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Measuring Customer Loyalty Using Retention, Advocacy and Patronage as Key Denominators

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Abstract- This paper sought to discuss the concept of loyalty of customers to organizations and brands. Loyalty is defined as the extent of the faithfulness of consumers to a particular brand, expressed through their repeat purchases, irrespective of the marketing pressure generated by the competing brands. The authors adopted an interpretive literature approach in discussing the three cardinal denominators for measuring loyalty: repetition, advocacy, and patronage. The study revealed that loyalty is important for several reasons. First, it reduces the cost of production because the sales volume is higher. Second, companies with brand-loyal customers don't have to spend as much money on marketing the product, which will permit the company to either retain more earnings or to invest resources elsewhere. Third, companies may use premium pricing that will increase profit margins. Finally, loyal customers tend to recommend products that they like. It is also important to observe that the study brought to the fore the fact that patronage, advocacy, and repetition are key to examining loyalty.

Index Terms- Loyalty, Profitability, Denominators, Patronage, Advocacy

I. Introduction

The outcome of the process of relationship development should be loyal (and Profitable) customer. But, as with the concept of relationship marketing itself, there is much debate and confusion about just what is meant by customer loyalty. The Oxford English Dictionary defines loyalty as the state of being faithful; true to allegiance. However, too frequently, mere repetitious behaviour by customers has been confused with loyalty as defined above. Repetitious purchasing behaviour may be a result of a market structure in which buyers find themselves with few alternatives, or where available alternatives can only be obtained at a high cost in terms of breaking current ties with a supplier. In many markets, some segments are likely to purchase repetitively out of inertia or lack of awareness of the alternatives available. The loyalty of customers who are influenced by such inertia is likely to be very different to that of a customer who strongly advocates a product and feels emotionally attached to it. Becoming an advocate of a company is the peak of a 'ladder of loyalty'.

Dick and Basu (1994) developed the notion of relative attitude as a theoretical grounding to the loyalty construct. Relative attitude refers to 'a favorable attitude that is high compared to potential alternatives. They suggest that loyalty is evidenced both by a more favorable attitude towards a brand (compared to other alternatives) and by repeat buying behaviour. By their analysis, low relative attitude with low repeat purchase indicates an absence of loyalty, while low relative attitude with high repeat purchase indicates 'spurious' loyalty. Satisfaction with a service provider is seen as an antecedent of relative attitude because without satisfaction consumers will not hold a favorable attitude towards the service provider, compared to other alternatives available.

Brand loyalty occurs when a customer chooses to repeatedly purchase a product produced by the same company instead of a substitute product produced by a competitor. For example, some people will always buy Coke at the grocery store, while other people will always purchase Pepsi. Brand loyalty is often based upon perception. A consumer will consistently purchase the same product because she perceives it as being the superior product among the choices available. You should note that brand loyalty usually relates to a product, not a company. For example, while you may be loyal to your Honda Accord, but when it comes to motorcycles, you might believe that a Harley leaves a Honda motorcycle in the dust.

Brand loyalty is important for several reasons. First, it reduces the cost of production because the sales volume is higher. Second, companies with brand-loyal customers don't have to spend as much money on marketing the product, which will permit the company to either retain more earnings or to invest resources elsewhere. Third, companies may use premium pricing that will increase profit margins. Finally, loyal customers tend to recommend products that they like.

Businesses have to exert significant effort to facilitate brand loyalty. You need to convince potential customers that your product has a significant advantage over other products to justify consistent purchases of your product. Businesses also will attempt to leverage brand loyalty developed for a product to other products offered by the company. The hope is to create brand loyalty for as many products as possible.

II. THEORETICAL FRAMEWORK

Since customer loyalty has become paramount for organisations, a major concern is to find out the determinants or drivers of customer loyalty. The marketing and service literature abound with studies which pointed out customer satisfaction as one of the prime determinants of customer loyalty (Parasuraman et al., 1988; Anderson and Sullivan 1993; Andreassen and Lindestad, 1998a; Cronin, 2000; McDougall and Levesque, 2000; Chiou et al. 2002; Lin and Wang, 2006; Chi and Qu, 2008; Heskett and Sasser, 2010). Customer satisfaction is considered a strong predictor of behavioural variables such as customer loyalty, word of mouth, repurchase intentions, etc. (Eggert and Ulaga, 2002). Many researchers as well as service profit chain literature have reported that there is a positive correlation between customer satisfaction, customer retention and customer loyalty which ultimately leads to profitability (Heskett et al., 1994; Parasuraman et al., 1988; Anderson and Sullivan, 1993; Hallowell, 1996; Mittal and Kamakura, 2001).

