CUSTOMER LOYALTY AND ITS ANTECEDENTS: A CONCEPTUAL FRAMEWORK

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Abstract

The single most important thing is to remember about any enterprise is that there are no results inside its walls. The result of a business is a satisfied customer. Several years ago, Peter Drucker suggested that the purpose of a firm was to create customers. As the author put it: "Business is a process, which converts input, a distinct resource, into output of economic value in the market place. The purpose of business is to create a customer". (Kelly, 1976). In today’s competitive market, the purpose of a firm should be read as “creating a loyal customer”, which involves both capturing and retaining him. Importance of creating a loyal customer arises from that it costs more to create a new customer than to retain an existing one. For example, the cost of creating a new customer is five times more than that of retaining an existing customer. (Reichheld, 1996). Today’s world is distinct with its higher competitive environment. ‘Survival of the fittest’ is the mantra of this century. Loyalty has, over the past decade, become a crucial construct in marketing and particularly in customer relationship management. Managing customers is one of the main issues faced by the organizations in these days. The main objective of this paper is to highlight the key antecedents of customer loyalty. Within the limitations of the study, the theoretical aspects of these antecedents are discussed.

Keywords: customer loyalty, Satisfaction, Trust, Communication, Commitment, Conflict handling, Switching Cost.

Introduction

The concept of customer loyalty is not at all a new concept in the market; it was since from so many centuries, In past ancient Roman Empire had often used the loyalty of their army even Napoleon Bonaparte, the most feared French commander of the early
nineteenth century, achieved extraordinary results through the unrelenting loyalty of the soldiers under his command. Coming to the technical, civilized world of 21\textsuperscript{st} century, marketers trying to capture market share with the help of a loyal customer base. Customer loyalty has been universally recognized as a valuable asset in competitive markets (Srivastva, Shervani & Fahey, 2000) Importance to creating a loyal customer arises from that it costs more to create a new customer than to retain an existing one. For example, the cost of creating a new customer is five times more than that of retaining an existing customer (Reichheld, 1996). Research suggests that a loyal customer buys instead of being sold. He buys more than a new customer does as a firm introduces new products and upgrades existing products. It also costs less to serve loyal customers than new customers because the company knows a lot about them and how to get touch with them. In other words, marketing transactions are routinized and therefore less expensive because a non-routinized transaction is subject to bargaining with its resulting loss of efficiency (Darido and Uttal, 1989). Besides, a loyal customer is less price sensitive and refers the company’s products to other people (Kotler, 1999).

As the competition in most sections grows tighter both the importance of, and challenges in, keeping the customers loyal increases. Loyal customers not only increase the value of the business, but they also enable it to maintain costs lower than those associated with attracting new customers (Barros Cartro and Martin Armario, 1999). The development of customer loyalty has become the important focus for marketing strategy in recent years due to the benefits associated with retaining existing customers (Gwinner et al., 1998; Hagen-Danbury and Matthews, 2001). The past decade has seen that many firms adopted a customer focus approach through a formal program of customer relationship management CRM (e.g. Brown 2000; Kala Kota and Robinson 1999; Peppers and Rogers 1997). Recent advances in information technology have provided the tools for marketing managers to create a new generation of CRM tactics one such tactic that thousands of firms have considered, and which many have adopted, is to establish a customer loyalty program. Examples of these schemes can be found in Japanese retailing, US airlines and Hotels, French banks, British grocery stores, German Car Companies, Australian telecommunications, Italian fashion stores, American universities and many other areas. Most companies strive for customer loyalty, and considerable efforts are made to maintain a loyal customer base

Concept Of Customer Loyalty

Considering the prime importance of customer loyalty, it is important to conceptualize the same and identify its key drivers. Customer loyalty has been widely researched and as a result the concept of loyalty has received many definition and interpretation in the literature. The concept of loyalty suffers from a lack of clear conceptual and operational definition. At a very general level, customer loyalty is the feeling of the attachment or affection for a company’s people, products, or services (Jones and Sasser 1995).
The most comprehensive definition of customer loyalty is forwarded by Oliver (1999). He states that loyalty is: “a deeply held commitment to rebury 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 behaviour”.

