ASSESSMENT OF CUSTOMER LOYALTY

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Abstract. The aim of the study is to develop the approach to measurement of customer loyalty that will improve the quality of business performance. To achieve this goal, the following tasks have been solved through the study. Existing definitions of customer loyalty and their relationships with other economic categories have been analyzed. Offers of how to measure loyalty and where it is found within the system of definitions have been developed. The study used methods of analysis and synthesis for the definition of loyalty and its components. Questionnaire was suggested for measuring loyalty, as well as the loyalty of existing and potential customers was offered to estimate in accordance with the five zones of the Likert scale. The main result of the study is the approach to measurement of the loyalty of existing and potential customers, which is based on the following components: causes of changes in loyalty (emotional impact, self-esteem, economic opportunities, status, lifestyle); behavior (only rational, mostly rational, mostly irrational, purely irrational); diversification of forms (one company, several competing companies, all competing companies); types of loyalty (loyalty to the company, brand loyalty, loyalty to the company and its brand); probability of repeated purchases (high, medium, low, none); opportunity of providing friends with advice to purchase products (high, medium, low, none). The approach will facilitate more accurate prediction of loyalty growth and be a part of a strategic quality management within a company.

Keywords: customer loyalty, customer service, business performance, marketing.

Introduction

Growing competition among enterprises for external and internal markets, decreasing standards of living in Ukraine, and growing distrust towards manufacturers leads to the customer loyalty, as the main factor, which provides strategic quality management and determines the level of customers’ trust to a particular business.

The relationships between producers and customers are core studies of many scientists such as D.Aaker, P.Gamble, M.Stone, N.Woodcock, J.Liesse and S.Schlueter, J.Hofmeyr and B.Rice, A.Schüller, L.Pan, P.A.Petrychenko, O.V.Rudinska, S.A.Yaromich and others. There are multiple methodological approaches to the definition of loyalty; however, the problem is still not fully understood.

Paying tribute to the existing theoretical and methodological approaches to the definition of loyalty, we should pay attention to the fact that most authors examine actual customers. However, an important competitive priority of any business is not only to preserve or increase the loyalty of existing customers, but also attract potential customers having a high level of loyalty. In addition, customer loyalty is a direct object of strategic quality management, which influences any improvements.

The first definition of the customers’ “brand loyalty” was provided in 1923. It sounded like: “The consumer loyal to the brand is a person who buys your brand in 100% of cases” (Jacoby, 1978). Other authors have subsequently determined the “loyalty” as “a scheme of stable mark’s domination when purchasing the product” (Busch, 1985). Often, loyalty is associated with repeated purchases.

According to J. Liesse and S. Schlueter, commitment to the brand can also be due to its emotional impact on consumers and their self-esteem (Liesse, 1992). Other authors, along with the emotional component of loyalty, also indicate the presence of rational component (Gembl et al., 2002). This is reflected in the fact that the consumer may be assigned to multiple competing companies. However, neither re-purchase nor “rational commitment” do not explain the nature of customer loyalty. According to some researchers (Hofmeyr and Rice, 2000), consumers often buy products either currently present in the market or just affordable for him or her. They determine the brand loyalty as the “stable behavioral response in relation to a particular brand
created by the psychological evaluation process” (Kolobova, 2011). Thus, loyalty refers to them as the
tendency of a consumer to buy products of a certain brand again and again because of his or her preferences.

D. Aaker defines the loyalty as "a measure of consumer’s commitment to the brand". In his opinion,
loyalty shows the degree of probability of consumer’s switching to another brand, especially when he or she
expects changes in the price or any other indicator. With increasing loyalty among consumers, their
perception of actions performed by competitors is reducing (Aaker, 1991).

The scientist considers that the key to the loyalty is that the brand cannot be moved to another name or
symbol without high costs and a significant decline in sales and profits. Following these ideas, some
marketers understand the loyalty as “the degree of insensitivity of buyers of goods or services to the actions of
competitors such as changes in prices accompanied by an emotional attachment to a product or service”
(Tsyisar, 2002), “regular consumption of a particular brand (conscious or unconscious) expressed through
attention or behavior” (Andreev, 2003).

