

Extract from 'PROFILING THE LOYAL CUSTOMER IN THE FINANCIAL SERVICES SECTOR'

By
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CHAPTER 4

DEFINING CUSTOMER LOYALTY AND THE ROLE OF BRAND LOYALTY

4.0 Introduction

In the chapter two the researcher identified that RM and achieving customer loyalty is not appropriate for all sectors, furthermore it was identified that organisations need to consider the individual differences within their customer base if they want to develop a relationship and achieve customer loyalty. In the previous chapter the financial services sector was reviewed and it was identified that this sector would greatly benefit from developing a loyal customer base. However there needs to be clarity on exactly what is meant by customer loyalty and how it can be measured. Furthermore, whether there have been any individual differences identified with loyal types

This chapter initially presents the various components and definitions of customer loyalty in the literature. While there is no one definition of loyalty it is apparent that there appears to be commonly agreed components of loyalty. It would therefore seem that customer loyalty is a multi dimensional construct.

The next section then considers the contribution brand loyalty research can offer by initially considering the differences between customer loyalty and brand loyalty. Definitions of brand loyalty are presented and compared to the customer loyalty components. The brand loyalty literature has considered individual differences of brand loyal types and this chapter discusses the research on the profile of a brand loyal customer. This starts to indicate some of the individual differences that could be considered for customer loyalty.

This chapter, therefore, identifies the relevant variables for including in the definition/measure of the dependent variable – loyalty in this research. It also identifies some individual differences that may have an impact on customer loyalty, which can become the independent variables for this research.

4.1 The Components of Customer Loyalty

From the previous chapter, it has been described how customer loyalty is a key objective for organisations pursuing a relationship approach with their customers. However similar to the variety of definitions for Relationship Marketing, there is no agreed definition for customer loyalty. This section presents the different definitions of customer loyalty from the literature.

Where attempts have been made to conceptualise loyalty it has typically been divided into 2 typologies—behaviour and attitude. (Jacoby & Chestnut, 1978; Kahn & Meyer, 1991; Dick & Basu, 1994). Within these typologies various components of loyalty are described.

The behavioural typology to customer loyalty is primarily concerned with measures of repeat purchase, proportion of purchases etc. Although, this is considered to be a relevant measure, the main criticism of this typology is that it does not include the customer's motives for their behaviour. Therefore attitudinal approaches to loyalty have been developed. While a behavioural approach to loyalty is still valid as a component of loyalty, it is argued that attitudinal approaches to loyalty should supplement the behavioural approach (Samuelson & Sandvik, 1997). The attitudinal typology include, for example, measures of commitment and trust.

The following describes the various research that have attempted to define loyalty. The next two sections (4.1.1 and 4.1.2) presents behavioural measures of loyalty (repurchase and satisfaction) and illustrates the shortcomings of adopting such narrow approaches. Section 4.1.3 identifies attitudinal measures of loyalty i.e. commitment and trust. Section 4.1.4. presents findings from the literature where loyalty had been defined with a number of different components. Section 4.1.5 summarises these four sections by identifying the components of loyalty which will be used for this research.

4.1.1 Behavioural Typology - Customer Retention/Repurchase and loyalty

Discussions on customer loyalty tends to use the term loyalty and retention synonymously. However it is evident from the literature that there is criticism of

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organisations that have chosen to define customer loyalty as simply customer retention and thus simply achieving repurchase. As Stewart (1996) states:

'Customer loyalty and customer retention are not synonymous'