Figure 1. Demonstrate a dynamic model of customer loyalty which explains both behavioural and attitudinal construct of customer loyalty:

**Figure 1. A Dynamic Model Of Customer Loyalty.**

<table>
<thead>
<tr>
<th>Act of Purchase</th>
<th>Behavioural dimensions of customer loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satisfaction</td>
<td>Attitudinal dimensions of customer loyalty</td>
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<tr>
<td>Customer Trust</td>
<td></td>
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<tr>
<td>Customer Commitment</td>
<td></td>
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<td>Customer Loyalty</td>
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</tbody>
</table>

**SOURCE: ADAPTED FROM COSTABILE (2001)**

The literature brings out three ways to define loyalty: Stochastic approach, which is purely behavioural; deterministic approach, that considers loyalty as an attitude and composite loyalty, which combines both attitudinal and behavioural loyalty (Tucker 1964; McConnell 1968; Jacoby and Kyner 1973; Dick and Basu 1994; Aliver 1999; Odin et al., 2001; Chaudhuri and Holbrook 2001; Uncles et al., 2003; East et al., 2005; Rundle Thiele 2006; Bandyopadhay and Martell 2007). Table 1 present a summary of loyalty measures used in previous studies.

**Table 1: Summary Of Loyalty Measures Used In Previous Studies**

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Product</th>
<th>Study Type</th>
<th>Purpose</th>
<th>Loyalty Measure</th>
<th>Used Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tucker (1964)</td>
<td>Soft drink</td>
<td>Experimental</td>
<td>To examine the growth of brand loyalty where</td>
<td>Behavioural Loyalty</td>
<td>Consumers become brand loyal even when</td>
</tr>
<tr>
<td>Authors</td>
<td>Product</td>
<td>Type</td>
<td>Methodology</td>
<td>Loyalty Type</td>
<td>Description</td>
</tr>
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<tr>
<td>McConnell (1968)</td>
<td>Beer</td>
<td>Experimental</td>
<td>To test whether strength of brand loyalty is dependent on the subjective perceived quality of a brand and time.</td>
<td>Behavioural Loyalty</td>
<td>Brand loyalty is significantly related to total purchase selections and price.</td>
</tr>
<tr>
<td>Day (1969)</td>
<td>Food Purchases</td>
<td>Experimental</td>
<td>To examine two-dimensional concept of brand loyalty.</td>
<td>Composite Loyalty</td>
<td>Brand loyalty includes both behavioural and attitudinal dimensions.</td>
</tr>
<tr>
<td>Jacoby And Kyner (1973)</td>
<td>Candy Bars</td>
<td>Experimental</td>
<td>To define brand loyalty and empirically verify this conceptualization.</td>
<td>Composite Loyalty</td>
<td>Brand loyalty is biased repeat purchase of a specific brand using a deliberate evaluation process and is not just repeat purchasing behaviour.</td>
</tr>
<tr>
<td>Dick and Basu (1994)</td>
<td></td>
<td>Conceptual</td>
<td>To develop a framework for customer loyalty that combines both attitudinal and behavioural dimensions.</td>
<td>Composite Loyalty</td>
<td>Loyalty is determined by a combination of repeat purchase levels and relative attitude.</td>
</tr>
<tr>
<td>Gremler and Brown (1996)</td>
<td>Service Organizations</td>
<td>Empirical</td>
<td>To examine service loyalty and factors expected to influence its development.</td>
<td>Composite Loyalty</td>
<td>Loyalty is determined by a combination of repeat purchase levels and relative attitude.</td>
</tr>
<tr>
<td>Oliver (1999)</td>
<td></td>
<td>Conceptual</td>
<td>To investigate what aspect of the consumer satisfaction has implications for loyalty and what portion of loyalty</td>
<td>Composite Loyalty</td>
<td>Loyalty consists of cognitive, conative, affective and action components; satisfaction is</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Industry/Country</td>
<td>Methodology</td>
<td>Research Objective</td>
<td>Type of Loyalty</td>
<td>Customer loyalty behaviour of active loyal (positive word-of-mouth and expansion of service used and passive loyal (not switching even unfavorable conditions).)</td>
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</tr>
<tr>
<td>Ball <em>et al.</em>, (2004)</td>
<td>Banking Industry</td>
<td>Empirical</td>
<td>To extend the European Customer satisfaction Index (ESCI) model’s explanation of loyalty using the constructs of trust and communication.</td>
<td>Attitudinal Loyalty</td>
<td>Loyalty is explained by satisfaction, quality and image; and primarily by satisfaction and communication.</td>
</tr>
<tr>
<td>Garland and Gendall (2004)</td>
<td>Retail Banking</td>
<td>Empirical</td>
<td>To test the predictive ability of Dick and Basu’s customer loyalty model.</td>
<td>Composite Loyalty</td>
<td>In some circumstances relative attitude is better predictor of loyalty while in others share of wallet is better predictor.</td>
</tr>
<tr>
<td>Bennett and Rundle-Thiele (2004)</td>
<td>Service industry of directory advertising</td>
<td>Empirical</td>
<td>To demonstrate that satisfaction is not a proxy for loyalty and provide empirical support</td>
<td>Attitudinal Loyalty</td>
<td>Satisfaction and attitudinal loyalty are highly associated with positive relationship.</td>
</tr>
<tr>
<td>Source</td>
<td>Setting</td>
<td>Methodology</td>
<td>Research Object</td>
<td>Conclusion</td>
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<tr>
<td>East et al., (2005)</td>
<td>Supermarket, car and various</td>
<td>Empirical</td>
<td>To test whether combination measures of loyalty predict specific loyalty outcomes better than singular measures.</td>
<td>All three forms: behavioural, attitudinal and composite. Combination measures of loyalty are poor predictors of loyalty and there is no form of loyalty that consistently predicts all the loyalty outcomes.</td>
<td></td>
</tr>
<tr>
<td>Rundle-Thiele (2005)</td>
<td>Wine Retail Industry</td>
<td>Empirical</td>
<td>To summarize loyalty dimensions those have been used previously and test a consolidated measure of loyalty.</td>
<td>Attitudinal loyalty, situational loyalty, resistance to competing offers, propensity to be loyal and complaining behaviour. Loyalty is a multi-dimensional concept and customers can display loyalty in different ways.</td>
<td></td>
</tr>
<tr>
<td>Gomez et al., (2006)</td>
<td>Grocery Retailing companies</td>
<td>Empirical</td>
<td>To analyze the behavioural and affective loyalty of retail customers.</td>
<td>Composite Loyalty Loyalty program participants are both attitudinally and loyal in comparison to non participants.</td>
<td></td>
</tr>
</tbody>
</table>
Kllol Das, and VK Sadanand (2009)  
Retail banking  
Empirical  
To examine association between development of customer relationship management (CRM) best practices and loyalty of profitable customers.