At the same time, I.P. Shyrochenskaya thinks that the loyalty can be achieved due to certain conditions.
The consumer must see a sustainable advantage of the brand to all others, wish to make a second purchase,
and continue to buy this brand. To do this, the consumer should have satisfaction with the brand, be
insensitive to the actions of competitors, and be more emotionally loyal than rationally committed. Therefore,
we need to specify a temporary variable (i.e. for a certain period of time, all of the conditions will be valid)
(Shirochenskaja, 2004).

This thesis is partly confirmed by the O.P. Pankruhina. The loyalty programs are to be developed and
updated in the form of online clubs for customers, social networks or any other types (Pankrukhin, 2005). The
author considers it appropriate to provide loyal customers with a gift or discount coupon in exchange for
filling out the registration form, which will allow producers to get to know more about customers and focus
their marketing efforts. All these measures will certainly contribute to the growth of the loyalty of existing
customers, but do not cover potential clients who treat loyally to the company. Therefore, this issue needs to
be given much attention if the company aims to embrace more customers; since in a competitive environment,
it is obligatory to ensure the successful strategic management.

Also, in our opinion, the use of the RFM- analysis is fairly controversial. Despite it allows for
segmenting customers in terms of loyalty based on their past actions to predict their behavior, it covers only
actual customers. Potential customers who are loyal enough to the businesses are not included. The RFM
abbreviation means recency, frequency and monetary (Polezhaev, 2006).

Consumers have different types of loyalty to manufacturers, so consider their classification. Some
scholars differentiate behavioral loyalty, and the loyalty associated with an attitude.

Behavioral loyalty is manifested, for example, when you purchase a certain product on a regular basis,
but without commitment. In such a situation, the consumer is indifferent to the brand, so they can easily
purchase another brand.

Loyalty related to the attitude implies, on the contrary, the interest of the consumer in the purchase of
products of exact brand. This type of loyalty is the total commitment of a customer to the company and its
satisfaction with the mark, which is usually bought during a very long time.

Customers purchasing specific products constantly and feeling deep emotional satisfaction is loyal
according to both types of loyalty (behavioral and attitude-related). Jan Hofmeyr and Butch Rice determine
the loyalty associated with an attitude as “commitment” (Hofmeyr, 2000). So, in this case, we can speak of
the commitment and loyalty. The authors point out that loyalty is always associated with the behavior, and
thus is a behavioral variable.

They also conclude that the commitment and loyalty (behavioral) belong to different categories, and so
there may be cases where the committed consumer will not often buy products of certain companies, although
he or she feels affection. Jan Hofmeyr and Butch Rice introduced two concepts: “loyalty without
commitment” and “commitment without loyalty” (Hofmeyr, 2000).

Loyalty without commitment occurs in situations where the consumer is not satisfied with the product or
treats it with indifference, but, even so, has to buy due to either the lack of “favorite” products in the
marketplace or economic reasons. So, such consumer will immediately stop buying products of a certain
brand as soon as another more preferable brand appears. In this case, there is a formal behavioral loyalty, but
in fact the consumer feels a commitment to a completely different company.
Adherence without loyalty is diametrically opposed to the loyalty without commitment. It occurs when a consumer appreciates the company, is interested in it and demonstrates the emotional attachment, but often can’t buy such products. However, a consumer will purchase the product as soon as he or she finds it in the marketplace. Thus, in this subtype of loyalty, a consumer feels affection for a particular company, but, nonetheless, exhibits behavioral loyalty to the products of another company, which he or she regularly buys.

Often, factors that directly affect loyalty are considered in assessing loyalty. However, to get a complete system, we need to make cause and effect analysis (direct and indirect) for loyalty and its determinants. Consumer loyalty is considered by Hofmeyr and Rice as a stable behavioral response of the consumer in respect of certain companies that emerged from the psychological evaluation process (Hofmeyr and Rice, 2000). There is a certain relationship between consumer’s estimates and its final demand.