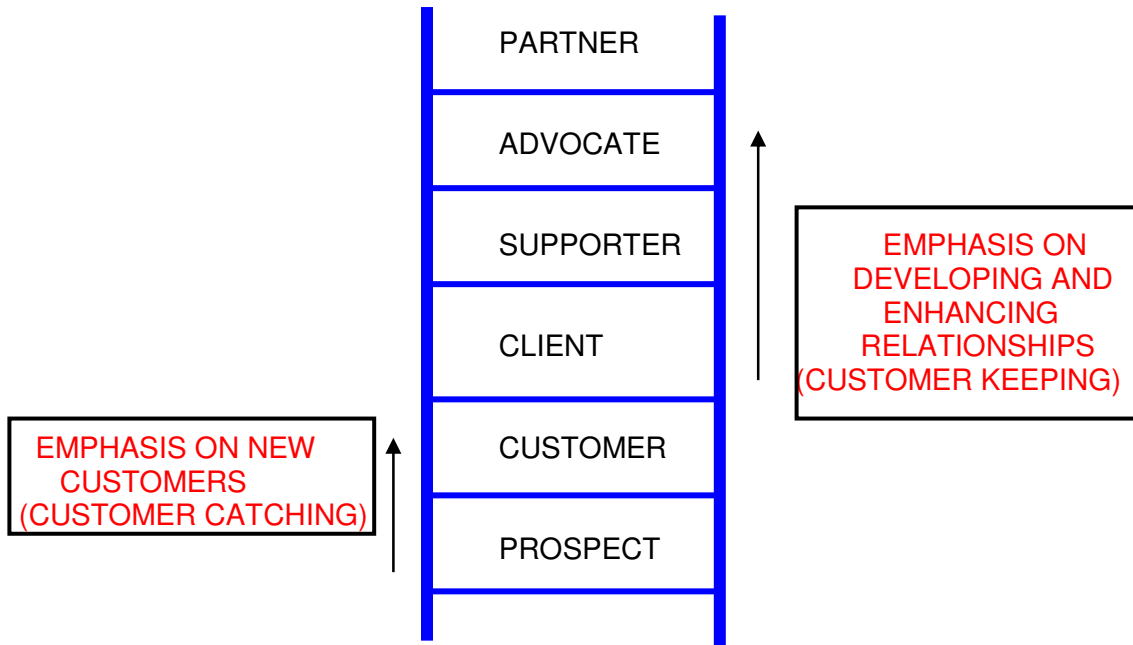
(Stewart, 1996 p.8)

We have discussed in chapter two that customer loyalty is an outcome of RM and that commitment and trust are key components therefore it is apparent that more emotional bonds are being developed with the customer. Customer retention does not accurately capture this level of bonding. Christopher, Payne and Ballantyne (1991) in their 'Relationship Marketing ladder of Customer Loyalty' further supports this (see Figure 6 below).

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Figure 6 - Relationship Marketing ladder of Customer Loyalty



(Christopher, Payne and Ballantyne, 1991 p.22)

Here the customer progresses up the ladder from customers who regularly purchase (customer retention), to customers who are strong supporters of the company and finally to being active and vocal advocates for the company and thus referring others to the organisation. Thus as stated in 4.1 when defining customer loyalty there is a need to consider attitudinal approaches rather than just repurchase.

Furthermore while customer loyalty has been defined by some as a set of behaviours that loyal customers display, it is apparent that the behaviours are reflecting attitudes. These behaviours are typically the ones that Reichheld and Sasser (1990) have identified as generating the financial benefits from loyalty. Thus a loyal customer buys more, will pay a premium and becomes an advocate and recommends the company. For example:

'Loyal customers repeatedly purchase products or services. They recommend a company to others. And they stick with a business over time'

(Prus & Brandt, 1995 p.10)

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'...customers stay with you longer, buy more from you, more often (increased lifetime value)'

(Stone & Woodcock, 1995 p.10)

