new requirements.

❑ There can be following two combinations of aspect when satisfaction & loyalty are treated together Cont...

2 . Unsatisfied but loyal customers:- the other abnormal situation is when the customer is loyal but is unsatisfied. The reasons for this are following:

(a) Lack of available options:- there can lack of options available for customers. This situation arises when the existing supplier is having a monopoly in a particular segment of products or when all other competitors are worse than the existing supplier.

The customer feel trapped in this type of situation & is forced to be loyal to the supplier but at the end of the day he will be an unsatisfied customer.

(b) Improves supplier:- In another situation the suppliers may take the customers in confidence by convincing them to provide improved products and services, in the coming future. This is an important tactic that supplier implement in their marketing strategy to become customer centric and to have customers stick to them and be loyal.

To remain in healthy relationship the customers also remain loyal but have a feeling of dissatisfaction beneath. But finally if the supplier continuously supply degraded product and services, the customer could easily divert from them in search of better prospects.

(c) Customer Inertia:- there are some customers who afraid to change the supplier. Even if they have bad experience with the supplier, they may be due to the emotional and business attachments or bonding of customers with those particular suppliers. There could be many others reason for this

(like the customers' feel reluctant of face the complexity of the process of changing their way to other suppliers and prominently when they already have a long term relationship with their suppliers.)

Under this situation the customer tries to ignore the feelings of being unsatisfied and remain loyal to them.

❖ Drivers of customer loyalty:-

It is very important for an organization to identify the factors and facets which drive customer loyalty. These factors help the organization to manage customer loyalty in a better and efficient way:

Following are the drivers of customer loyalty:-

1. Attitude

- a. Emotional and sentimental
- b. Rational Type
- c. Entrepreneur Type:

2. Product and services

- a. Differentiated products and services:
- b. Multiple products for the same customer
- c. High service component:

3. Technology

4. Human Resources

5. Supplier's culture

❑ Customer Loyalty Principles:-

The most successful organizations are those that realize the true value of nurturing lasting relationships with customers, and in today's competitive environment holding on to your existing customers can be the key to survival. In short, customer loyalty matters and it's here to stay and creating customer loyalty will need to be a key component of your business success strategy.

Many companies failed to do this pre-recession, focusing on shorter-term quick wins that left them with a disloyal and unappealing customer base.

➤ In order to maximize sales from existing customers a company must focus on three things:-

- Identifying loyal customers.
- Recognizing the importance of delivering outstanding customer service
- Establishing an up-sell/cross-sell strategy that rewards loyalty and advocacy.

❑ Benefits of customer loyalty:-

Loyalty has been widely researched in the domain of marketing. It has been found by researchers that a satisfied customer tends to be loyal. That customer remains loyal to an organization as long as he/she feels that the organization gives him or her better services or products as compared organization.

In the business context, loyalty is the customer's commitment to do business with a particular organization which effects in repeat purchases of goods and services of that organization.

The benefits of customer loyalty follow as:-

1. Building lasting relationships with customers by rewarding them for their patronage.
2. Gathering high profits through extended product usages and cross-selling.
3. Gathering customer information
4. De-commodifying brands i.e.; differentiating from crowds.
5. Defending market position
6. Planning against competitive activity.

❑ Why is brand loyalty important?

- Brand loyalty helps in building a strong customer base which in turn serves as a tool to surpass competitors and attain a competitive edge that is required to succeed in the marketplace.
- Companies having strong brand loyalty customers experience repeated purchases of its products and services regardless of the fact that there is a change in price or convenience.
- Loyal customers of a particular brand are less likely to get influenced by the marketing efforts of competitors thereby, increasing the probability that these customers will continue using the products and services of a particular company.
- Alongside this, companies who have built a strong brand loyalty also have the opportunity to enjoy increasing customer base.

Loyal customers may turn into brand ambassadors for the company.

This is because loyal customers are satisfied with the brand and will spread brand awareness providing the business costless marketing.

❑ Loyalty and satisfaction

Customer satisfaction as a key antecedent to loyalty and repurchase behavior. The general and more accepted view among the marketing scholars and practitioners alike is that customer satisfaction positively impacts purchase intentions as well as behavior.

Maxgam and Niemeyer (2002) and Smith and Bolton (2002) opine that the customer's perceived justice about the resolution process would affect his satisfaction with the recovery and overall satisfaction with the firm, which individually would directly affect his purchase intention and WOM (word of Mouth) intent as well as have a mediating effect of overall firm satisfaction between satisfaction with service recovery and WOM intent and purchase intention.

Szymanski and Henard (2001) find that customer satisfaction explains less than twenty five percent of the variance in repeat purchase which is considered to be major cue for customer loyalty.

Therefore, they point out that there is a strong possibility of other factors excluding satisfaction that have an effect on loyalty.

However, it has been found that customer satisfaction, in no way, can guarantee customer loyalty.

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