Huua Xin & Chaozhong Guo (2010)  
Chinese commercial banks  
Empirical  
To study customer loyalty among Chinese mobile customers.

Composite Loyalty
Composite loyalty and perceived quality influence behavioural loyalty.
Implementation of a relationship marketing strategy in a retail bank did not result in the increase of loyalty.
Customer loyalties of different sorts of customers are different so market must be fractionized.

Source: Complied From Available Literature

**Behavioural Loyalty**

Behavioural loyalty reflects the customer actions and involves the measurement of past purchases of the same brand or the same brand-set and/or the measurement of probabilities of future purchase given past purchase behaviour (Bandyopadhy and Martell 2007). The behavioural measurements consider consistent, repeat purchase behaviour as an indicator of loyalty and ignore the cognitive processes underlying that behaviour (Tucker 1964; Mcconnell 1968; Carman; Bowen and Chen 2001; Chaudhuri and Halbrook 2001). The major assumption of defining loyalty from behavioural perspective is that internal processes are spurious and behaviour captures the loyalty (Tucker 1964; Hart et al. 1999). the behavioural measures
anticipate the repeat purchase pattern of consumers from basic information about penetration and average purchase frequency (Knox and Walker, 2001). The advocates of behavioural approach suggest that most consumers have split-loyalty portfolios of habitually bought brands (Uncles et al., 2003).