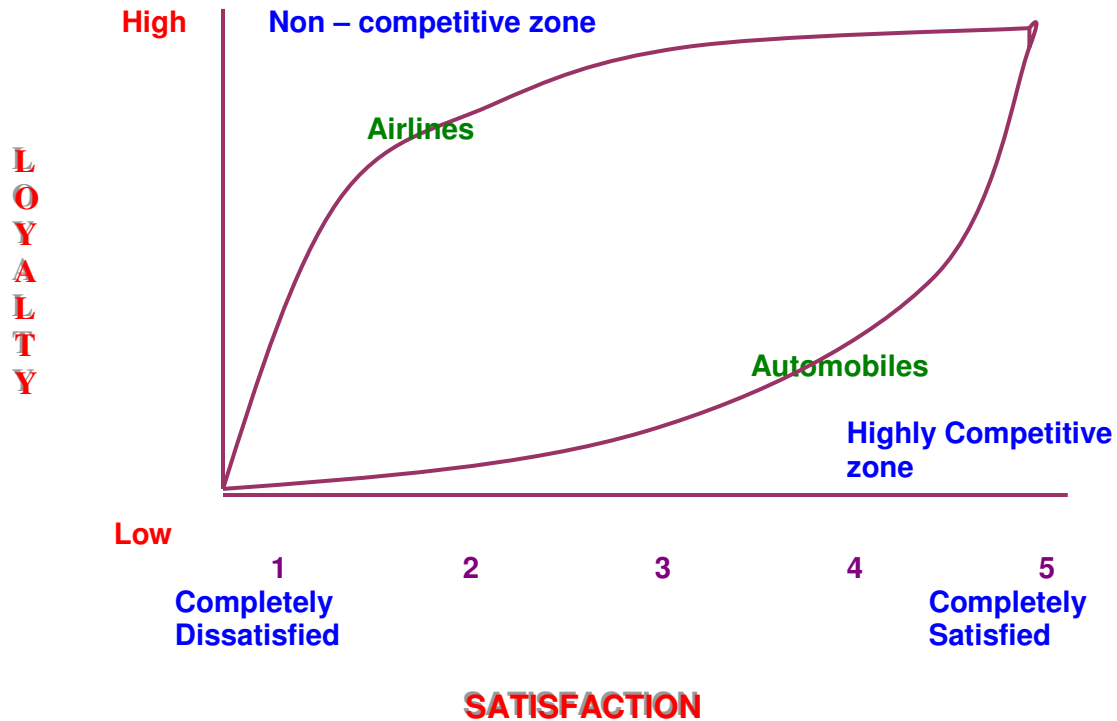
Thus, customer loyalty is a more complex phenomenon that includes other properties rather than just the behavioural construct of repeat purchasing (Samuelson & Sandvik, 1997).

4.1.2 Behavioural Typology - Satisfaction and Loyalty

In the late 80's and early 90's a number of organisations pursued TQM and similar methodologies to deliver customer satisfaction. These were pursued as it was felt that this would impact on their bottom line profitability by increasing loyalty as it is apparent that when customers' progress through the phases previously described in Chapter two they are strengthening their bonds with the organisation.

It had been thought and research has found (Waterhouse & Morgan, 1994; and Eriksson & Vaghult, 2000) that it was sufficient to merely satisfy customers and that they would remain loyal; however research by Jones and Sasser (1995) has found that satisfaction and loyalty are not directly correlated, particularly in competitive environments – see Figure 7. The findings show that to achieve loyalty in competitive environments organisations need to 'completely satisfy' their customers (Jones & Sasser, 1995).

Figure 7 – How the competitive environment affects the satisfaction – Loyalty Relationship



(Jones & Sasser, 1995 p.91)

This has identified that while a high level of satisfaction is an important component of loyalty it is not the only component. Thus as Jones and Sasser (1995) p.91 commented

“merely satisfying customers that have the freedom to make choices is not enough to keep them loyal”.

This has been supported further by Oliver (1999), Fredericks (2001) and Coyles and Gokey (2002).

Oliver (1999) has concluded that while satisfaction is a necessary step in loyalty formation, ultimate loyalty is a combination of perceived product superiority, personal fortitude, social bonding, and their synergistic effects.

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Fredericks (2001) also points out that there is a big difference between satisfaction, which is a passive customer condition, and loyalty, which is an active or proactive relationship with the supplier.

Furthermore, Coyles and Gokey (2002) found from their research that satisfaction alone does not make a customer loyal and that merely measuring satisfaction does not tell a company how susceptible its' customers are to changing their spending patterns. They identify three basic customer attitudes, emotive, inertial and deliberative that underlie loyalty profiles. They have found that the emotive customers are the most loyal.

Thus it would seem that while satisfaction is an important component of loyalty the loyalty definition needs to incorporate more attitudinal and emotive components.

4.1.3 Attitudinal components and loyalty

The critique of the research surrounding repurchase and loyalty and satisfaction and loyalty has suggested that loyalty includes attitudinal components. The following section presents research that supports the role of individual's attitudes in defining loyalty.

4.1.3.1 Commitment and Trust

Jacoby and Kyner (1973) argue that it is commitment that distinguishes between loyalty and repeat purchase behaviour. Thus a person who is committed towards a product/service has an attitude which is durable and impactful. In terms of commitment there would appear to be two types of commitment – affective and calculative commitment.

Affective commitment is defined as the extent to which a customer likes to maintain their relationship with the organisation (Buchanan, 1974). Whereas calculative commitment is where the customer is loyal because they have to be rather than that they desire to be (Meyer & Allen, 1984). Thus it follows that the calculatively committed customer is less reliable as he could get an offer that enables him to switch suppliers. Samuelson and Sandvik (1997) suggest that either or both types of commitment could be used in loyalty research and is dependent upon the purpose of the research. For example, to predict future loyal behaviour affective commitment would be the most effective.

