CUSTOMER LOYALTY - THE MAJOR GOAL OF CUSTOMER RELATIONSHIP MANAGEMENT

Assoc. Prof. Adriana Scriosteanu Ph. D.
Prof. Daniela Popescu Ph. D.
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract: : This paper presents the importance of customer relationship management (CRM) and customer loyalty for any organization that whishes to be successful and competitive in the market. A new emphasis in marketing and CRM is more and more widespread - creating customer relationships.In a competitive environment, the organizations have to focus their efforts towards continuous meeting both current and potential needs of all their customers. Many organizations have to consider how to enter a market and then build and protect its competitive position. Traditional marketing has focused on the final consumer seeking to promote brand values and to generate forced demand on the company's product market. The development of the concepts of segmentation, targeting and positioning signified the organizations' refocusing from the market approach as a whole, respectively the "mass market", to targeting and positioning strategies developed to suit the characteristics of the target segments chosen by the organization. The emergence and development of a distinct concept of customer relationship management and CRM software solutions design led to increasing focus on customer organization strategy. In addition to the strategy dedicated to a particular target segment, organizations have begun to design strategies and programs aimed at developing strategic relationships with specific strategic customers.The purpose of any customer relationship strategy should be customer acquisition and retention.Organizations should strive to develop CRM strategies to maintain and strengthen customer loyalty of the important customers.

1. THE EMERGENCE OF CRM

The emergence of the concept of customer relationship management is relatively recent compared with the evolution of marketing concept. In the early 1990s, a major change occurred in marketing and customer orientation. Philip Kotler proposed a new approach to organizational performance based on the concept of relationship, emphasizing the need for transition from "mass marketing" to "one-on-one" marketing.

The transition from transactional to relational marketing was done against the background of two major mutations. [Bălan, 2006] On the one hand, it became apparent the need for transition from the view limited to one functional area, to the approach based on linking different functional areas. On the other hand, the aim to attract customers has proved insufficient to ensure sustainable development and the transition

to the dual objective of considering all categories of "stakeholders" (not just customers) and customer retention took place. The transition from traditional to relational marketing involves the focus on the retention of the most profitable customers. The emergence of customer relationship management (CRM) represents the development of relational marketing principles. CRM aims to attract and retain profitable customers by developing long-term relationships and fostering customer loyalty.

Satisfied customers are the customer relationship capital of the organization. [Daffy, 2009]. Arguments in favor of conducting long-term relationships with profitable customers are:

- Attracting new customers costs five times more than satisfying and retaining existing ones;
- A 5% reduction in the customer loss rate can increase unit profit by 25-85%;
- Client profit rate increases with the lifetime of the customer retained.

By means of information technology, CRM retains customer data for each client in the portfolio, obtaining the customer's unique image, very valuable to the organization. CRM not only ensures a more efficient management of relationships with customers, suppliers and other entities outside the organization, but also a better communication between departments of the organization. CRM brings together information technology and relational management strategies to create profitable and long-term customer relationships. An important aspect is that CRM offers opportunities to use data and information, both to understand and meet customer requirements and to implement relational management strategies.

CRM does not identify with the specialized informatics solutions for customers information management, but relies on IT solutions to better understand customer expectations and needs, their buying behavior, to design strategies capable of generating value for the customer. [Bălan, 2006]

2. CUSTOMER ORIENTATION

Relative to the customer approach, in the specialized literature three concepts step into the picture: marketing orientation, market orientation and customer orientation. The use of these concepts is very different. Some authors make a clear distinction between these terms, but others use them interchangeably to describe the same state. A clear delimitation of these terms is not possible. In practice, however, some differences appear.

On the concept of marketing orientation the following delimitations are presented in the specialized literature: [Bruhn,2001]

In the mid 1950s the term marketing emerged. Production orientation and marketing limitation to the sale of production results were replaced by marketing orientation. For the first time, clients' needs were taken into account and put in the center of interest of the enterprise. Phrases such as orientation towards needs, consumer orientation, even customer orientation were expressing in all cases that the success of an organization is represented by the focus on customer needs. Therefore, the term "marketing orientation" refers to the importance of marketing within an organization, in relation to other fields or spheres of activity such as production, human resources or finance and accounting.

In the 1960s, the concept of marketing was characterized by the focus of marketplaces. The purpose of marketing was entering new markets and dominating

them. Through sales orientation and product-differentiated marketing, the aim was to develop distribution systems capable of meeting the market requirements.

In the 1970s, in the context of an oversupply of goods, the trend was to shift from seller's market to buyer's market. Many organizations have recognized the need of market orientation in order to identify customer needs.

Marketing in the 1980s is often described as the decade with the largest concentration to competition. Niche, differentiation and competitive strategies must fight to help organizations that, in certain market segments, to become better, more powerful than the competition. For the success of organizations the triangle organization - customer - competitor had to be carefully addressed.

