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Improving Customer Loyalty by Getting Rid of the Misunderstanding

Zhao Shijie^α, Wang Li^β & Zhang Depeng^ρ

Abstract- With the aggravation of the market competition, customer loyalty has become one of the most decisive factors that will affect the long-term profits of an enterprise. Misunderstanding of enterprise management in China is probably to be wiped out in our comprehension of customer loyalty only if we can correctly grasp its connotation as well as take effective strategies. And then, we can increase the loyalty of our customers and keep our business invincible in the fierce market competition.

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I. INTRODUCTION

As far as the current enterprises are concerned, marketing success not only is measured statistically by the amount of their market shares but also should be reflected in how many loyal customers they have. Two American economists, Reichheld and Sasser (1990), have spent a long-term period in observing and analyzing many industries. As a result, they found that customer loyalty is much more important than market share in the process of determining profits. If the customer loyalty can rise by 5 percentage points, the profit increase will reach from 25 to 85 percent. At the same time, the cost of services enterprises which is provided for the old customer is decreasing year by year. More importantly, the loyal customer can recommend an enterprise's products and services to other consumers (Zeithaml & Berry, 1996), and are willing to accept to pay a higher price for the products and services of the enterprise (Dowling & Uncles, 1997). So we can say that the customer loyalty is not only one of the most important determining factors of an enterprise's competitive ability but also one of the fundamental sources of an enterprise's long-term profits.

II. THE OVERVIEW OF CUSTOMER LOYALTY

a) *The Connotation of Customer Loyalty*

Customer loyalty is a multidimensional concept, which is a kind of consumer preference of products and services formed long time ago. What's more, it is also the organic combination of customer cognitive loyalty, affective loyalty, conative loyalty and behavior loyalty (Oliver, 1999). Therefore, we can consider loyal customers as those who can refuse preferential

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price provided by an enterprise's competitors, continue to buy the product or service of the enterprise and even promote them to others for free by obligation. The best customers are loyal ones. They not only cost less to be served, have the tendency to pay more than other customers but also act word-of-mouth to others for your company. Win loyalty, we are told, and profits will definitely follow (Reinartz & Kumar, 2002).

b) *The Function of Customer Loyalty*

It can be concluded from the business practice that customer loyalty is the most valuable, reliable and stable assets of modern enterprise under buyer's market conditions.

The highly loyal customer is not only the key factor to gain the victory in enterprise competition but also the fundamental guarantee of the enterprise long period of stability. Its function can be mainly concluded to six effects as below:

i. *The profit effect*

The loyal customers will firstly continue to buy or accept the company's products or services, and is willing to pay a higher price to high-quality products and first-class service. Thus, the total sales and profits of corporation can be obviously increased.

ii. *The advertising effect*

The loyal customers are likely to become the enterprise's free advertisement propagandist intangibly by sharing his own consuming experience directly or indirectly to the surrounding people. This effect is far better than the advertising promotion in which the enterprise invests a huge amount of money. Therefore, it is commonly said that, "The best advertisement is a loyal customer."

iii. *The demonstration effect*

Once customer loyalty is formed, it will not only provide alternative model for the consumer psychology, consumer behavior and social way of the existing customers and potential customers but also arouse the desire for them to emulate. Moreover, it may enable the consumer behavior to be consistent and even lead to a popular phenomenon.

iv. *The cost-reducing effect*

By repeat purchasing, promoting and recommending to others, loyal customer can save the management and operation cost of the enterprises such

as the expenses on advertising public relations, publicity and promotion.

v. *The safe-operating effect*

The loyal customers will be delighted to try new products or services of other enterprises, which makes the cross-selling successful. Therefore, it has consequently realized the diversification of enterprise management and reduced the management risk of the enterprise.

vi. *The competitive advantage effect*

The loyal customers will not only set a realistic barrier for other enterprises to enter the market but also provide a sharp weapon for the enterprise to start its exploration into a new market. This enables the enterprise to have a relative advantage ahead of its competitors in the market competition.

