

Understanding the role of customer loyalty in maintaining customer relationships: A Review

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Abstract

The importance of developing relationships with customers has increased in the recent past with the increase in competition, fragmentation of markets and increasing customer awareness. The companies are focusing more on developing customer relationships and securing customer loyalty in order to achieve the desired profitability in the market. In this study an attempt has been made to understand the influence of customer loyalty on customer relationships and the various constructs that effect customer loyalty directly are also reviewed. Relationship marketing or CRM is a business strategy that aims to interpret, anticipate and manage the needs of an organization's current and potential customers. It helps an organisation to enhance its customer interaction by increasing the customer approachability and the organisation's accountability which in turn improves customer acquisition, retention and profitability. The companies need to incorporate various marketing strategies and customer loyalty programs in order to develop customer loyalty through developing trust, commitment and satisfaction among the customers. In order to retain the existing customers the companies now a day's require to understand the needs and preferences of their customers so that they provide them with the customized products and services It is also important for the companies to develop a close relationship with the customers by interacting with them on daily basis so that customer loyalty can be created which further helps in developing strong bonds between the companies and its customers.

Key Words: Customer Relationships, Trust, Commitment, Satisfaction, and Loyalty.

Introduction

The term relationship is defined by many authors and Hinde, (1979) defined it as an irregular interaction between two or more than two parties, involving interchanges over an extended period of time. According to Webster)1994(, the relationship is defined as “a state of affairs existing between those having relations or dealings”.

In the business environment, “a relationship refers to a specific connection between the seller and the buyer” (Gummesson, 1998) and develops when a customer comprehends that a mutual way of thinking exists between him and the suppliers (Grönroos, 1984). A relationship is not

grounded on the product and service, but an interdependent process of continuous interactions and exchanges between the customers and companies (Holmlund & Tömroos, 1997). According to Peppers & Rogers, (2011) the relationships built between customers and companies could be characterized as mutual, iterative, unique, trustful and be driven by interactions with an ongoing benefit to both parties involved.

Relationship Marketing was first introduced by Berry in 1983 in the context of service marketing, and became globally accepted in the 1990s, his study concerned the allocation of organizational resources to strengthen long-term customer relationships, because providing services to existing customers is as important as acquiring new ones (Gronroos, 1990).

Relationship marketing which involves relationship building and management is a leading new approach to marketing which eventually has entered the marketing literature (Jackson, 1985). Later in 1990 relationship marketing was defined from a different perspective with stressing on the role of the IT as a “process where the main activities are to create a database including existing and potential customers, to approach these customers using differentiated and customer-specific information about them, and to evaluate the life-term value of every single customer relationship and the costs of creating and maintaining them.” (Copulsky & Wolf, 1990)

Relationship marketing has been acclaimed as an effective strategy to attract, maintain and enhance customer relationship (Rugimbana et al., 2003). However, some authors also propose that through relationship marketing a closer attention is paid to long term financial growth and other benefits than retain customers (Heffernan et al., 2008).

Objectives

The attempt has been made to achieve the following objectives:

1. to study the influence of customer loyalty on customer relationships;
2. to study various factors that influence customer loyalty;
3. to explicate the importance of developing customer loyalty for enhancing customer relationships.

Literature Review

In a study conducted by Ndubisi, (2007) the four variables trust, commitment, communication and conflict handling have a significant effect on customer loyalty and they are also significantly related to one another. This research was conducted on the banking

industry in Malaysia and the findings reveal that the banks that wish to retain its customers should develop loyal customers by increasing their trust in the bank, banks should communicate timely and accurate information, and the commitment should be on a higher level, also the banks should handle the conflicts in a manner that will eliminate unnecessary loss and any sort of inconvenience to its customers. The more reliable and timely its communications and the more satisfactorily it handles conflicts, the more loyal its customers will tend to be.

Bauer et al., (2002) also explained some of the characteristics of internet that have a direct impact on major three constructs in marketing that are Commitment, Satisfaction and Trust of the customers. Commitment here implies to a willingness to make long-term relationships and a desire to develop a stable relationship, Satisfaction is defined as common measurement to evaluate the customer perceived value and Trust as a willingness to rely on an exchange partner in whom one has confidence, it would provide cooperation and attribute in a long run (Bauer et al., 2002).

Trust

Moorman et al., (1992) defined trust as “the willingness to rely on an exchange partner in whom one has confidence”. According to Mayer et al., (1995) Trust is “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the first party, irrespective of the ability to monitor or control that other party”.

In a study conducted by Warne and Holland (1999), they distinguished trust in two types: innate trust and subjective trust. According to them innate trust means the trust that is developed in an individual based on the previous experiences or relevant attributes, and subjective trust is the trust related to a particular situation. Trust has been considered to have a positive influence on customer relationships and the level of a customer’s trust on the company has been considered as an attribute of assessing relationship quality (Palmatier et al., 2007a).