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Hart and Johnson (1999) have stated that while loyalty has been traditionally defined in terms of its consequences:

- Repurchase intent
- Referral intent
- Share of purchase
- Actual repurchase

They suggest that for organisations to achieve true loyalty that they must go beyond customer delight to 'total trust'

Agee (2002) p.42 supported this and stated that '*True loyalty is based on trust, a high degree of satisfaction and a strong value proposition*'.

Buttle and Burton (2001) suggest from their review of the research that loyalty is an attitudinal state which reflects value, trust and commitment within supplier-customer relationships.

Research by Garbarino and Johnson (1999) identified that trust and commitment were the mediators between attitudes and future intentions for customers with a strong relationship with an organisation (theatre in their research).

Thus it would seem that commitment and trust are key components when defining loyalty.

4.1.4 Combining the components of loyalty

Although some researchers have chosen a behavioural definition of loyalty and others an attitudinal definition of loyalty, there is various research to suggest that a variety of components to define loyalty have been considered which include both the behavioural and attitudinal components.

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Prus and Brandt (1995) have described a 'Secure customer Satisfaction Index' where they have taken three major components to measure loyalty: overall customer satisfaction, likelihood of repeat business, and likelihood to recommend the company to others. They describe these three components as the core of a meaningful customer loyalty index.

Pugh (1991) identified four desirable characteristics that make up the loyal customer – repeat purchasing, cross product/service purchasing, referral/word of mouth active and immune to competition.

Jones and Sasser (1995) p.94 define loyalty as '*the feeling of attachment to or affection for a company's people, products or services These feelings manifest themselves in many forms of customer behaviour. The ultimate measure of loyalty, of course, is share of purchases in the category*'.

Zeithaml, Berry and Parasuramen (1996) have integrated research findings and anecdotal evidence and identify the following manifestations of loyalty:

- Expressing a preference for a company over others
- Continuing to purchase from it
- Increasing business with it in the future.

Oliver (1999) identified that while loyalty tends to be defined as repeat purchasing frequency or relative volume of same brand purchasing which basically record what the customer does, none tap into the psychological meaning of loyalty. To encompass these psychological elements Oliver (1999) has described loyalty as :

"a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior." And
"fervently desires to rebuy a product or service and will have no other – pursuing this quest against all odds and at all costs"

(Oliver, 1999 p.36)

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However he does conclude that there needs to be further research into what is the fundamental meaning of loyalty.

More recently Jaishankar, Arnold and Kristy (2000) based their conceptualisation of customer loyalty as both commitment to the relationship and other overt loyalty behaviours. They described loyalty as a multidimensional construct that included repeat patronage, self stated retention, price insensitivity, resistance to counter persuasion, and the likelihood of spreading positive word of mouth.

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4.1.5 Summarising the components of customer loyalty

Thus within the literature while there is no common definition of customer loyalty, there tend to be agreement that loyal customers demonstrate the following behaviours and attitudes

- Repeatedly purchase from the organisation (preferring and choosing it to others)
- Have a high level of satisfaction with the company
- Will recommend the company to others
- Will trust the company
- Will be committed to the company

Reichheld (1996) has identified a further measure of loyalty which as an outcome incorporates some of the above. He has described a measure of loyalty as '*share of the wallet*' (p.60) i.e. what percentage of the customer's purchases is in the product categories that the organisations serve.

This definition is also of interest because it would seem to support the most frequently used definition in the brand loyalty literature.

Within the brand loyalty literature there has been considerably more debate about what is an appropriate definition of brand loyalty. However, before these are reviewed the differences between customer loyalty and brand loyalty are considered.

4.2 Brand Loyalty compared to Customer loyalty

As an area of interest brand loyalty would appear to have a longer history in Marketing than Customer loyalty. Discussion on Brand loyalty began in the literature as early as 1923 with an article in the Harvard Business review by Copeland. A review of the evolution in brand loyalty research by Schultz (2000) however identifies that the majority of the basics of brand loyalty stems from research conducted by the Chicago Tribune in the late 40's and early 50's which recorded consumer household purchases. By the 60's the research into brand loyalty tended to focus on the economics of information i.e. the cost and ability of consumers to search for information about alternatives and to understand brand choices (Farley, 1964). By the 70's the impact of psychological factors were being raised to explain why loyalty occurred (Jacoby & Kyner, 1973). In the 80's, research focus shifted to consumer choice and behaviour modelling by using supermarket scanner data and thus observable consumer purchase behaviour. Furthermore, in this period marketers were starting to use more sophisticated regression techniques to segment behaviours.

