

## Unit 6

# **Loyalty and Relationships**

# Objectives

- Key Concepts - Value, Loyalty, Trust
- Developing Loyalty
- Strategies for developing Loyalty

# Recall the role of marketing

- Marketing is the delivery of customer value and satisfaction at a profit. The goal of marketing is to attract new customers by promising superior value, and to keep customers by delivering satisfaction

Kotler et al. (2001)

# Value - Key Concepts

- Value = Benefits - Cost
- And comes via:
  - Product Value
  - Service Value
  - Image Value
- **Unique Selling Proposition** is the value that you offer customers that nobody else does.

# What are the Unique Selling Propositions of these companies?

- Sony
- Vinamilk
- Tiger Airways
- Singapore Airways
- Apple
- BMW
- Pizza Hut
- RMIT University
- Lifebuoy Soap

# Basic Competitive Strategies

- Overall cost (price) leadership
- Differentiation
- Focus

Porter (1980)

- Operational Excellence
- Operational Intimacy
- Product Leadership

Tracy and Wiersema (1993)

# Value of Relationships and Loyalty to Organisations

- Insulating customers from competitors
- Reducing marketing costs
- Encouraging repeat business
- Enhancing positive “word of mouth”
- Potential Risks:
  - Over-servicing
  - Conceding Profits

# Value of Relationships & Loyalty to Customers

- Time poor
- Switching costs
- Security of sticking with the known

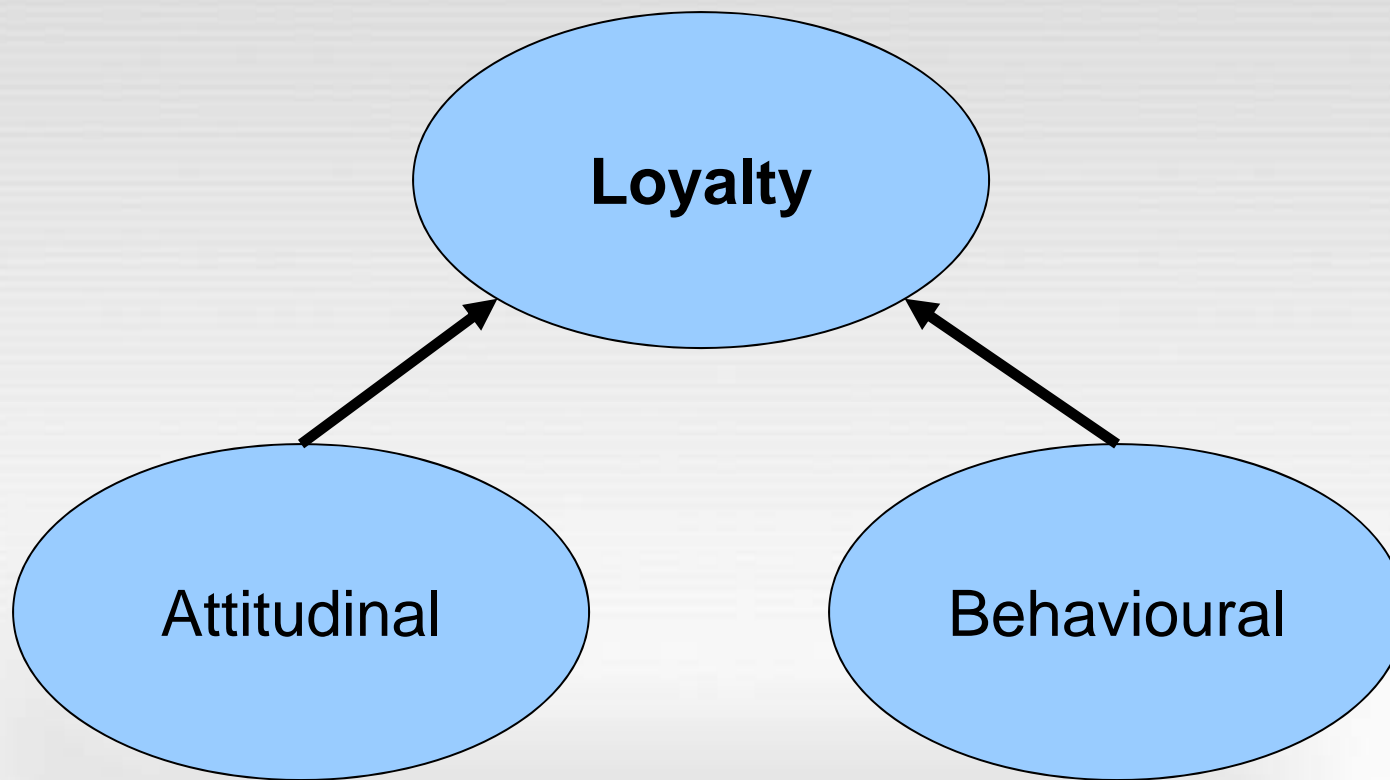


# What is Loyalty?

- Loyalty is the willingness of someone to make an investment or personal sacrifice in order to strengthen a relationship. Consequently customer loyalty is about more than repeat purchases. True loyalty clearly affects profitability