Service quality has also been associated with customer loyalty. While some researchers have reported that customer satisfaction exerts a stronger influence on purchase intentions than service quality (Cronin and Taylor, 1992), others provided strong empirical evidence supporting the notion that service quality increases customer intentions to remain with a company. For instance, Buzzell and Gale (1987) have found that service quality results in repeated sales and increased market share, which leads to customer loyalty. A research by Zeithaml et al. (1996) concluded that when organisations enhance the quality of their services, customers' favorable behavioural intentions are increased while unfavorable intentions are decreased simultaneously. Corporate and brand image have also emerged as determinants of customer loyalty (Gronroos, 1988, Andreassen and Lindestad, 1998b). According to Anderson et al. (1994), higher levels of customer satisfaction increases loyalty by building a positive corporate image. Andreassen's study (1999) has also confirmed that there is a positive relation between corporate image and customer satisfaction, which leads to loyalty. Further studies have also concluded that corporate image plays a significant role in developing customer loyalty amongst existing customers (Andreassen and Lindestad, 1998a, 1998b). Perceived value expressed as the ratio of perceived benefits to perceived costs is also considered as a determinant of customer loyalty (Zeithaml, 1988; Costabile, 2000; Lam et al. 2004). Customers develop loyalty towards a particular firm when there is a feeling that they are receiving greater value as compared to competitor firms (Bitner and Hubbert, 1994; Sirdeshmukh, et al. 2002). A study by Lam et al. (2004) showed that customer value positively correlates with customer satisfaction and customer loyalty. Other studies showed that trust directly and positively influences customer satisfaction and customer loyalty (Costabile, 2000; Chiou, 2004). For Gommans et al. (2001) trust is a crucial factor that leads to customer loyalty. This issue was further explored by Lin and Wang (2006) who argued that trusting beliefs lead to positive attitudes (customer satisfaction), which, in turn, influence intention to engage in repeated purchases (customer loyalty). They have also posited customer satisfaction as a mediating variable between trust and customer loyalty.

It has been also found that the development of good relationships with customers also plays a key role in generating customer loyalty. For Buttle (1996), marketing concerns have progressively shifted from developing, selling, and delivering products/services to developing and maintaining a mutually satisfying long-term relationship with customers. Enduring relationships with customers provide a unique and sustained competitive advantage that is hardly duplicated by competitors. Such a strategic orientation is reputed to improve customers' satisfaction and loyalty as well as raising financial performance (Andreassen, 1994). Switching cost has also emerged as one of the factors that affect loyalty (Zeithaml, 1981; Gronhaug and Gilly, 1991; Heide and Weiss, 1995). Switching costs involve investment of time, money, and psychological effort. Due to these factors customers are likely to refrain from shifting to another supplier of the same product/service (Guiltinan, 1989; Dick and Basu, 1994). Lam et al. (2004) have found that switching cost is positively correlated to customer loyalty and it also affects customers' tendency to recommend other customers.
Other scholars have turned their attention to the investigation of organizational performance aspects and their impact on customer loyalty. Bielen and Demoulin (2007) have reported that waiting time has a significant influence on customer loyalty, especially in service industries. Customer satisfaction with waiting time was used as a construct to represent customer post-experience and judgmental evaluation related to cognitive and affective aspects of waiting. By measuring the extent to which perceived waiting time period matches customers' expectations for a specific transaction, they have also found that long waiting time negatively affects customers perception of service delivery, which reflects negatively on loyalty. Moreover, reliability/dependability in the words of Slack (2004) has also emerged as an operations element of prime importance in service quality studies (Zeithaml et al., 1990; Parasuraman, 1991; Heskett et al., 1994; Berry, 1995; Stank et al. 1999). Patterson and Marks (1992) and, more recently, Lai and Yang (2009) also identify a positive relationship between perceived dependability and user satisfaction. Just a few studies have hitherto investigated the impact of operations performance elements on customer loyalty.

