Chapter 6: Customer Loyalty

Having examined reasons and concepts behind customer satisfaction, it is now important to analyze the outcome of satisfied customers. One purpose of service companies is to satisfy their customers, and to do repeat business with them.

To approach the term of repeat business it is first of all important to outline the concept of customer loyalty. Hereafter switching costs will be investigated, which provides insights in the degree of customer loyalty towards a service provider due to satisfaction or barriers to switch to a competing service company.

Hereafter the concept of relationship marketing will be discussed as an important element in the long-term relationship and repeated business between customer and service companies. Finally, the outcome of repeated business, which is long-term profitability, will be explored.

6.1 The Concept of Loyalty

Loyalty refers to repeated customer and increase the business. The aim of any service firm is to provide quality service in that specific period of time and which retain or repeat the purchase the service.

The costs of losing a customer are very high. They point out that the customer who is continuously repurchasing, provides the largest revenue to a company. The reason is obvious; a service provider spends lot money on delivering services to its customers.

To cover the cost, many customers are needed. Just to attract new customer requires advertising expenditures, image improvements, enhancements on the five quality dimensions, etc. it takes in average some years before the invested money is paid back. Losing a customer after one single transaction represents in general a loss.
On the other hand, a customer who repeats the service purchase several times represents a revenue provider, and a profit generator.

### 6.2 Switching Costs

Switching costs in service are defined as cost incurred in changing from other service provider to another. The high switching cost, the greater the specific investments each party has made in the relation.

Customers and service provider invest in getting to know each other. The customer needs to know the service provider, the front-line personnel, procedures, and their particular way of doing business. Whereas the service provider needs to know the customer needs and expectations.

However, switching costs in services are perceived as being high when the customer is strongly involved in the business relation to the service provider.

The feeling of involvement might be enforced by either personal sympathy, or by specific service attributes which tie the customer to the service company. Personnel sympathy provokes customer loyalty to a service company, and is based only upon personal preference, for example habitual buying, reputation, or knowing the service personally.

On the other hand by offering specific attributes which make the customer dependent on the service company switching costs can be increased.

Examples can be found in the financial sector Payments services, home-banking systems, credit cards, rabbets-arrangements, and mortgages, etc. All these examples imply that shifting business to a competing service provider is associated with additional costs and thereby motivate customers to repeat business with the specific service provider.

When high switching costs prevail the customer is more likely to accept service failures because it is either inconvenient or expensive to switch business to another service provider. Therefore
the zone of tolerance is most likely to be high when a customer is tied to a service company due to high switching costs. It is worth mentioning that switching costs prevail only when alternative service providers exist within a service branch.

Positive incentives often involve the creation of some kinds of "membership" mentality in customers.

For example frequent travelers need only sort through their wallet cards designation membership in airline, hotel, rental cars and other "clubs" to verify the increasing use of incentives to encourage repeated use of a service.

Such incentives make each repeated use more valuable the moving the customer closer to some promised payoff as a specified service level. Once customer invest in switching costs they are hard to entice back to their former service.

That is why outstanding service providers invest so much effort in building switching costs in the first place. As outlined above a close relationship between service providers and customers is often existent. It is now of interest to analyze how this relationship can be marketed.

6.3 Relationship Marketing

Relationship marketing is to identify the relationships with customer and stakeholders with the main concern of profit.

This definition is further explained by a statement that such marketing approach should lead to trusting relationship between the parties involved. And the concern is not only getting customers, creating transactions, but also maintaining ongoing relationships should be emphasized.
6.3.1 The Evolution and Development of Relationship Marketing
Consumer goods companies were recognized as the most sophisticated marketers. They were often the first companies to develop formal marketing plans.

In the 1970s marketing in non-profit organizations and the associated areas of public sector and societal marketing received attention. It was only in the 1980s that services marketing started to attract attention which is surprising considering the size and rapid growth of the service sector.

The Changing Emphasis on Marketing

There are various differences between "transaction marketing" and "relationship marketing". Transaction marketing focuses more on sale and on product features whereas relationship marketing puts focus on customer retention and on product benefits of features.

Transaction marketing involves a moderate customer contact and limited customer commitment, whereas relationship marketing involves high customer contact and high customer commitments.

The two marketing paradigms are also different when it comes to quality and time horizon. In transaction marketing, quality is primarily concern about production, and it is operating within a
relation short time scale. On the other part the relationship marketing quality is the concern of operating in accordance with a relatively long time scale.

The focus on relationships it’s adopted by service providers, but still it is wrong to assume that every service company has adopted this relationship focus. Unfortunately, many companies still pursue the transactional route.

Now-a-days the service companies are starting understanding their existing customers are easier to sell the service and profitable too.