However, similar to the findings from the customer loyalty research Schultz (2000) p. 43 has identified that *"less work appears to have been done on the consumer side, asking why consumers become and remain loyal to brands"*.

Whereas customer loyalty has been relevant to a number of sectors, brands have tended to be associated with fast moving consumer goods, where consumers often buy more than one brand in a category (East, 1997). East (1997) has made the distinction of brand loyalty as a proportion of expenditure for FMCG whereas he sees customer loyalty as allegiance which is assessed by repeat purchase, these are typically for durables, industrial purchases and services. The distinction between the type of product e.g. FMCG or durable may be valid but as we have discussed in section 4.1.1 customer loyalty is more than simple repurchase.

The link between customer loyalty and brands is also demonstrated by recent research (Brand Strategy, 2001), which has identified that a strong brand has a positive relationship with customer loyalty.

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East's definition above appears to have been restricted by his choice of definition from brand loyalty however if we consider the debate on defining brand loyalty we can see that the differences between brand loyalty and customer loyalty start to become more blurred, particularly when considering the behavioural measures of customer loyalty.

4.2.1. Definitions of Brand Loyalty

Cunningham (1956) identified three possible definitions of brand loyalty as:

- 1) customers lost and gained over specific time periods,
- 2) time sequences of individual purchases and
- 3) share of the market.

Cunningham felt that the most appropriate of the three were share of the market since with the first definition he felt that an arbitrary time period may distort the findings e.g. if a consumer was out of the market in the time under review. The second definition could also lead to a biased result since the researchers would need to make a subjective judgement on the buying patterns of the consumer e.g. buy brand A once and then brand B five times. He felt that the market share definition gave an objective measure of brand loyalty. This definition has been criticised, as too simplistic and further definitions have been proposed (Day, 1969; Burford, Enis & Paul, 1971; and Olson & Jacoby, 1971)

Day (1969) finds that the true brand loyal buyer is; conscious of a need to economise when buying, confident of her brand judgements, heavy buyer, older housewife with smaller average household and is less influenced by day to day price fluctuations.

Burford, Enis and Paul (1971) developed an operational measure for defining loyalty. They have identified three components to loyalty. Budget ratio (fraction of total budget for the product class allocated to the loyalty object), switching ratio (number of opportunities to switch plus one minus number of switches divided by number of

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intervals in the survey period) and patronage ratio –(total number of stores or brands available plus one minus number of stores patronised or brands purchased divided by number of stores or brands in market).

Olson and Jacoby (1971) have further supported the need for a multidimensional conceptualisation of brand loyalty. Using Factor Analysis they found that the following are linked to Brand loyalty: proportion of purchases devoted to the most often purchased brand, number of different brands purchased over the past two years, number of times the favourite brand was purchased out of the last five purchases, three consecutive purchases out of the last five purchases, actual number of consecutive purchases of favourite brand out of the last five purchases.

The research into brand loyalty has also considered the impact of brand loyalty on store loyalty where brand loyalty has been weakly associated with store loyalty (Cunningham, 1956 & 1961; Carman, 1970; Keng & Ehrenberg, 1984; and East, Harris, Wilson & Hammond, 1995).

These definitions of brand loyalty would suggest that the definitions have focussed on the nature and frequency of purchase. Where there appears to be similarity with customer loyalty is the behaviour identified as '*Repeatedly purchase from the organisation (preferring and choosing it to others)*'.

The other components identified in defining customer loyalty i.e.

- Have a high level of satisfaction with the company
- Will recommend the company to others
- Will trust the company
- Will be committed to the company

may be less relevant for FMCG where there is less involvement in the purchase. As Mitchell (1994) has described in his article based on work by Jan Hofmeyr who has looked at consumers of products to religion. The extent to which customers are loyal is determined by four factors – the degree to which it fits the individual's needs and values,

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the degree to which it involves the individual; the availability of an alternative; and the individual's attraction to the alternative. Where there is low involvement then there will be more switching e.g. cat litter Vs financial services. Thus one could argue that the more emotive bonds are less likely in FMCG goods where there is less involvement etc.