More specifically, the studies of Bielen and Demoulin (2007), which looked at waiting time (speed) effects on customer loyalty, and studies which looked at the impact of dependability on loyalty, were the ones that more distinctively focused upon operations performance aspects in their investigation. Besides speed and dependability, quality was an important operations performance element that has been widely investigated in previous research concerned with drivers of customer loyalty. Our study builds upon previous knowledge on the impact of speed, dependability, quality on customer loyalty by investigating the joint effect of these three elements on customer loyalty. Furthermore, we have also investigated the inter-relationships among these three elements, i.e. how they affect each other.

2.1 Loyalty Programmes and Profitability

Customer loyalty is about more than 'loyalty programmes', which have become popular with companies in many services sectors in recent years. Many loyalty schemes can be seen as classical sales promotion activity in that they offer a short-term incentive to disloyal brand switchers. It has been noted that much sales promotion activity is very short-term in effect and can actually undermine the long-term task of developing a strong brand (O'Brien and Jones, 1995) as cited in Palmer (2008). There is evidence to suggest that sales promotion activity, by encouraging brand switching, can bring about a short-term increase in sales for a company. In the case of manufactured-goods companies, this may simply bring forward consumers' purchases resulting in a subsequent fall as stockpiles are used up. In the case of services, the problem of carrying forward stockpiles does not exist, but disloyal brand switchers who were attracted by one company's offer may be just as easily attracted away by a competitor's incentive.

An important aim of loyalty programmes is to extend a customer's life with a company that their lifetime profitability is increased. Unfortunately, it can be very difficult to measure the effectiveness of a loyalty programme. The conceptual difficulties in measuring performance of loyalty programmes stem from the difficulty of comparing the performance of a marketing plan that includes a loyalty programme with a plan that does not include one. Some companies have experimented with cross-sectional data by comparing past performance at outlets that are similar, except for the existence of a loyalty programme. There are few published long-term studies of the effectiveness of loyalty programmes.

In any given industry sector, there are usually significant benefits of being the first company to offer a loyalty programme. However, while pioneers in a sector may introduce incentive Schemes and gain additional profitable business from competitors, incentives can rapidly become a sector norm that buyers expect (Gilbert and Karabeyekian, 1995). Loyalty programmes may fail to give a long-term strategic advantage to a company because they are easy for competitors to copy. There is evidence that once one innovator in a sector introduces a loyalty scheme, competitors soon follow.

A further reason why it is very difficult to evaluate the effectiveness of a loyalty programme is because one of the main benefits to a company is the data that programmes can give them. To many companies, a loyalty programme represents a cost-effective way of gathering longitudinal data about customers' behaviour, particularly as they can also link this to customers' demographic information. An example according to Palmer (2008) is the retailer Tesco, who used data-mining techniques to identify a link between the sale of beer and the sale of nappies. This insight could not have been provided very easily by an analysis till receipts alone, but came about by analyzing data over time, for different stores and different categories of customers.

Against these benefits to companies is an increasing realization by some customers of the privacy implications of allowing so much data to be collected about them. While it is probably true that the majority of customers are quite happy to simply collect rewards, concerned about the privacy issues, or simply unaware of the amount of data that is collected about them, there are nevertheless many customers who do not use loyalty programmes because of the need to give information about themselves (Palmer, 2008).

2.2 Challenges to Customer Loyalty

In developing customer loyalty, service providers face a number of challenges (Palmer 2008): Loyalty may be an unrealistic pursuit where customers have no underlying need to make further purchases of a category of product that a company is able to supply. In the extreme case, a small scale company may appeal to the curiosity of buyers for whom a second-time purchase will have little of its original value – curiosity. This phenomenon is present in many tourism-related businesses in destinations of symbolic rather than aesthetic quality (for example, many people make a religious pilgrimage once in their lifetime with little incentive to return again). While firms with a diverse product and geographical coverage may be able to build on their initial curiosity contact, opportunities for relationship development by smaller companies in such circumstances are limited. In many consumer markets, buyers have become more confident and their needs ongoing trusting relationships has been reduced by legislation, which has had the effect of reducing the risk associated with buying goods and services from previous unknown sources. In the UK, for example, statutory provision for investor's competition funds has lessened the need for investors to rely on an intermediary whom they have come to trust. Legislation has reduced the chances of a poor relationship being developed and provided means for compensating investors who suffer loss as a result of failure by an intermediary, thereby encouraging greater transactional orientation.

