

Customer Retention and Loyalty

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"Business loyalty is increased by the prospect of a future benefit and having confidence in that business to deliver it." (R Fludgate.)

Definition of Loyalty: Quality, state, or instance of being loyal; faithfulness or faithful adherence to a person, government, cause, duty, etc.

Source: <http://www.yourdictionary.com/loyalty>

There is no definition for customer loyalty to a particular vendor on this web site, which indicates that business loyalty is a marketing concept and has a slightly different meaning to that of personal loyalty as it relates to confidence in the business world whereas personal loyalties persist regardless of changing situations.

A definition from Evans, Stuart. (2007) "No Such Thing as Loyalty", icployalty.com, 2007 states that "**Loyalty marketing** is an approach to [marketing](#), based on [strategic management](#), in which a company focuses on growing and retaining existing customers through incentives. [Branding](#), [product marketing](#) and loyalty marketing all form part of the customer proposition – the subjective assessment by the customer of whether to purchase a brand or not based on the integrated combination of the value they receive from each of these marketing disciplines. Source:

http://en.wikipedia.org/wiki/Loyalty_marketing#cite_note-ICLP-0

Introduction

Direct marketing (personalised mailings) was first introduced by mail order companies in the 1960's. It has since become a marketing tool for any business interested in developing loyalty from its customers. From this developed the concept of Customer Relationship Management, (CRM), or relationship marketing which is defined as "Relationship Marketing refers to all marketing activities directed towards establishing and maintaining successful and relational exchanges", (Morgan and Hunt, 1994). The objective of CRM is to create loyalty within customers, reduce "churn" and encourage repeat business. With advances in technology it is now possible to personalise and target direct mailings to many people/businesses. This has become so important because of

how expensive it is to find new customers. It makes economic sense to retain customers and stabilise market share. Peck *et al.* (1999) suggest that profitability increases as the average life of a customer increases.

The development of software packages such as Access, ACT! and Goldmine have helped develop the concept of CRM (customer relationship management) for small to medium size businesses and companies can use these and (for larger companies) even more sophisticated database technology using the Target Group Index (TGI) run by the BMRB.

1. **The nature and characteristics of loyalty and forms of customer relationships**

The nature and characteristics of loyalty rely on a basis of trust and mutual fulfilment of expectations. For marketing communications to succeed there must be a basis of trust at some point in the interactive process of communication of the message to the customer and their response. The form this takes depends on the media used for example, a broken link on a web site will lessen the level of trust in the company who owns it, (and technology,) at a vital point in the decision making process or it can be the tone of voice used by staff on the telephone.

A definition of the sales-purchase cycle is that "the value proposition needs to fill any gaps in expectations," (Fill CIM Marketing Communications 2005)

Morgan and Hunt (1994) have developed the model below to illustrate what's suggested as 3 dynamics to trust within a relationship:

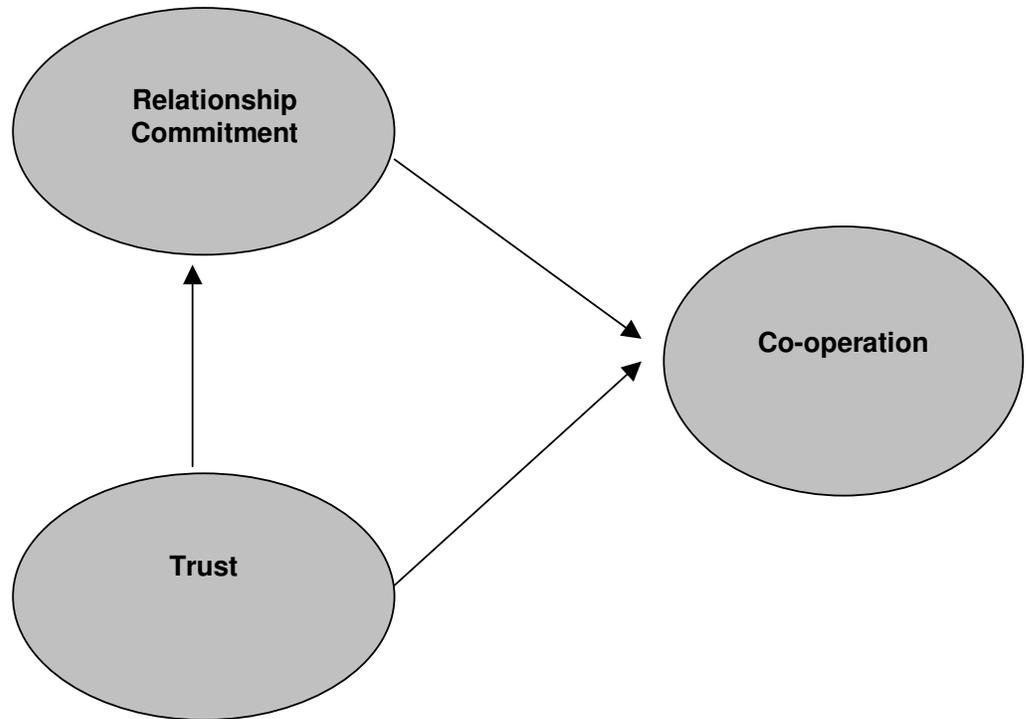


Fig 1 What builds trust? Source: Morgan and Hunt (1994)

Customer loyalty is a valuable commodity and there is fierce competition to win over customers and keep them as profitable stakeholders in the company for the long-term. The shift has been from the traditional Transactional focus to the Relationship focus.

The above model is extended in the areas of trust and relationship commitment into several areas of interaction which then relates back to the original model:

- Relationship termination costs
- Relationship benefits
- Shared values
- Communication
- Opportunistic behaviour

These are factors that are continuously being analysed by customers in view of their existing relationships and the desire to create new ones. This is why

companies now are more customer focused as they realise the value of loyalty and how it can increase profits over time. For example, Lancôme's Rendezvous Club generated a recruitment mailing for research and to ask people to sign up to the loyalty club. The mailing generated almost 32,000 responses and members of the loyalty club went on to spend 13.5 per cent more than before they were members, resulting in over £1.7 million extra sales over a 2-year period. Source: Adopted from Royal Mail Case Study – www.royalmail.com/cmr

For loyalty to exist the customer must pass through several stages in development of his/hers relationship with the company:

- Satisfaction – the customer's basic needs are met
- Bonding – the company is acting in the customer's best interests
- Personalisation – the company understands and anticipates the customer's needs
- Empowerment – the relationship is on the customer's terms and under control
- Loyalty – the company and the customer are fully vested in each other

Source: Royal Mail Information Pack (2002), www.royalmail.com

Several key factors are necessary in the organisations ideology and marketing communications mix for loyalty to occur:

- (a) Continuous customer contact
- (b) Focus on customer value
- (c) Long timescale
- (d) High customer service emphasis
- (e) High commitment to meeting customer expectations
- (f) Quality as a concern to all staff

(Source: Fill CIM Marketing Communications 2005)

Through adoption of the above, companies can turn a once only sale into repeat profit making business. This is especially valuable in B2B markets when sales tend to be of a higher value and more complex in nature.

There are 6 key stages through which a company hopes to develop its relationship with a customer:

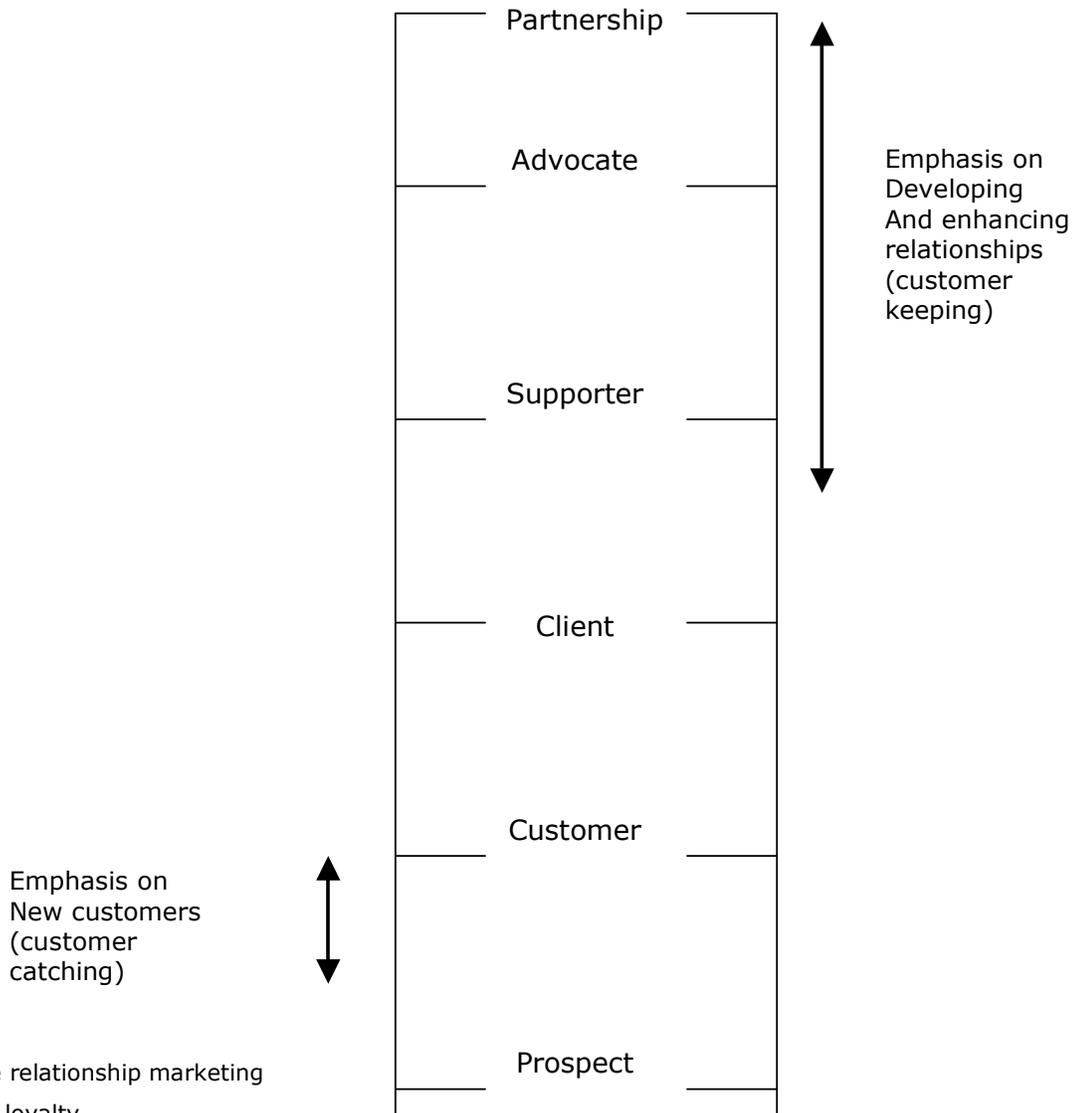


Fig 2 The relationship marketing ladder of loyalty

Source: Peck, Payne, Christopher and Clark (1999)

The most recent step to be added is that of "Partnership" a good example of which is Strategic Account Management (SAM.) Companies may have there

own SAM leader with his own office at the customer's base in order to work with the customer to deliver solutions. Please see example 1 in appendices.

2. **Improving marketing communications to improve levels of trust and commitment**

Many companies are reaping the benefits of increased customer focus and customer loyalty schemes. Safeway was the first retailer/grocer to introduce a customer loyalty card and has been used a benchmark ever since. This works in conjunction with CRM database technology enabling Tesco's to send personalised mailings customised according to customer preferences. The card also enables Tesco to monitor customer spending habits and brand preferences together with providing valuable socio-economic and geo-demographic data. The card records every item a person purchased, the date, time of day and the way you pay. Major brand providers such as Unilever, Procter & Gamble, Coca-Cola, Nestle and Gillette share intelligence gathered. This has enabled Tesco's to profile its customers and develop the business accordingly by using the information to send targeted personalised mailings to customers dependent on their buying preferences, new store planning and new product offerings (e.g. financial services) which encourages loyalty and repeat sales.

Examples

- Currys: New "Whatever happens" product support insurance scheme
- Staples: Loyalty card
- The Independent Newspaper: Online login registration form

Amazon is another example of customer orientated marketing communications which develops trust and loyalty with customers using the latest in internet algorithms to track and record customers purchases and use this information to target specific products at customers who are more likely to buy them because their previous purchases indicate an interest in that area. So specific is the information that if you buy 4 CD's in a series they will e-mail you when the next in the series comes out and tell you that you are 9000 times more likely to buy it! They also ask you for feedback on how accurate you think their algorithms are. The relationship is enhanced by using cookies to recognise when a customer is on their web site and customise the web page with their name and items that they might be interested in as per the above. This shows interest in the customer, technical prowess and may also save time. Another feature is that when ordering you do not have to enter you card information again, however, this may prove a problem if you want to use a different card or someone else uses your machine!

Lloyds TSB has used Phone Bank and Internet banking to improve customer loyalty. Online banking with Lloyds enables interaction with customers and saves them time when performing routine banking tasks such as bill payments, transfers and setting up direct debits. This also saves the bank money in staffing costs. However, there are drawbacks with regards to having to use the call centre and now not being able to get through to your actual branch. Added to this is the use of call centres in India which have had an adverse affect on customer loyalty due to several barriers that exist regarding this issue, namely conflict of interests with the UK economy, poor communications skills and the psychological unease at having your personal affairs dealt with so remotely.