This period of competition orientation has been criticized because it ignored the customer. Since not the idea of elimination or even destruction of competition ensures firstly the marketing success, but this is gained through success achieved with customers. The recognition of the reality that attention must focus increasingly on each customer has evolved so much that customer orientation is considered the main trend enough of the marketing development in the 1990s.

In the late 1990s and after the 2000s we see a profound change in the vendor-consumer relationship. This mutation is characterized by the tendency of consumers to change brand, respectively tendered. Consumer's infidelity is due to some developments in his behaviour, such as: increased mobility, more than one purchase, market transparency, better consumer information, offer comparisons, a more developed critical sense, etc. This development obliges the businesses that want to succeed to position priorities, namely: either to remain on the average quality - convenient price segment, or on the top quality with additional benefit provided to the customer - high price segment. To this is added the hyper competition situation, characterized by complexity, speed and aggressivity, where any competitive advantage can be easily recovered by other companies on the market.

Some authors do not distinguish between customer orientation and market orientation; however the two terms designate different things. The concept of market orientation includes not only the organization's orientation towards current customers, but covers all participants who enter into relationships with the organization. [Bruhn,2001]

Customer satisfaction orientation is only one component of market orientation. Market orientation involves building competitive advantages to ensure long-term competitiveness of the organization. Customer orientation involves satisfying customers' needs and expectations, and not acquiring a competitive advantage.

The perception of market orientation is done within the triangle enterprise-competitor-customer, with an emphasis on competition. However, customer orientation involves only the relationship between company and customer. It is why often market orientation is considered as a generic term, and customer orientation as a partial aspect, that is a sort of gradation of the market orientation term.

Inequality between market orientation and customer orientation is also based on the differentiation between the terms "market" and "customer". While the term "market" refers to something undifferentiated, to a mass of customers to be segmented, the term "customer" refers to a natural or legal person who specifically requests a product or a service. So the term "customer" designates the practical bearer of the demand.

In the context of present competitive environment, more and more enterprises establish as lines of action, in terms of customer orientation, the following [Bruhn, 2003]:

- ensuring flexible and rapid response to market opportunities;
- understanding the current and potential needs and expectations customers;
- assessing customer satisfaction and ensuring important customer loyalty;
- improving internal and external relational system and creating partnerships with loyal customers.

Customer satisfaction is a key managerial tool of the company and is based on the analysis of information about the relationship with the client. Sources of information on customer satisfaction may include customer complaints, direct interviews, questionnaires and surveys, market studies, reports from various media sources. The request, assessment and monitoring process of the feedback received from customers regarding their satisfaction provides valuable company data base, which allows the establishment of actions to improve customer relationships and increase their satisfaction.

3. BUILDING CUSTOMER LOYALTY

Customer loyalty includes a company's set of measures seeking positive orientation of behavioral intentions of current and future customers to a vendor and/or its offer to obtain stabilization, respectively a development of the relationships with these customers. [Bruhn, 2001]

Customer loyalty is not obtained by a customer card or a customer club, but by satisfying customer's expectations. Customers compare their subjective perceptions after purchasing a product / service with their expectations before the purchase decision. This comparison leads to a situation of satisfaction, insatisfaction or exceeded customer expectations (customer enthusiasm). The correlation between customer satisfaction and its loyalty is not directly proportional. When customers evaluate their satisfaction relative to the performance of the tender (delivery), it differs depending on the customer. [Kotler, Keller, 2008] This item could mean just in time delivery, pre-term delivery, fully delivery of the order. So customers can be satisfied, but for different reasons.

Customer loyalty is part of a cause-effect chain that comprises processes from the initial contact with the client to the economic success of the organization. The phases of the chain are: [Bruhn, 2001]

The first phase: the customer's first contact with the tendered by the purchase of a product / service.

The second phase: the customer compares previous expectations with the product/service and assesses the level of satisfaction.

If the client's assessment is favorable or customer expectations have been exceeded, *the third phase* arises - the customer loyalty. A loyal customer has trust, plans to buy again the same brand, same product/service.

Switching to customer loyalty occurs in *the fourth phase* when this purchasing conviction becomes repeated purchase and recommends the product or service to other potential customers.

The chain ends with *the fifth phase* which leads to the economic success of the enterprise.

The more competitive a market is, all the more difficult is to get customer loyalty through the satisfaction offered by the products/services delivered. [Daffy, 2009]

Customer loyalty is not the result of strategies implemented by the organization or customer clubs. To create effective retention strategies, organizations need a thorough understanding of customer behavior and needs. Loyalty is a physical and emotional commitment given by customers in exchange for meeting their expectations.

Emotion represents the feelings, positive or negative, brought to mind by an object or idea. [Budică, Barbu, 2010].

Loyalty is best defined as a state of mind, a set of attitudes and desires of the client, but they derive from his psyche [Martin, 2007].

Organization's aim is not to make all customers loyal, but to improve the loyalty of those customers responding positively. Some clients may respond to incentives, others to services offered only to loyal customers, while others may respond to the combination of the two variants.