However, managers concur with this view, they emphasis on attracting new customers because existing customers are taken for granted.

Rather, a balance is required between the effort directed toward existing and new customers by service provider.
Essentially, this is the only way to convert someone from customer who led to advocate the customer satisfaction with delight customer by offering on time quality service. The benefits of delivering on time service quality will be examined in the following section.

6.4 Between Customer Loyalty and Profitability

Customer loyalty and profitability go hand in hand as the costs of servicing repeat customers are less than the coast of attracting new customers as stated previously. The process of getting new customers is associated with noticeable start-up costs.

This may be in the form of a reduced price of costs associated with learning about the needs and characteristics of a new customer. Because repeat customers know a service, they are less costly to serve.
This is because expectation levels are established which minimizes the expenditures used on conducting customer surveys.

Furthermore, loyal customers know the role that they are expected to play in service delivery process and how to play it, which implies a decreased need for information and support, compared to first-time users.

Holding on to existing customers costs less than attracting new ones. One study conducted shows the cost of retaining a loyal customer is only one-fifth of attracting a new one.

**The Impact of Customer Retention on Profits**

The Various components of the company profit pattern will now be further elaborated upon.

- **Customer Acquisition Costs.** As mentioned earlier, the process of replacing a former customer with a new customer is connected with a certain amount of acquisition costs. Very often acquisition costs are higher than the earnings of the customer in the first years of the relationship. The acquisition cost consists of expenses with regard to selling marketing, and administration costs.
• **Base profit/Initial Sales:** This amount of profit refers to customers buying services the first time. It is assumed that over a period of time, new customers are constantly acquired. Therefore this component is the only profit element which is not influenced by the length of the relationship between customers and the service providers; hence, the base profit remains constantly over time.

• **Profit from increased Purchases and Higher Balance.** It is the level where customers place only a limited amount of his total purchase with the new service provider. One reason for this caution is the fact that it is sometimes associated with a great amount of costs and risks to change suppliers.

However, if the customer feels content and satisfied with the new service-provider, he reacts by gradually increasing purchase from the new provider. As the trust and confidence to the service company increase, the customer is ready to expand the amount of purchase. The size of this profit component is therefore augmenting over time.

• **Profit from Reduced Operating Costs:** The era of mass-production of standard products and services leads to the theory of economies-of-scale and "learning effects". Today we have seen a tendency that these assumptions have gradually become obsolete. The main reason behind this is that today's customers tend to prefer individual and customized products over mass-produced standard services.

This is in accordance with the main emerging trends of the 1990s - customization and individualism. Today's customers expect more than just high-quality products at favorable and competitive prices; they want tailored services which provide them with some degree of value.

Hence, in order for the companies to survive in today's competitive world market they need to change focus from "economies-of-scale" to putting more effort in establishing, maintaining, and enhancing customer relations.

• **Profit from Referrals:** This profit component is a direct result of what can be termed the "Ambassador-effect". It is extra amount of sales, which is brought about positive
recommendations from loyal customers. This effect is of utmost importance especially to service companies. The more satisfied customers remain, the more loyal they become. These apostles possess the ability to influence potential customers through positive recommendations. The impact of the ambassador effect varies from one industry to another. Additionally, the effect is also highly influenced by the kind of service - the effect is much smaller in regard to low involvement services than to high involvement services.

- **Profit from Premium.** Another positive effect of having satisfied customers with high seniority is the fact is that customers become much less price sensitive than new and less satisfied customers. The customers with whom the providers have developed a sound and deep relationship do not need or expect introduction discounts and other kinds of discounts.

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To further expand the usefulness of their model, they have calculated the impact of a five per cent increase in retention rate for various service branches. Hence, the process of retaining a customer should be of strategic focus to all service providing companies.
6.5 Sub conclusion

In chapter six the concepts behind customer loyalty and profit have been discussed. Any service manager should treat customer loyalty seriously, as loyal customers imply repeat business, which is of utmost importance for the service industries.

The overall aim of any service company should be to satisfy and thus stimulate their customers continuing their service purchase with a particular service provider instead of swatting to another competing provider.

From a strategic point of view, an increase of switching costs due to personal preferences and other attributes can tie customers to a specific service company, thereby having a positive impact on customer retention and loyalty.

Customers who are continuously repurchasing, provide the largest revenue to a company, hence managers should keep in mind that the costs of losing a customer are very high. A customer, who repeats the service purchase frequently, represents a revenue provider and a profit generator.

For service providers, it is necessary to understand and adopt the philosophy behind relationship marketing. In the past only a few service providers have approved the focus on close and extensive relationships to their customers.

The majority of service companies on the other hand preferred the transactional route which focuses on single and short-term transactions.