III. THE MISUNDERSTANDING OF CUSTOMER LOYALTY

With the customer loyalty theory having been widely applied in many industries, the strategy of customer loyalty has become the intensively focusing issue of the nowadays marketing management theory. However, when many enterprise managers attempt to make out the connotation and extent meaning of the concept "customer loyalty", they did not really get to the hard core of it. As a result, the misunderstanding regions of ideas and practice are formed. They can be listed as below:

a) *Misunderstanding 1: Customer Satisfaction is Equal to Customer Loyalty.*

In the course of business operation, a lot of people think that if a customer satisfies, he will continuously buy the products or services of a company. This is considered to be the formation of customer loyalty. In fact, customer satisfaction is a kind of mental activity during which a kind of pleasure can be gained after the customer needs are met. It stems from the comparing between the customer's expectations and the perceived service performance. However, the continuously buying behavior of the loyal customer has its immunity. If a customer was satisfied with the products or services, it does not necessarily mean that he will buy the company's products or services the next time. According to the survey of Bain & Company, among the customers which are satisfied with the products, there are still 65 to 85 percent of them will choose the alternative. It ought to be said that customer satisfaction is the necessary condition but not the sufficient condition for customer loyalty.

So, what is the real difference between satisfaction and loyalty? Experience tells us, as do the definitions in several dictionaries, that satisfaction relates to the result of a process. The process may be a sales process, product performance process, or a

service process. Loyalty relates to a relationship. Customer loyalty does not occur, but satisfaction can occur immediately following a successful process. Loyalty can, in fact, survive a negative process (Helgesen. 2006). It means that loyal customers will continue to purchase from a company even though they may have had a bad experience.

When you examine each of these words, it's clear that customer loyalty is somewhat dependent on satisfaction, but satisfaction does not depend on customer loyalty. That's the difference.

b) *Misunderstanding 2: Preferential Price is the Key to Improve the Customer Loyalty.*

Many managers think that price is the key to win customer satisfaction and build customer loyalty. Undeniably, benefits such as discounts, gifts and price concessions may increase sales and market share in the short term, but it rarely keeps customers really far away from competitors and let them become the sustained buyers of the enterprise. As a matter of fact, low prices will not help to build up customer loyalty because loyal customer often has lower sensitivity of the price. Instead, the original loyal customers will become price-sensitive customers, which will ultimately damage their own interests. At the same time, low prices have reduced the market barriers and enabled the other competitors to enter the market, which allows businesses to face more competitors.

Why would loyal customers be fewer prices sensitive? They may be, but then again, they may not. It depends on how important they think price is and on the value proposition that the brand offers. Although on frequent claim of brand-equity researchers is that brand loyalty and higher prices are positively correlated, this does not automatically mean that loyal buyers are less price sensitive. It may simply mean that these people buy a brand at a higher price because they perceive to be better. For example, usually a brand is clearly in only one price category. Less price-conscious people then have the opportunity to buy at either the cheaper or higher price depending on whether the brand can offer a good reason (functional or psychological) to justify its higher price. It is perceived brand value, not brand loyalty, that drives price insensitivity.

Alternatively, loyal customers may come to expect a price discount or better service. In other words, what are the rewards to the customer for his or her loyalty? If we consider the double jeopardy relationship, the loyal customers are likely to be slightly more frequent buyers and hence may expect a volume discount

c) *Misunderstanding 3: to Enhance the Market Share Will Increase Customer Loyalty.*

Entrepreneurs who have this kind of opinion have not made clear the difference between the concept

of the occupation rate of market and customer loyalty. On the premise that in the same market, market share is the result of competition between the enterprise and its competitors, but loyalty is the reflection of customer share and customer continuous ratio. If the company is keen to increase market share, it will focus on developing new customers while ignoring maintaining old customers. In fact, the increasing of market share will instead deter the customer loyalty. The reason is that once the market share is increased, the enterprise must face all kinds of customer. The enterprise should satisfy different customers with different product or service. It is likely for them to ignore the customer who has the extreme potential to become a loyal customer, but allowing them to the competitors. Thus, the loss tends to be larger and more difficult to make up.

