

Theories on customer loyalty

[Business](#), [Marketing](#)



Although repeat purchases can indicate customer loyalty, this may also be the result of high switching costs or a lack of suitable alternatives. Customer retention does result in higher profitability as it is more expensive to retain existing customers than to acquire new ones. Companies have been found to increase profits from 25%-85% by improving customer retention by just 5% (Thorsten and Hansen, 2000). However, retained customers are not loyal customers. Customer retention is an outcome of loyalty (Thorsten and Hansen, 2000).

Positive effects of customer loyalty include more stability, more feedback and more marketing flexibility. It also includes more trust, deeper customer penetration, more recommendations and cost savings. Also lower costs when acquiring new customers, lower costs for customer management, increased revenues and lower price elasticity (Thorsten and Hansen, 2000; Payne et al, 1998). Negative effects of customer loyalty are inflexibility to changes in the market, inactivity, skewed customer structure, negative word of mouth and high costs of bonding activities such as running/maintaining a customer database (Thorsten and Hansen, 2000).

Current situation and issues surrounding loyalty cards While customers are willing to use the schemes in order to get the rewards it has been found that, " multi-card ownership apparent" (Byrom, 2001: 334). " Customer promiscuity" has occurred as customers sign up to many loyalty schemes, none of which result in loyalty (Byrom, 2001: 334). In some retailers, up to 90% of all transactions involve the use of a loyalty card, but there may be regular customers that do not use loyalty cards or occasional customers without one.

This needs to be considered when retailers use the information collected by the cards (Byrom, 2001). There are more than 150 loyalty programmes running in the UK. Mintel research demonstrates that loyalty to individual stores is decreasing. The issue is whether loyalty schemes are successful in generating real loyalty (emotion) to a store or are they just generating repeat purchases? Loyalty fatigue is when loyalty schemes reach saturation point, so the advantages originally gained with the loyalty scheme have decreased.

It has been found that convenience, location, quality, price and if they already shop there, are more important factors to customers than loyalty schemes. Evidence has shown that loyalty schemes tie existing customers and convert secondary into primary shoppers. On average, customers participate in 2.2 schemes (Wright and Sparks, 1999). However, many loyal customers are not members of loyalty schemes perhaps for reasons of not thinking the rewards are worthwhile or concerns about the use of information. Multiple card holders tend to be the early adopters.

As the number of loyalty cards possessed increases, the chances of people being loyal decreases and they are less likely to carry them. If the schemes are different, and offer different benefits they can be successful. There has been a rise in recent years in the number of coalition cards which can be used in several stores (Wright and Sparks, 1999). The findings above will form the basis of the primary research questionnaire and comparisons will be made with Wright and Sparks work throughout this essay. Future of Customer Loyalty Programmes

" Customer loyalty programmes have a bright future". New terms are constantly being introduced such as Customer Relationship Marketing (CRM), one to one marketing and mass customisation and this shows that customer loyalty marketing still has a future (Butscher, 2002). Chapter 3: Research Aims and Methodology Aim of the research The aim of the research is to find out whether loyalty card schemes are reaching saturation point. Comparisons will be made between primary research findings as a result of this Independent Study and with Claire Wright and Leigh Sparks findings (1999).