

The importance of customer loyalty



According to Gremler and Brown (1996: 171) little information is known about customer loyalty although it is an important aspect within any organization. Experts have tried their best to define what customer loyalty really means and what being a loyal customer really means.

The main purpose of this paper is to explain the meaning of customer loyalty, the factors affecting customer loyalty, and its importance within any organization.

The paper starts with the literature review which is divided into two sub sections. The first discusses the meaning of customer loyalty, its importance and the factors affecting it. While the second sub section focuses on using loyalty status as basis of market segmentation. Finally, the conclusion sums up the main ideas of the paper.

Literature Review

Customer Loyalty

According to Gremler and Brown (1996: 171), many researchers and academics agree that customer loyalty is an important part in the business as it is considered the “ back-bone of the business”.

Customer loyalty is an essential aspect in any organization whether it is offering a good or providing a service. Many organizations are looking for various ways to increase their customer loyalty as it has a positive effect on the profitability of the organization (Gremler 1996: 171, Abdullah et al. 2000: 826).

According to Abdullah et al. (2000: 826), customers' attachment to a certain brand or product over a long period of time is considered loyalty. Customers can express their loyalty through the continuous purchase of the product and positive word-of-mouth referrals.

Hu et al. (2009: 113) state that factors affecting customer loyalty include the degree of the quality of the service offered as well as the corporate image of the organization. Many studies have concluded that there is a positive relationship between the corporate images of the organization and customer loyalty; the better the image, the higher the customer loyalty (Hu et al. 2009: 117, Abdullah et al. 2000: 827).

Furthermore, customer satisfaction is considered one of the major aspects affecting customer loyalty. This is mainly due to the fact that a satisfied customer is more likely to be loyal to the organization and therefore spread positive word of mouth (Hu et al. 2009: 114-115). However according to Abdullah et al. (2000: 826), a satisfied customer may not necessary be a loyal one. Therefore many organizations have taken a further step to ensure that their customers are both satisfied and loyal through the development of customer loyalty programs (Hawkins and Mothersbaugh 2009: 646).

Loyalty Status Segmentation

Market segmentation is dividing the market into smaller groups to the help the organization focus on their target market. Market segmentation can be done according to several variables: geographic, demographic, psychographic, and behavioral. Loyalty is one of the behavioral variables that the organization can segment the market accordingly. Behavioral

segmentation is dividing the market into several groups based on the knowledge, attitude, use or response of the consumer towards a certain product (Kotler and Armstrong 2010: 215-217, 220, Casielles and Alvarez 2007: 121).

Customers can be divided according to their degree of loyalty. Kotler and Armstrong (2010: 221-222) divide loyal customers into three groups: the completely loyal, the somewhat loyal and the other buyers. The completely loyal customers are those who buy the same brand all the time, the somewhat loyal customers are loyal to two or three brands of a certain product, while the other buyers are those who show no loyalty to any brand, they buy whatever is on sale (Kotler and Armstrong 2010: 221-222).

According to the classification, the organization could benefit a lot by analyzing those loyalty patterns in its own market. The organization should start by its completely loyal customers for better identification of its target market, thus increasing the demand on their products. After analyzing the completely loyal customer, the organization should shift their focus to the somewhat loyal customer. This will enable the organization to better understand the market conditions and their competitors. Finally, the organization should learn their weaknesses by studying the behavior of the other buyers (Kotler and Armstrong 2010: 221-222).

Conclusion

To conclude what was discussed in the paper, Customer loyalty is an important factor to be considered in any organization. A loyal customer will surely repeat the purchase of the product over the long run. Therefore

customer loyalty affects the profitability of an organization. Furthermore, the factors affecting customer loyalty include the quality of the service or product offered the corporate image of the organization and the degree of customer satisfaction. Another importance of Customer loyalty is that it can be used to segment any market. In other words, the market could be divided into groups according to the classification of the customer loyalty. There are three types of customer loyalty, the first is the completely loyal customer, the second is the somewhat loyal customer and the third is the other buyer. Any organization can use those three types of loyal customers to classify the marketplace and be able to know its own weaknesses through contacting the three types of customers.