Pursuing market share can actually go against customer loyalty. Why? Because a substantial gain in market share can increase the diversity of the company's customer base. As a result, the company is forced to serve an increasingly heterogeneous base of customers with a homogenous set of products and services. This disparity can create a dangerous dynamic within the company; the service and attention once available to high potential customers are undercut and diluted to cater to an increasing assortment of less-promising customers.

Today's companies must manage a strange paradox: in the race to win market share and its promise of profit, a company risks (and often loses) the highest margin customers and in doing so worsens profitability rather than improving it. A company interested in building a solid, loyal customer base uses an approach different from that of a company interested in simply building market share. Loyalty building requires the company to emphasize the value of its product or services and to show that it is interested in building a relationship with the customer. The company recognizes that its business is to build a stable customer base rather than make a single sale.

IV. THE STRATEGY TO IMPROVE CUSTOMER LOYALTY

a) Adhere to the Customer-Centric Approach

Enterprises should take customer as the center of consideration and manage it as an important strategic asset (Griffin, 2002). They should also improve the levels of customer service by conducting systematic research on customer. What's more, they are willing to improve customer loyalty degree and enforce different strategies on customers of different values in order to bring long-term and stable profits for enterprises. Executives and management personnel of corporation should establish, adhere and perform this concept so as to achieve competitive victory and fast-growth. Haier Large Sweet Potato washing machine is a typical case

of it. Rural consumers reflect that Haier's washing machines often block the waterway while washing sweet potatoes. When market need exist, we must develop it as soon as possible. Thus, the brand-new washing machine emerged, which can only not do the laundry but also wash sweet potatoes. Although the Haier Large Sweet Potatoes washing machines didn't sale very well, it truly reflects the customer-oriented philosophy in the product development.

b) Establish Customer Database

In order to obtain customer loyalty, we should establish detailed and effective customer information database. We can track the transactions of customers through a database. Using the technology of database, we are able to obtain statistics, analyze and conduct data mining, which can effectively measure customer loyalty. The point of contact between business and customers should never singly come from the contact between customers and service personnel. This narrow contact will make enterprises vulnerable to the interference of information distortion. We can truly listen to the voices from customers only through completing customer service system, strengthening exchanges with customers and cherishing the affection we established with customers.

For the sake of improving customer loyalty, the establishment of the database should have the following characteristics:

i. An identification system of core customer

The most practical method to identify the core customers is to answer three overlap problems:

1. Which parts of your customers have the best prospects of gain and are the most loyal? We should especially pay more attention to the customers which have less price sensitivity, rapid payment, less service requirement, stable preference and regular purchasing habit.
2. Which parts of your customers have the largest share in the purchase of the product or service you are offering?
3. Which parts of your customers are more valuable to you than to your competitors?

According to these three questions, we can get a clear core customers list, and these customers are the key managing object in the process of the enterprise implements of loyalty marketing.

ii. A reference system of customer buying behavior

If an enterprise makes good use of customer database, it can understand the preferences and the purchasing behavior habits of the specific customers when each service personnel is providing products and services to them, in order to provide more targeted and personalized service.

iii. *A management system of customer withdrawal*

An enterprise should do some research on the reason of customer withdrawal and learn a lesson from the experience. It should also use this information to improve its products and services. Finally, a normal business relationship should be established with these customers. Moreover, it also helps the enterprise to establish an image of good quality so that the customer will have an emotional tendency to buy the products and services of the enterprise.