4.2.2 Identification of individual differences with brand loyals

Since there appears to be similarities between customer loyalty and brand loyalty, the brand loyalty literature has been reviewed to establish whether there are individual differences within the customer base and that there are brand loyal types.

A review of the brand loyalty literature shows that there has been considerably more research in this area. There are a number of studies that have sought to test whether those with high brand loyalty have socio-economic characteristics, which differ significantly from those buyers with low brand loyalty. With the exception of Snyder (1991) these studies have mainly been for food and grocery purchases.

Cunningham (1956) found no difference between brand loyals and non-brand loyals but commented that his findings could have been different if he had considered loyalty for a particular product group.

Frank (1967) also concluded that socio-economic characteristics contributed little to brand loyalty.

However Carman (1970) established a definite link between personal characteristics, the shopping processes and brand loyalty. He tested and found his hypothesis to be true that personal characteristics of consumers will explain differences in store loyalty e.g. found loyals are housewives who work, lower income, busy mothers with children at home, do less entertaining, less interested in homemaking.

Uncles and Ehrenberg (1990) found that older consumers do not buy less i.e. are more brand loyal; any differences are not significant. They behave the same as other consumer's e.g. less than 54.

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East, Harris, Wilson and Hammond (1995) sought to establish the profile of a brand loyal buyer for supermarkets. Using a mail survey they found that brand loyalty is related to household income (high loyals had incomes of £20,000+), brand loyals spend more, are more quality conscious (not price sensitive). They are less loyal when aged below 25 and over 65.

Snyder (1991) has considered loyalty for frequently purchased consumer services, and he found only weak (and negative) correlation between generalised service loyalty and educational level and family size, thus the more educated and the bigger family the less likely they are to be loyal. He suggests that the more educated are more confident and less reliant on loyalty, as a means of reducing the risk perceived in purchasing services. His findings suggest that demographic correlates to generalised loyalty do exist but exhibit weak measures of association. However, demographic correlates were identified with loyalty to individual services e.g. gender with inexpensive motel and hair stylist, age and fast food restaurants etc, educational level negatively correlated to gas stations and fast food restaurants, family size negatively correlated with choice of hairstylist.

East, Harris, Wilson and Lomax (1995) found that store loyal people are 25-44 years old and prefer large out of town supermarkets. They quote Enis and Paul as finding that high loyalty was associated with low income and fewer years of education. They did not agree with other findings that store loyalty is a phenomenon of the underprivileged. They perceive that high loyals have more commitments. They suggest that loyals are from the 25-44 age group, and perhaps have greater family commitments but this hasn't been substantiated.

Thus it would seem that within the brand loyalty literature there has been some consideration of individual differences and the characteristics of a brand loyal customer.

4.2.3 Summary of identified loyalty components and relevant individual differences

The previous literature on customer and brand loyalty has identified the component variables of loyalty as people who:

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- Repeatedly purchase from the organisation (preferring and choosing it to others)
- Have a high level of satisfaction with the company
- Will recommend the company to others
- Will trust the company
- Will be committed to the company
- Spend proportionally more with that provider than others i.e. Share of the wallet

The literature in brand loyalty has identified that although, there are different outcomes from the research the findings suggest that there may be some relationship between loyalty and age, income, educational level and family commitments.

While there appears to be little research in the customer loyalty area as to the customer characteristics that are most likely to be loyal the findings from the brand loyalty have helped to develop the hypotheses for this research.

4.3 Summary

In this chapter although there has not been one agreed definition of loyalty, the customer loyalty and brand loyalty literature has identified the various components of loyalty as people who:

- Repeatedly purchase from the organisation (preferring and choosing it to others)
- Have a high level of satisfaction with the company
- Will recommend the company to others
- Will trust the company
- Will be committed to the company
- Spend proportionally more with that provider than others i.e. Share of the wallet

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The above components will be essential for this research in terms of developing a multi construct loyalty variable. This will then become the dependent variable which we can test the relationship of specific independent variables. Furthermore, this research can contribute to the literature by presenting an 'empirically tested' definition of loyalty.

The findings from the brand loyalty literature has identified that certain individual differences may affect a person's loyalty i.e. a relationship between loyalty and age, income, educational level and family commitments. These have helped to develop the hypotheses of the relationship between the dependent variable of loyalty and the independent variables.