**Attitudinal Loyalty**

The behavioural definitions fail to explain how and why customer loyalty develops and changes. According to Day (1969), there is more to brand loyalty than just consistent buying of same brand. The attitudinal approach infers customer loyalty from psychological involvement, favoritism, and a sense of goodwill towards a particular products or service (Kim et al. 2004). Attitudinal loyalty reflects the consumer’s psychological disposition towards the brand (Evanclitzky et al. 2003). Attitudinal loyalty measurement suggest that consumers from relationship with some of their brands (Uncles et al., 2003).

**Composite Loyalty**

Day (1969) proposed that both attitudinal and behavioural loyalty had to exist in order for customer to be considers loyal. Dick and Basu (1994) defined loyalty as “the strength of the relationship between an individual’s relative attitude and their repeat patronage”. The composite definitions suggest that loyalty should always comprise favourable attitudes, intentions and repeat-purchase (Rundle-Thiele 2005). Oliver (1999) viewed loyalty as “a deeply held commitment to repatronize a preferred product/service consistently in the future, thereby causing repetitive same brand or same brand-set purchasing despite situational and marketing efforts having the potential to cause switching behaviour”. This definition also includes both attitudinal and behavioural components.

The benefits of customer loyalty to a provider of either services or products include

- Lower customer price sensitivity;
- Reduced expenditure on attracting new customers; and
- Improved organizational profitability.

Customers may demonstrate their loyalty in any one of a number of ways; they may choose to stay with a provider, whether this continuance is defined as a relationship or not, or they may increase the number of purchases or the frequency of their purchases or even both. They may also become advocates of the organisation concerned by playing a powerful role in the decision-making of others (Hallowell, 1996; Birglen et al; 1997; Reichheld et al, 2000; Zeithaml, 2000).

**The Antecedents Of Customer Loyalty**

The antecedents of customer loyalty both in term of the business to business and business to customer cases, have received a great deal of attention in the marketing literature. We can divide the antecedents into four groups:

i. Characteristics of the environment
ii. Characteristics of the dyadic relationship
iii. Characteristics of the consumer

iv. Consumer perception of the relationship with the marketing firm:

v. Characteristics of the environment include competitive attractiveness and perceived switching costs (Jones et al., 2000), technological changes (Parasuraman and Grewal, 2000), and legal, economic, or environmental changes.

vi. Characteristics of the dyadic relationship include shared norms (such as solidarity, mutuality, flexibility and conflict/complaint resolution (Gundlach et al., 1995), equity (Oliver and Swan, 1989), and spatial proximity and relationship duration (Price et al., 1995).

vii. Characteristics of the consumer include relationship tendency or proneness (Ganesh et al., 2000), deal proneness (Lichtenstein et al., 1995) and involvement in the category.

viii. Consumer perception of the relationship with the marketing firm include overall product or service satisfaction (Oliver, 1997), performance trust and benevolence trust (Ganesan, 1994), depth or value of communication (morgan and Hunt, 1994) firm or brand image (Andersen and Weitz, 1989), relationship quality (Crosby et al., 1990) and relationship satisfaction (morgan and Hunt, 1994).

ix. On the basis of available literature this paper mainly focus on explaining customer satisfaction, communication, commitment, trust and conflict handing as antecedents of customer loyalty.

**Figure 2: The Antecedents Of Customer Loyalty**
1. Satisfaction And Loyalty

Bloomer and Kasper (1995) demonstrate that the satisfaction-loyalty relationship is not simple and straight forward as the level of elaboration on the part of the customer must act as a moderator between satisfaction and loyalty. Furthermore, Oliver et al. (1992) argue that the relationship between satisfaction and loyalty is non-linear, meaning that in case satisfaction increase above a certain level, customer loyalty will increase rapidly. Loyalty and satisfaction are related, although also clearly distinct. Oliver (1999) considers several conceptual bases for this distinction. But in general, higher satisfaction has been proposed to be related to higher quality (Hallowell, 1996; Straurs and Neuhaus, 1997), and found to be related to higher loyalty in ECSI model (Cassel, 2001). The relationship trends between loyalty and satisfaction are shown in figure 3.