Palmer (2008) argues that formalized buying processes adopted by large companies and government bodies may prevent the development of ongoing relationships based on social bonds. Tightly identified supplier-buyer relationships, and a requirement for contracts to be re-submitted for tender after a specified period, reduce the scope for ongoing socially based relationships to be developed within a system of routine competitive tendering. It has been argued that such an approach to obtaining value for money has stressed cost reducing at the expense of more qualitative measures of efficiency and effectiveness.

Much of the literature on relationship marketing has focused on suppliers' needs develop relationships (e.g. Day and Wensley, 1983; Webster, 1992), overlooking the perspective of buyers' needs or lack of need to develop ongoing relationship. Commitment by a customer to one supplier relationship can imply forgoing alternative opportunities when they present themselves. Buyers may deliberately seek to minimized risk of dependency by developing a portfolio of suppliers.

Recent developments in IT have emphasized the benefits to producers of being able to gain an asymmetrical position of power in private buyer-seller relationships. In Further development, IT is strengthening the willingness and ability to private summers to engage in multiple sourcing of purchases at the expense of ongoing relationships. For example the internet is increasingly allowing consumers to search quickly and easily for the cheapest quotation when their car insurance comes during renewal, reducing the chances of renewal through inertia.

Individuals differ in their level of optimum stimulation level, implying that some individuals have a greater propensity than others to seek out variety or to take risks compared with those who seek out the security and predictability of an ongoing relationship. There is evidence of a demographic effect on loyalty. In one study of customers of dentists, hairdressers and travel agents, it was found that older age groups displayed significantly more loyal behaviour than their younger counterparts. Additionally, it was found that older clients had different motives (social benefits, special treatment and confidence) for staying loyal compared to the younger clients (Patterson, 2007).

For firms, the most rewarding relationships with customers result from investment create affective loyalty, rather than short-term financially based incentives. The excessive use of financial incentives to create loyalty may put a firm at a cost disadvantage in a market where cost leadership is important, while securing little underlying loyalty. While pioneers in a sector may introduce incentive schemes and additional profitable business from competitors, incentives for loyalty can rapidly become a sector norm that customers expect. In the case of airlines' frequent-flyer programmes, a cycle of development has been described that began in the 1980s, when the first companies to launch achieved revenue benefits. By the end of the 1980s, the use of frequent-flyer programmes had become more widespread and their revenue benefits marginal. By the 1990s, most major airlines had developed programmes, yielding little advantage from this tool (Gilbert and Karabeyekian, 1995). Frequent-flyer programmes had become part of many business travellers' expectations, resulting in heavy losses of revenue for airlines. Meanwhile, many 'low-frills' airlines, such as Ryanair, who offer no loyalty programme have achieved rapid growth and higher levels of profitability than their full-service competitors who offer a frequent flyer loyalty programme.

According to Palmer (2008), programmes to develop loyalty may motivate those customers who quality for loyalty rewards, but may demotivate others who do not quality. It is reported that a number of grocery retailers have considered adding fast checkouts with shorter queues for their high-profit customers, similar to the dedicated check-in areas used by airlines for their business class passengers. However, the negative effects on grocery shoppers who did not qualify for the fast checkout may have had a demotivational effect greater than the motivational effect on those who did.

2.3 Measuring Customer Loyalty

According to http://www.loyaltyresearch.com/insights/thought-perspectives/customer-loyalty-what-is-it-how-can-you-measure-and-manage-it/2/ *(retrieved November 11, 2015),* it is challenging to measure the level of loyalty within the relationship which is why companies so often succumb to simply defining loyalty as the number of purchases made or a continuing pattern of buy behavior. And asking the customer directly about whether or not they are 'loyal' does not provide a valid measure. Customers will often say they are loyal – simultaneously– to multiple providers. Measuring customer loyalty means measuring those attitudes as well as behaviors that we know make up this concept of loyalty. For example, some of the important attitudes and behaviors expected of a loyal customer include:

- likelihood to recommend your products and services to others
- likelihood to continue purchasing your products and services, at minimum, at the same level
- likelihood of purchasing other products and services you offer
- believing your products and services are superior to others offered in the marketplace
- not actively seeking alternative providers to replace you
- providing your company with opportunities to correct problems and not using these as a basis for compromising the relationship

Based on customers' responses to questions such as these as well as others that evaluate specific aspects of their relationship with your company, a loyalty profile of your customers can be created. Loyalty segments categorize customers as loyal, neutral and vulnerable. The basis for loyalty segmentation should be sufficiently flexible in that it recognizes and accounts for the uniqueness and special challenges of any one business or organization as well as the environment in which it competes. And yet must also be based on sound, well-tested research principles and validated modeling (*http://www.loyaltyresearch.com/insights/thought-perspectives/customer-loyalty-what-is-it-how-can-you-measure-and-manage-it/2/-retrieved November 11, 2015).* Business success means having desirable customers who are strongly tied to your organization. Monitoring the number/percent of your customers in the loyal segment and doing what it takes to increase loyal customers while decreasing those who are vulnerable should provide the focus of any organization.

III. METHODOLOGY

An interpretive literature approach was adopted for this study. The authors reviewed widely adequate literature on the subject, breaking into parts and examining the components of the topic for easy comprehension of the issues discussed. Thoughts and personal interpretations of the issues addressed in the paper were the bases upon which the authors drew their conclusions on the topic.

IV. CONCLUSION

Customer loyalty is a tricky sentiment to track. It is difficult to measure customer loyalty because proof of loyalty, the state of being loyal, is most often shown after an action occurred that indicates a person's loyalty. However, past action often indicates but doesn't guarantee future loyalty (*http://www.mtabsurveyanalysis.com/3-ways-to-measure-customer-loyalty/: retrieved November 11, 2015).* So how do you measure something that hasn't happened yet? You can look for patterns when analyzing responses to survey questions designed to measure specific indicators that, when taken in context by the analyst, have varying degrees of certainty as to future action. Bob Hayes, author of *Measuring Customer Satisfaction and Loyalty*, breaks it down into 3 measurements: retention, advocacy and purchasing.

Retention is a reflection of a customer's willingness to remain with a particular company's service or products and is useful to measure customer loyalty. Questions designed to determine loyalty are often based on the "How likely are you…" model to predicate future behavior. Among wireless or other service provider companies, Retention is most often asked by the question, "How likely are you to switch?" This question is an indication of the relationship the customer has with the company and may be an indicator of overall satisfaction. Although, the smart analyst should be aware that the question alone, without corroborating evidence, may be an indication of a deeper dissatisfaction with the competition rather than satisfaction with their current company. This least of all evils attitude is often found in service industries such as cable/internet providers, wireless companies and banking. To be helpful, retention questions should be supported by an investigation of the second measure, advocacy.

Advocacy is related to retention because the assumption is that a customer that is a cheerleader for or satisfied with your organization is likely to remain with you. They relate to the customer's perception of the company's image that they are doing something right. Determining what that "right" something is requires additional investigation. It may be related to a single experience or simply to an overall – but general – impression. There is overlap between advocacy and retention but they are distinctly different. Advocacy requires less action on the part of the customer, because to advocate does not mean purchasing. Whereas retention requires the customer to engage with your company through the basic transaction of making an additional purchase (or renewing a service), which in itself is a strong indication of customer satisfaction, the strongest indication of customer satisfaction is related to purchasing.

Purchasing questions like, "how likely are you to continue; increase; and or purchase different services from X Company?" are the best indicators of growth through customer loyalty. They seek to determine if the amount spent per existing customer will increase or decrease based on additional purchases within or across product lines. It is distinguished from the retention question of how likely are you to switch because a switching question may me a repeat of the same revenue (0 growth) rather than an increase in spending (positive growth). All three customer satisfaction indicators are closely related in that they measure customer intent. Negative responses to these types of questions usually indicate a loss of that customer. Either they will re-up, purchase additional products or feel good about your company/product/services- or they won't or don't. It is fairly straight forward to develop relevant survey questions to receive the data. What becomes difficult is providing the context for analyzing the survey data into a meaningful construct that can be used by decision makers. That is the job of the analyst to rely on his or her experience, knowledge and expertise to put the data into perspective.

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