Today’s service providers are starting to recognize their existing customers for higher profitability in the long-run. Hence, one immense challenge for service managers is to avoid taking existing customers for granted. Preferably they should spend more resources on existing customers than devoting all resources to attracting new customers.
By adopting the relationship marketing philosophy it is possible to turn prospects into customers, and late into supporters and advocates.

The cost of retaining a loyal customer is only one-fifth of attracting a new one. Hence, the process of retaining customers should be a strategic focus of all service providing companies.

The following proclamations are to be seen as Success Factors which are considered as critical in the context of customer loyalty and profitability.

**Success Factor 1:**
Understanding the importance of long lasting relationships to customers provides service companies with opportunity to gain profitability in the long run.

**Success Factor 2:**
The attracting new customers are closely higher than keeping existing ones. In order to ensure profitability in the long run, service companies should have customer retention as a strategic focus.
REVIEW OF LITERATURE
**Review of literature:**

Adigun (2004) concludes that by taking the ratings from the clients for the services that they enjoyed and which can be improved further and also helps to maintain the best of services.

Ahn, Han and Lee (2006) proves that when the clients are been not heard for their complaints and nor being auctioned on their complaints they would surely look upto the other competitive brands or substitutes available in the competitive market.

Ahn, Han and Lee, (2006) In the fast running world where everybody looks for immediate satisfactory solution, Telecommunication service providers in the market takes long time to act or to solve the problem, which is not accepted by the clients and hence they prefer to switch over other brand and that leads to lose loyalty for the particular brand.

Anderson, Fornell, and Mazvancheryl, (2004) to sustain in the market and achieve maximum share it is necessary to satisfy the clients and investors to work more efficiently and satisfy the needs of the clients but if they fail to perform well they would be a failure in the market unlike other competitors

Ahn, Han and Lee, (2006) if the accumulated services related to the same product is provided by the same brand, the level of satisfaction rises a level above as all the services are provided under one roof.

Bennett & Barkensjo, (2005, p) the quality of service and customer relationship which is beneficiaries to other people to create word of mouth.

Brink and Berndt (2008).the basic and important aspect of the organization should be Customer’s satisfaction which is achieved when it’s been fulfilled by the use of company’s product or services. The aim of gaining customer satisfaction of the organization for their products or services gains loyalty from the customers and also inspires the organization to perform much better and different from the competitors
Bitner & Zeithaml (2003) stated that the evaluation of service is calculated on the basis of customer needs meet their expectations which will give the customer satisfaction.

Kim, Park and Jeong (2004) argues that to achieve the highest level of customer satisfaction the service provider companies should focus on customer satisfaction that satisfies their needs.

Sureshchandar, Rajendran and Anantharaman (2003) to identify the factors of service quality from customer point of view they are: a) Core service, b) Human involvement in service delivery, c) use of technology in service delivery and e) Social responsibility of the firm.

Sureshchandar et al, (2003) the relation between service provider and customer will emphasis on customer satisfaction these two are important point from both the side.

Sureshchander et al., 2002, p. 364) the level of satisfaction is determined by his experience from the service provider.

Turel et al. 2006) the service is measure on the basis of price is charge, which determine the level of customer satisfaction.

Vitasek, (2005) states that after getting the goods or services delivered it is essential to note and understand to how far have we been able to satisfy the customer needs which is known as after sales service.

Wilson et al., (2008, p. 79) the main objective of the firm is to achieve the vision of the company is called higher profit, but the profit is concerned with customer satisfaction which leads to customer loyalty and repeat purchase will increase the goodwill of the company. And goodwill is the higher profit for any company

Wilson et al. 2006, (27) Data of customer provide to management will led to design the delivery of service to customer.
Wilson, 2008, p. (78) Service quality is focused on dimension of service quality which includes technical and fundamental factors of customer satisfaction.

Wicks & Roethlein, (2009, p.83) Due to increase in customer loyalty the customer retention level increase which led to increase the profitability of the firm.

Wickham (2006, 192), the success of entrepreneurial is taken under two important points:

customer expectations from the firm and the performance of the firm.

Yavas et al. 2004; Babakus et al. (2004) The examination of service marketing points is on the basis of quality of service and customer satisfaction it will be considered over the debate.

Zeithaml, Bitner & Gremler (2006, 457) It declares Demand and Capacity in the market correlates in the market adjustment. One is either create so much of demand that you can fulfill the capacity or the other is to cut down or adjust the capacity so that you can meet up the demands.

Zeithml, (2002).the quality and price is valued on the basis of what one gives and what one gets.

Zeithaml, 2000, Keiningham, et al 2007) when customers are loyal at high rate, they tend to contribute for the customer it terms of pursuing other to be the part of the firm.

Zeithaml & Bitner, (2000) it’s difficult to measure the service in intangible and heterogeneity element.