iv. *Carry out surveys and assessments of customer loyalty regularly*

In terms of the understanding of the change of customer needs, companies with higher customer loyalty often have greater input. They always follow up on the needs and grievances of customers and then take corresponding measures. The customer loyalty survey should be repeated regularly. The results will directly affect all aspects of the strategy of corporation and have an enormous impact on its earning. As a consultant in Bein said in the "Harvard Business Review", a corporation will have an extremely high profitability if it has a loss rate of zero. In their view, if the loss rate of customer reduced by 5 percent, the profits of credit insurance company will grow 25 percent and the profit of banking corporation will grow 85 percent. Enterprises should regard zero customer churn rate as the goal and carry out surveys and assessment of customer loyalty regularly (Griffin, 2002). We usually take the most commonly used methods of investigation and assessment, including contact between managers and customers, visit that sales staff access to customers and analysis that enterprises made on customer's complaints, etc. They ensure that the enterprises' decisions will respect the views of customers.

c) *Improve the Internal Service Quality and Pay Attention to the Cultivation of Employee Loyalty*

A professor of Harvard Business School holds that customer retention and employee retention promote mutually. The reason is that the products and services which the company provides for its customer are performed by the internal staffs. Their behavior and the results is the direct source of the quality evaluation of customer service. A loyal staff will take initiative to care about customers, provide services enthusiastically to the customers and feel happy to solve problems for customers. Therefore, in the process of cultivating customer loyalty, enterprises should pay attention to the internal management of employees to improve their satisfaction and loyalty in addition to external marketing work.

d) *Maintain Good Customer Relations*

In the past marketing activities, an enormous part of the business is only focused on the way to attract new customers, while ignoring to maintain existing

customers. The light of the enterprise management will be shaded on the period of pre-sales and undergoing sales. It arouses many problems in the after-sale service which we fail to find immediate and effective solution. Thus, there is a great loss of existing customers. However, you must keep adding 'new customer' in order to maintain business sales. This circumstance happens over and over again. For example, a company may lose 100 clients a week, while they get another 100 customers in the same period. Although it seems to have not any impact on sales superficially, actually they should spend much more money for these new customers on advocacy, promotion and so on. Obviously, it is more expensive than the costs to maintain the old customers. It is not economical. So it is very necessary to carry on customer maintenance and after-sale service.

e) *Make Reasonable Price of Products*

In the current consumption level of residents, price is still one of the key determinants of the customer consumption. So enterprises should strive to achieve the optimal value of the product and product high quality and inexpensive products to meet the customer's demand. Making the price of product should not only satisfy the terminal consumer but also leave a profit space for the dealers at all levels. If one of the two is not satisfied with the product price, the sales channels will be blocked.

f) *Increase the 'Threshold' of Customer Conversion*

Generally speaking, brands switching or vendors converting will face a series of tangible or intangible converting cost. It takes time and effort to find, understand and access to new products during the conversion of the purchase object. Moreover, they should give up the discount that they can enjoy while purchasing original product. At the same time, they are also likely to face some economic, social and moral risk if they change this using habit. Increasing customer conversion 'threshold'—the conversion cost can weaken the appeal of competitors and reduce customer withdrawal. The most commonly use strategy is the financial reward of loyal customers. For example, we can provide price preferential, discounts or gifts for the customers according to the frequency and quantity of repeat purchase. The second way is to provide effective service supports for customer. These supports contain quality assurance, operation training, maintenance and repair etc. So the customer perceived value can be increased. The third way is to establish a long-term partnership with customers by effective communication. There are a lot of flexible and diverse means of communication, such as setting up a customer seminar, customer club and the return line.

V. CONCLUSION

To sum up, in order to improve customer loyalty more effectively, the enterprises should get rid of the misunderstanding of customer loyalty. What's more, they should have analyze the customer psychology carefully and consider a variety of factors comprehensively according to their actual situation. If you want to establish a successful business enterprise and want a stand in the market, you must consider customer loyalty as the pursuit of business objectives. Thereafter, you should be eager to improve constantly and set the ultimate goal of your enterprise to cultivate more loyal customers.

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