Also, information exchange is a loyalty key providing the link between the customer's mood and behavior. Loyal customers expect to receive more information from and about the tender, so communication between the organization and customer is an essential element of loyalty programmes. [Timm, 2008]

The specialized literature identified the following types of loyalty: [Daffy, 2009]

Bonus loyalty - occurs when an organization offers customers any benefit, bonus or reward for staying loyal.

Inertia loyalty - occurs when an obstacle exists or is created causing the client a difficulty in changing the tendered.

Convenience loyalty - customers remain loyal to one product/service, vendor, because they do not want to find another alternative. But when another competitor with a better offer shows, customers can migrate to it.

Price loyalty - In any market there are customers who are loyal to the organization with the lowest price. So, customers remain loyal as long as the organization maintains its price. If another competitor with a lower price enters the market, then customers will migrate to it.

Loyalty for life - True loyalty occurs when customers remain faithful to the organization, its products or services in the conditions where on the market there are also other competitors offering better benefits.

Experts who have studied this phenomenon even reached the loyalty equation: [Daffy, 2009]

Loyalty = Satisfaction × Affinity × Involvement

First, the product must meet or exceed customer expectations, otherwise we can't move towards loyalty. Involvement also implies relationships between business and customers, and based on the customers' feedback, decisions made are revised. Affinity occurs when there is satisfaction and involvement. Thus, customers will feel they have found an organization that provides goods or services at the expected level and involve them in the process of discovering their needs and desires. The more involved in the relationship with the company the customer is, the greater the chance that the relationship would last. Some units treat their customers as partners and require their help in designing new products or initiatives to improve customer service. [Kotler, Keller, 2008]

The increase in customer loyalty is possible only when all resources and processes are focused on the customer, its needs and expectations.

The dimensions of a customer loyalty strategy are: [Bruhn, 2001]

Establishing the object of building customer loyalty - the enterprise must determine the scope of reference - building product, manufacturer or intermediary loyalty - to avoid discrepancies which may occur during the implementation of the strategy.

Loyalty-building target groups

This involves analysis of client portfolio and establishing strategic important customers for the company's business areas according to profitability criteria. Each company shall establish criteria for expressing and evaluating the customers' profitability potential. The following evaluation criteria may be considered: available income, the average duration of the relationship with the customer, the value of sales the customer under analysis achieved until present, the possibility of a future collaboration with the client. Another dimension of the client portfolio consists of customer value. The higher this value is, the more important the customer is for the enterprise and the higher the effort invested in maintaining the relationship with this customer.

Customer lifetime value can be calculated with the formula: [Martin, 2007]

Lifetime value = Average trading value × Annual purchase frequency × Customer life expectancy

If customers remain loyal to a tendered, the lifetime value can increase significantly. Also, the longer the period a client remains faithful to one provider, the more profitable he becomes, because the costs of retaining a client are lower than those of attracting a new customer. Moreover, satisfied customers tell other customers and thus the chance that more business is generated through new customers, increases.

Means to build customer loyalty

Emotional fidelity is the most appreciated means arising from the customer needs satisfaction. In practice, however, one may identify other types which require special retention strategies.

Economically conditioned loyalty. The client considers he is economically disadvantaged if he migrates to another tendered, due to additional costs implied by changing the tendered (information costs, costs of initiating new relationships, time restrictions).

Contractual loyalty. In this case the customer is bound to the manufacturer by mandatory contractual terms (service or lease contract, guarantee clauses).

Technical and functional loyalty. This type of fidelity occurs when there is a functional dependence between the basic and complementary product.

Relatively to the economic, contractual or technical and functional loyalty, customer's discretion is limited. If the customer is not satisfied during the relationship, after the contract period, he may migrate to another tendered. Emotional customer loyalty is based on their free decision. Therefore, the strategic premise of any measure for building customer loyalty is the emotional attachment.

Establishing customer loyalty tools

Marketing mix areas provide solutions to customer loyalty.

Within the product policy, production programs or services offered can be improved. As measures of building customer loyalty we can mention: personalized product offers, a special product design, introducing high quality standards.

Price policy instruments applicable in customer loyalty-building influence especially the customer's costs for migration to another tendered. By developing and implementing financial incentives can be achieved the maintenance of the relationship by the customer (a price level so as to satisfy the customer, rebates and bonus systems, product package pricing).

Communication policy measures apply to customer engagement in a dialogue with the company. Here the tools that fit may be customer magazines, event planning, a complaint system, telephone marketing.

Within the distribution policy, online orders, catalog-based sales, subscriptions are measures for customer loyalty-building.

4. CONCLUSIONS

With intensifying competition, promoting the organization's customer orientation is a priority. Existing customer loyalty is the main priority within the CRM strategies, loyalty representing the path to business success. In view of achieving important customers' loyalty, but also by remaining competitive on the market, organizations adopt a new strategy - customer orientation, compared to the traditional production-oriented strategy.

A client-oriented organization can predict their future behavior and satisfy, better than the competition, their expectations. Knowing customer needs, the organizations are able to develop long term relationships with profitable customers, which may provide benefits to both parties - revenue and profit for the organization and value for the customer.

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