The consumer commitment to a particular product is a part of consumer loyalty. In addition, the processes increasing consumer value become more and more important. Also, in some way costs of switching affect the loyalty. Switching costs do not separately affect consumer value, satisfaction and loyalty; however, provide aggregate impact on loyalty (Yang, 2004).

The most widespread method of loyalty estimation is based on predicting the future behavior of consumers. It implies the existence of intentions and expectations. Intentions determine the effect of conscious choice based on internal determinants controlled by the consumer, such as satisfaction and willingness to shift (Soderlund, 2003). Expectations provide an estimate of future consumer behavior, taking into account external factors irrelevant to the consumer (trust and switching costs). Trust can be defined as expectations that a company will keep its promises and resolve potential problems (Kolobova, 2011). Trust, therefore, is an estimate of the future behavior of the company and includes factors beyond the control of the consumer. External factors contribute to the complexity of modeling consumer behavior in certain market segments. Therefore, the consumer may have other motives regarding the selection of specific behavioral strategies. So, predicting the future consumer behavior requires a number of factors being taken into account with the focus on cognitive processes.

Often, when assessing loyalty, only direct effects of various factors are counted; however, for more complete and objective evaluation, it is important to consider the complex of cause and effect (direct and indirect) connections that can be interrelated. It will contribute to the either synergistic or counterweight effect.

Determining the level of customer loyalty has traditionally used a number of standardized questions or indicators. Questions are aimed at designing a rank reflecting the probability of a positive attitude and behavior of the customer to the company. When trying to assess the level of consumer loyalty, fundamental behavioral components are taken as a framework in many studies.

The advantage of measuring loyalty based on the behavioral variable is that it includes a direct purchase, as the most relevant. However, the main limitation is that it does not consider the reasons and motives of consumer behavior, consumer attitudes to the nature of the company, and there is no clear distinction between loyalty to the company and other forms of repeated purchases.

The trend towards the use of rapid methods of determining the level of consumer loyalty is reflected in the model «Secure Customer Index ® (SCI ®)» proposed by Randall Brandt in 1996. Answers are given by consumers on three items: the overall satisfaction, probable further use of the service, and probable recommendations to friends. According to received information, respondents can be classified as “committed” if the level of their satisfaction is high. They will certainly make repeated purchases and recommend the company to others (Baker-Prewitt, 2014). These parameters are critical in the process of assessing the level of customer loyalty. The method may be supplemented by other components.

According to J.J. Lamben, consumers who regularly purchase products can be divided into certainly loyal, moderately loyal and disloyal. Actions can be taken to promote the products and maintain loyalty. The author argues that ensuring the customer loyalty is the task of relationships marketing.

A high level of satisfaction is one of the components for strengthening consumer loyalty, but it is for those consumers who have already made a purchase. But in order to be loyal, it is not necessarily to shop. We need to evoke positive attitude of existing and potential customers to the company.

According to the study carried by B. Mittal and V.M. Lassar (Mittal, 1998), satisfaction affects loyalty. Dissatisfaction guarantees disloyalty while only providing maximum satisfaction leads to the loyalty. Therefore, the most comprehensive customer satisfaction is a significant factor in the formation of loyalty,
which requires regular monitoring and tracking the dynamics of customer satisfaction, as a component of their loyalty, so that the company can surgically remove detected inconsistencies.

To ensure the growth of the loyalty of existing and potential customers, as mentioned above, it seems appropriate to develop appropriate programs. To increase their adequacy in accordance with specific customer segments, it seems appropriate to consider their segmentation based either on the type of loyalty or on its components.

Firstly, consider the segmentation of loyalty inherent to a consumer. According to A. Schuller, customer loyalty can be divided into:
- Loyalty to the company or its location;
- Loyalty to the brand, service, commercial offers;
- Loyalty to the employees of the organization (Schüller, 2011).

Secondly, segment customers according to their loyalty to the company.

Segmentation according the degree of customer loyalty by AM Schuller:
- Consumers standing against the loyalty;
- Disloyal customers;
- Lost customers;
- Relatively loyal customers;
- Completely loyal customers;
- Enthusiasts (Schüller, 2011).