In another study conducted by Edvardsson et al., (2008) it was found that at the initiation of the relationship most of the respondents rightly feel that customer loyalty does not exist. However, cognitive trust and organizational trust are perceived as very important in developing customer loyalty and building the relationships.

Commitment

Commitment is defined as “an enduring desire to maintain a valued relationship” (Moorman et al., 1992). The focus of commitment in business relationships is towards enduring long-term interaction with the customers; hence the importance of commitment is rising in business relationships (Morgan & Hunt, 1994). This view is also supported by Naude & Buttle, (2000) as they stated, commitment has been constantly perceived as one of the key factors of assessing relationship quality and performance through guaranteed long-term interactions.

Commitment is considered as a specific investment or input in a relationship. The three different concepts of commitment are proposed as, attitudinal or affective commitment, instrumental commitment and temporal commitment. Attitudinal commitment is based on the intentions while the instrumental commitment is based on actual inputs. Temporal commitment indicates that the relationship may exist over time (Gundlach et al., 1995).

According to Sharma et al. (2006), these three types of commitment have a strong impact on customer relationships and customer loyalty. In their study they put forward the three types of commitment as Affective commitment, calculative commitment and normative commitment. Affective commitment has been defined as “a desire to develop and strengthen a relationship with another person or group because of familiarity, friendship, and personal confidence built through interpersonal interaction over time”.

Satisfaction

In the words of Lemon et al., (2002) “customer satisfaction is the assessment of the pre-purchasing expectations from the product, with the results reached after the act of purchasing.” Customer satisfaction has been considered as a key factor for measuring CRM and regarded as a core of relationship marketing (Kotler et al., 2008). It is considered as a key ingredient for every organisation that is focusing on building customer relationships and increasing customer loyalty for future profits (Lin et al., 2009). For measuring customer relationships, the linkage between customer satisfaction and customer loyalty has been widely discussed by many authors.

In a study conducted by Jones and Sasser (1995), they proposed a linkage between customer satisfaction and customer loyalty by suggesting that customer satisfaction reflects how well a firm is serving its customer and tells what percentage of customers stay loyal and for how long. They mentioned that the customer satisfaction is the strongest predictor of customer

loyalty. They also showed that this relationship is neither simple nor linear and viewed customer satisfaction as an affective state of mind.

Customer Loyalty

Customer loyalty has been defined as “customer's intention to perform a diverse set of behaviours that signal a motivation to maintain a relationship with the focal firm” (Sirdeshmukh et al., 2002). Customer loyalty is measured by the customer's intention to repurchase which implies a customer's affection and commitment towards a product, service or an organization)Edwardsson et al., 2000(. Loyalty is “the reflection of a customer's subconscious emotional and psychological need to find a constant source of value, satisfaction and identity” (Jenkinson, 1995). The loyal customers usually continue relations and help in increasing sales by recommending the products to family and friends (Hallowell, 1996).

From the marketing literature, it was found that there are two mainly types of customer loyalty: behavioural loyalty and attitudinal loyalty and they may occur at different stages in relationship process. It is also found that there exists a strong relationship between customer loyalty and other constructs such as commitment and trust. The affective commitment and calculative commitment have a strong association with customers' intention to stay (Wetzels et al., 1998). Customer loyalty has been viewed as one of the fundamental drivers of firm profitability and as a crucial performance construct in evaluating marketing effectiveness, particularly in the field of CRM)Ball et al., 2004(.

According to Verhoef, (2003) customer loyalty programs helps in creating strong relationships with customers and relationships represent market-based assets that a company continuously invests in, in order to be viable in the marketplace. He further stated that strong relationships are usually linked with switching costs, which create barriers to competition. Thus relationships provide a differential advantage by making resources directed to customers more efficient.

Bolton et al., (2000) discovered that as customers gain more experience with the product it stimulate more usage and more usage leads to more experience. They suggested that loyalty programs can positively reinforce purchase behaviour. They observed that loyalty programs had complex effects on customer behavior. The authors concluded that loyalty reward programs have the potential to “operate as a form of mass customization that strengthens customers' perception of the company's value proposition”.

Customer Relationships

Gummerson, (1994) suggested that the customer relationships are the key to reaching and maintaining a successful market share. He pointed out various benefits of developing customer relationships as: Retention, intimacy and profits. He also added that the companies can build strong relationships with its customers by learning relevant information about them and the use of technology has created a feel of intimacy between the customers and the companies which helps them both to attain maximum profits.

It is important for a company to maintain a good customer relationship as it provides a competitive edge for the company in the market be it from a market share view or from profit point of view (Kandampully, 2003). The CRM concept has evolved in such a way that it is used as a strategy to maintain a long-term relationship with the customers by most of the organizations (Mendoza et al., 2007).