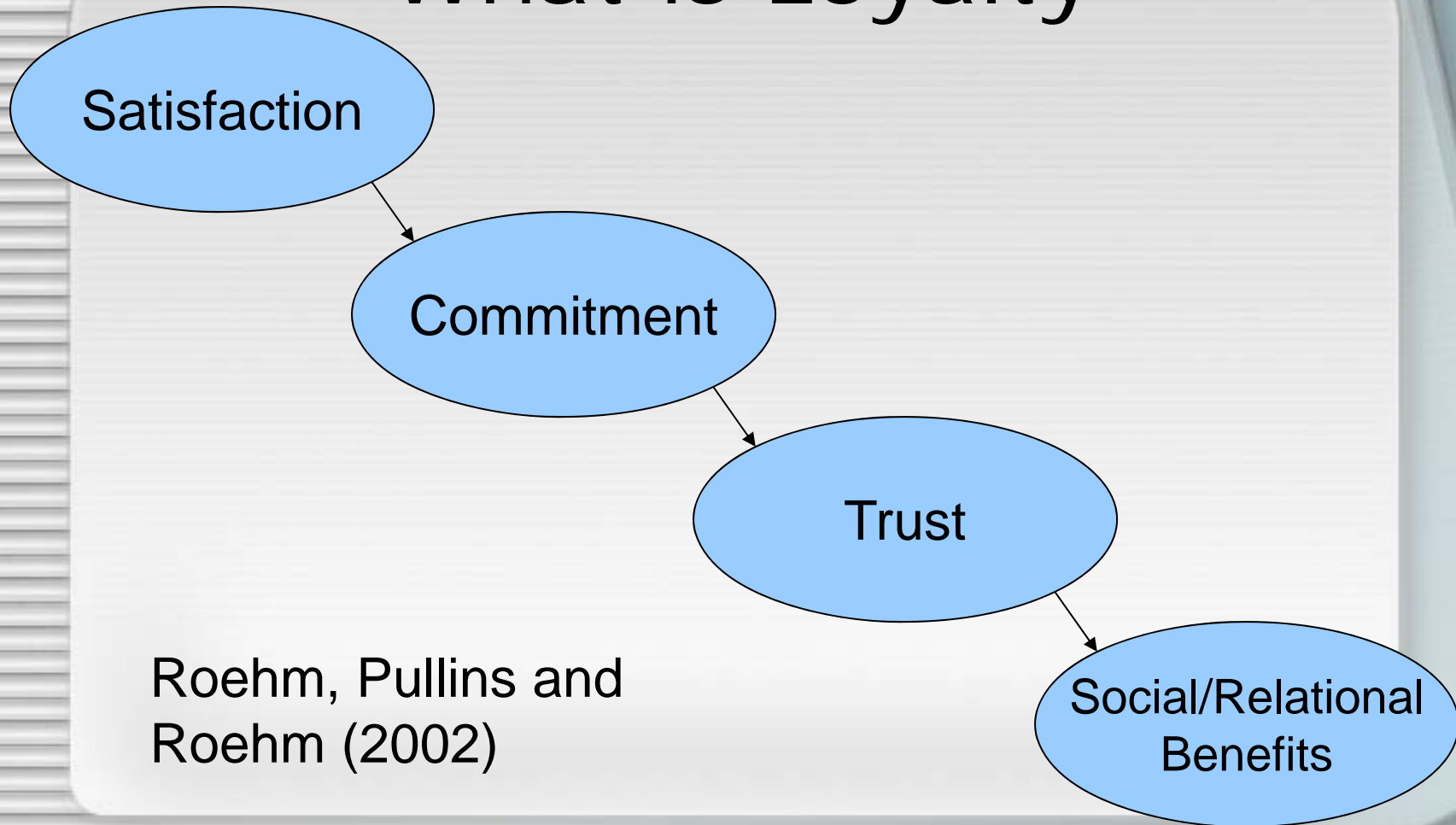
Reichheld (2003)

# What is Loyalty?



Fullerton (2003)

# What is Loyalty



Roehm, Pullins and  
Roehm (2002)

# Issues Impacting on Loyalty

- Competitive intensity including increasing alternatives
- Shifts in power to the customers - including consumer legislation, education and “trained behaviours”
- Increased focus on quality and service
- Technology and access to information

# Attitudinal & Behavioural Loyalty

- Behavioural measures of loyalty tend to be historical
  - How recently a customer has made a purchase
  - Frequency of purchases
  - Volume of purchases in a specified period of time
- Attitudinal measures of loyalty measures intentions
  - Likelihood to continue doing business
  - Likelihood of expanding business or purchases
  - Willingness to recommend or serve as a reference.

# Developing Loyalty

- Satisfaction
  - This is most important early in a relationship.
  - Over time cumulative experience takes over and the “satisfaction” with individual transactions becomes less important (but never unimportant).
- Commitment
  - The accumulation of two-way investments in the relationship, based on shared values and identification not just the fear of switching costs or a sense of dependence on each other.

# Developing Loyalty

- Trust
  - Development of a two way reliance so that both customer and organisation develop a sense that the other party shares common goals, and will work to achieve the mutual benefit from the relationship and are willing to avoid opportunistic behaviour.
- Social or Relational Benefits
  - A sense of friendship

## Strategies for Retaining Customers & Developing Loyalty

- Shift focus from “transactional marketing” to “relationship marketing”
- Making good use of CRM systems
- Use technology carefully - technology can collect, but not necessarily use wisely
- Involve and educate employees at all levels



# Customer Lifetime Value

- “The amount by which revenues from a given customer over time will exceed the company’s cost of attracting, selling and servicing that customer”

Quester et al. (2004)

- Focuses on the process of managing revenue and costs over time, rather than the profitability of a single transaction.
- Used to determine the impact of retaining customers.

# Loyalty Programs

- Reward Purchasing
- Considerations
  - Potential to raise cost of operations
  - Not necessarily a differentiator
  - Potential consumer backlash
- Need to consider objectives
  - Reward big/frequent spenders?
  - Reward share of the wallet?
  - Spenders over time?