Figure 3. Trends In Customer Satisfaction, Loyalty And Value

- Customer value
  - Meeting critical needs of targeted customer
  - Out performing competitors
  - Creating new, unique benefits

- Customer loyalty
  - Retaining our customers
  - Getting them to recommend

- Customer satisfaction
  - Provide what customer want
  - Responding to customer complaints

- Customer quality
  - Delivering what we promise
  - Meeting standards

2. Trust and Loyalty

Trust has been defined as "a willingness to rely on an exchange partner in whom one has confidence " (Moorman at all; 1993). Schurs and Ozanne (1985) defined the term as the belief that a partner’s word or promise is reliable and a party will fulfill his/her obligations in the relationship. Other authors have defined trust in terms of opportunistic behaviour (Dwyer at al; 1987)), shared values (morgan and Hunt, 1994), mutual goals (Wilson, 1995), action with positive outcomes (Andersen and Narus, 1984) and making and keeping promises (Bitner, 1995). Fulfilling promises that have been given is equally important as a means of achieving customer satisfaction, retaining the customer base, and securing long-term profitability (Reichheld and sasser, 1990).

3. Commitment And Loyalty

Commitment is another important determinant of the strength of a marketing relationship, and a useful construct for measuring the likelihood of customer loyalty and predicting future purchase frequency (Gundlach et al;1995; Morgan and Hunt 1994; Dwyer at al;1987).In the marketing literature, Moorman et al. (1992) have defined commitment as an enduring desire to maintain a valued relationship. This implies a higher level of obligation to make a relationship succeed and to make it mutually satisfying and beneficial (Gundlach at al. 1995) Morgan and Hunt .1994). Since commitment is higher among individuals who believe that they receive more value from a relationship, highly committed customers should be willing to reciprocate effort on behalf of a firm due to part benefits received (How day at all; 1982) and highly committed firms will continue to enjoy the benefit of such reciprocity.

4. Communications and Loyalty

In this context communication refer to ability to provide timely and trustworthy information. Today, there is a new view of communication as an interactive dialogue between the company and its customers, which takes place during the pre-selling, consuming and part-consuming stages (Anderson and Norus, 1990). Communication as an antecedent of customer loyalty means keeping in touch with valued customer, providing timely and trustworthy information on service and service changes, and communicating proactively if a delivery problem occur. It is the communication task in the early stage to build awareness, develop consumer preference, convince interested buyers, an and encourage them to make the purchase decision (Ndubiri and chan, 2005).

5. Conflict Handling And Loyalty

Dwyer et al. (1987) defined conflict handing as a supplier's ability to avoid potential conflicts, solve manifest conflicts before they create problems, and discuss solutions openly when problems to do arise. How well this is done will determine whether the outcome is loyalty, "exit" or " voice" Rusbult et al, (1988) Concluded that the likelihood of these behaviours in individuals
cases depends on the degree of prior satisfaction with the relationship, the magnitude of the customer's investment in the relationship, and an evaluation of the alternatives available. Nclubiri and chan (2005) found a significant relationship between conflict handling and customer loyalty.

Conclusion

This study mainly outlines different dimensions of customer loyalty. Customer loyalty may be defined either as behaviour or attitude; or as composite loyalty combining both behavioural and attitudinal. Researchers have indicated that customer loyalty is an action outcome of many factors drive synthetically. This is to say, the formation of customer loyalty is affected by satisfaction (Bloomer and Kasper 1995; Oliver et al. 1992; Straurs and Neuhaus, 1997; Cassel, 2001), trust (Garbarino and Johnson, 1999; Srideshmukh et al., 2002; Chaudhari and Holbrook, 2001 ; Ranaweera and Prabhu, 2003); commitment (Garbarino and Johnson, 1999; Bandyopadhay Martell 2007); communication (Anderson and Norus, 1990; Burnham et al. 2003) and conflict handling (Rusbult et al, 1988; Nclubiri and chan, 2005).

A multi dimensional view of customer loyalty is important to help marketers for develop and reinforce actions that maintain loyalty and increasing profitability. Further research is required which would empirically study the relationship between customer loyalty and its antecedents which are discussed in the paper. Empirical research may be conducted in different service setting and product market to study the behavioural and attitudinal dimension of customer loyalty.

References