CRM is a way of “developing a comprehensive picture of customer’s needs, expectation and behaviors and managing those factors to affect business performance” (Hoot, 2005). Or it is “about managing customer knowledge to better understanding and serving them” (Rahimi, 2007). “As more and more enterprises realize the importance of becoming customer-centric in today’s competitive economy, they embrace Customer Relationship Management)CRM(as core business strategy” (Wu, 2008).

Ndubisi, (2004) argued that the companies should make sacrifices and worthwhile investments in building relationships with loyal, or at least potentially loyal, customers. It is also mentioned that the various identified underpinnings of relationship marketing are directly linked to and are capable of predicting customer loyalty. These underpinnings of relationship marketing include trust, commitment, conflict handling, communication, bonding, shared values, empathy and reciprocity and they have a positive impact on customer loyalty (Taleghani et al., 2011).

A framework of customer loyalty and customer relationship:

Many scholars have listed many constructs as the underpinnings of relationship marketing but in this study only some of the constructs are included which happen to have major influence on relationship building namely trust, commitment, satisfaction and loyalty. The data gathered from the literature clearly suggests that the marketers now a day’s intended to achieve customer loyalty that enhances the customer relationships. The idea is to retain the

customers by developing long term relationships. The Marketing managers try to maintain regular communication with the customers in order to bring value to the brand users by providing them relevant information's according to their needs and preferences. They try to develop trust by reassuring customers that they are using the right brand, thereby helping them to remove cognitive dissonance. Various studies have also proved that the satisfied customers have longer relationships and the effect of customer satisfaction on customer loyalty is high (Grönroos, 1994). Customer satisfaction is a complex construct as it has a major impact on a company's market share and customer retention (Hansemark & Albinsson, 2004). Commitment is considered as a very important construct in measuring customer loyalty in order to strengthen customer relationships. In the literature reviewed commitment is defined as a desire to maintain a valued relationship. Further Rust et al., (2004) suggested that customer loyalty must be earned as customer relationships should be carefully managed. They say that marketers sometimes use the term "customer asset," but customers and assets do not have identical features because the mind-set associated with "owning" customers is dangerous.

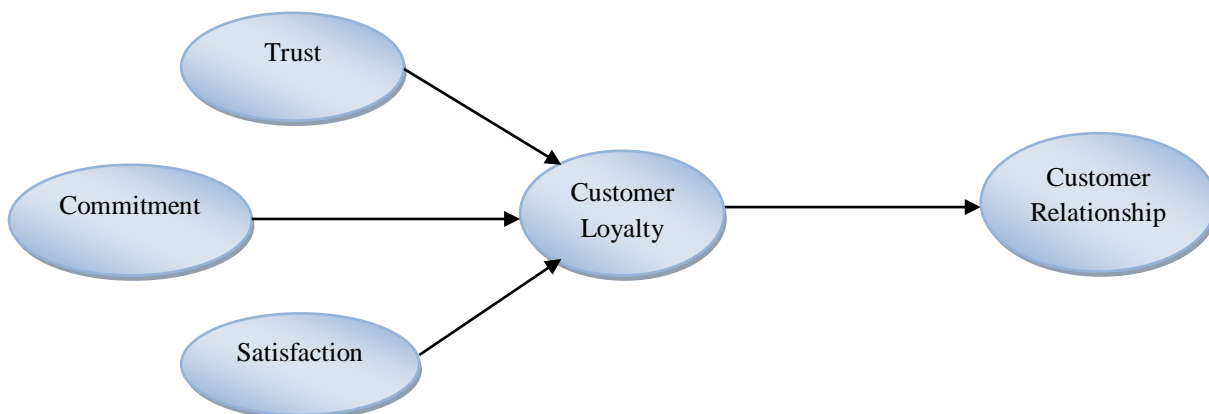


Figure1: Framework of customer loyalty and customer relationship

Conclusion and Suggestion

More and more companies are recognizing the importance of customer relationships and therefore are adopting different marketing strategies in order to maintain and retain their existing customers and also acquire the new ones. The focus of this study is to understand the influence of customer loyalty on customer relationship.

It is important for any organization to understand the needs of its customers and at the same time to fulfil them. By developing trust, commitment and satisfaction among the customers there loyalty also increases towards the companies they are purchasing from which further helps the companies to maintain long-term relationships. The main aim is to increase trust, commitment and satisfaction among customers because they have the significant effect on customer relationships.

The development of these three constructs among customers can help the organizations to achieve the higher levels of customer relationship. The study proves that trust, commitment and satisfaction influence customer loyalty and have a strong impact on customer relationship thus it's important for the companies to focus on these three factors in order to achieve customer loyalty. The marketing managers should redress the needs of customers on daily basis in order to retain profitable customers as the cost of retaining a customer is always less than the cost of acquiring new one.

The study suggests that more emphasis should be given to customer loyalty as it has a strong influence on customer relationship. Therefore, it is important for an organization to focus on customer needs and know there customer better and provide them with customized services in order to develop good and long-term relationships with them.

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