Currys have recently developed and offered a new product support scheme which is sold alongside products in store. The marketing message is very clear, "But all you need to know is that we can get your problem resolved *FAST*." The cover is cheap (£20.00 and gives you comprehensive cover for technical support and spare parts.) This is a good example of marketing communications focused on developing customer loyalty by rewarding customers with peace of mind.

Staples recently introduced a loyalty card scheme (2005) following in the steps of the supermarkets. The benefits of the scheme are points and encourage loyalty to the store. It also increases share of mind during the initial promotion of the scheme. Loyalty cards have proven to be a valuable tool in the marketing communications mix enabling large amounts of data to be captured and analysed to enable more accurate targeting.

3. **The Characteristics of Direct and Database Marketing that assist the development of customer relationships and improve loyalty**

There should be a distinction made between database marketing and direct marketing. Database marketing allows for more efficient targeting and research to be done to enable the creation of higher quality marketing campaigns whilst direct marketing is the process of communicating with the customer.

Direct Marketing

Direct marketing is used to communicate with customers directly using letter, phone or email. The database is used to enable multiple letters/emails or calls to be made to customers in a personalised format which may also include customised fields which hold information relevant to that particular customer. These fields are inserted into the letter/email or used when contacting customer

by phone. For example, their last order or when they last logged onto a web site. By communicating with customers in a personalised way, more rapport is established and a better impression made. Direct mail individualises marketing communications and this generates a better response because the communication is directly relevant to the customer. Loyalty and commitment improve by using direct mail because psychologically people identify and relate to the message. The process is one of recognition on the behalf of the customer and acknowledgment on behalf of the seller that that each customer is an individual and has individual preferences.

Direct mail reminds customers that the company is there (teleprompting, emails) and also communicates advantages to customers such as special offers, e.g. Boots Vantage Points. This is done in co-ordination with other media channels such as radio and TV advertising. This presents a powerful presence of the company in the market place (SOM) and can be targeted to specific points in the year to boost sales. The following statistics show how direct mail impacts on businesses in the UK:

- 5438 million items were mailed in 2003, of which 78% was consumer mailings
- Direct mail volume has increased 139% over the last 13 years
- Estimates suggest consumer direct mail generates over £27 billion worth of business each year
- 60% of direct mail is opened
- 52% of consumers like to receive special offers through the post

Source; Direct Mail Information Service, www.dmis.co.uk

Database Marketing

Data capture is crucial to the workings of any data base and data mining is needed to extract the required information and analyse it. Data mining involves the extraction of information from databases using queries which pull certain records into groups relevant to specific criteria which is programmed into the database. Technologies for analysis have progressed with the use of relational databases. There are two forms of analysis, CHAID and CLUSTER.

CHAID analysis takes information from a businesses database and relates it to larger databases of socio, psychological and geo-demographic data producing sophisticated customer profiles by considering all the given variables and determining which is the most important in a particular case.

CLUSTER analysis groups customers by certain traits relating to their general characteristics such as age, sex, location or if B2B, company size, turnover and number of employees.

Conclusion

In today's increasingly competitive global market, creating and sustaining loyalty from customers is vital for business survival. With the advent of the Internet and continuing advances in communications technology, personal information is becoming an increasingly valuable commodity as it opens the door to new and repeat business.

Appendices:

1. **Example:** "Marriott, a leading worldwide hospitality company, planned to install high-speed internet access into its full-service hotel rooms. Marriott began the installation process in the US with a technology vendor, of which it was part owner. The vendors limited European presence, however, inhibited plans for expansion. A global electronics company who had the resources to serve its communications needs worldwide intended to pursue a strategic relationship with Marriott. Concurrently, Marriott had been working to partner with the electronics company in the travel management arena. Each of the two companies appointed a dedicated strategic account manager to forge relationships between them. Thinking "outside the box" the account leaders proposed a joint venture, where both companies would invest in the technology vendor. The idea worked, and it enabled Marriott to begin a global roll out of Internet access in its hotel rooms. Among the financial benefits of this strategic partnership have been millions of dollars in increased travel business for Marriott, and millions of dollars in reduced travel costs for the electronics company. In the long term there is also the benefit to both companies of combining forces to serve the needs of travellers around the world." (Source: Adapted from Research Brief "Strategic Account Management. 2005" - The Forum Corporation www.forum.com)

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