This segmentation will allow taking managerial decisions regarding strategic cooperation for each class of existing or potential customers and foster development of a set of measures to increase loyalty within each segment.

Segmenting the customer loyalty was also made by Rayheld F. and R.Markey. According to them, among customers are:
- Promoters - loyal enthusiasts who buy goods and convince others to do the same;
- Passive - satisfied customers without enthusiasm who can be easily caught by competitors;
- Detractors - unhappy with the company (Rayheld, 2012).

This method is relatively simple to use for a rapid analysis. However, it seems important not only to determine directly loyalty, but also the factors affecting it.

Segmenting the degree of loyalty/satisfaction by P. Wilton is based on the gradation of levels of affective loyalty. In his model “The Customer's Loyalty Ladder”, he divides consumers according to their emotional loyalty on:
- Partners who have a high degree of commitment to the brand (they purchase only the products of this company based on very favorable attitude towards him or her, and participate in business processes);
- Lawyers who have a favorable attitude toward the brand are loyal to the brand (they mainly buy products of the company) and recommend the brand to others;
- Supporters who have a favorable attitude toward the brand;
- Customers who sometimes buy products of the brand (Wilton, 1988).

**Results**

Thus, by summarizing the existing signs of segmentation, it is appropriate to determine the level of loyalty of existing and potential customers in accordance with the five zones of Likert scale:
- The absolute lack of loyalty;
- Slight presence of loyalty;
- Intermediate level loyalty;
- High level loyalty;
- Absolute loyalty.

To assess the loyalty of existing and potential customers is advisable with the following components:
1. Reasons for changes in the loyalty:
   - Emotional impact;
   - Self-esteem;
   - Economic opportunity;
   - Status;
   - Lifestyle.
2. Behavior:
- Purely rational;
- Mostly rational;
- Mostly irrational;
- Extremely irrational.

3. Diversification of reflection:
- One company;
- Several competing companies competing;
- All competing companies.

4. Types of loyalty:
- Loyalty to the company;
- Brand loyalty;
- Loyalty to the company and the brand.

5. Probability of re-buying:
- High;
- Average;
- Low;
- Zero.

6. Providing friends with recommendations to buy products:
- High;
- Average;
- Low;
- Zero.

The Likert scale developed by Rensis Likert is used to measure attitudes. It is an ordinal scale of measurement, and allows us to estimate and compare physiological adjustments of consumers. Also, on the basis of statistical procedures, it is allowed to determine medians of distributions, ratios of rank correlation and conjugation. The most common is a five-way, but others are also available.

The formation of a scale to measure the level of customer loyalty includes: making a sample of consumers’ attitudes expressed in terms of statements; selection of statements to avoid ambiguity; assessment according to the proposed scale based on an opinion of consumers (agreement - disagreement with the statement); statistical analysis of estimates; formation of the final scale, which includes items revealing the strongest discrepancies in subjects with the lowest and highest final grades for the entire sample.

Measuring attitudes means to assess the degree of respondent’s agreement or disagreement with a set of statements (where a score of 1 means complete disagreement or disapproval, 2 - disagreement, 3 - indifference, 4 - agreement and 5 - full consent). The final score scales is calculated as the sum of scores of all types. It is an assessment of the attitudes of the particular consumer.

The main advantage of this method is the relative ease of construction: statements are taken only on the basis of internal consistency; we do not need an expert group. In addition, this method is characterized by relatively simple procedure for the respondents.

Questionnaire for assessment of the level of loyalty is presented in the Appendix A. If the questionnaire includes both direct and inverse questions according to the optimization criteria, questions need to be recoded. Finally, if the standard deviation is of the permissible value, the aggregate score of the loyalty is performed.

Discussion

Thus, the core aspects of the research were the analysis of existing approaches to the definition of customer loyalty, examination of the relationship between such categories as satisfaction, value, and loyalty. We proved that each of these categories can be considered as a component of loyalty. The loyalty of existing and potential customers was suggested to assess in accordance with five zones of the Likert scale: the absolute lack of loyalty; negligible presence of loyalty; loyalty of intermediate level; high level of loyalty; absolute loyalty.

A methodological approach to assessment of the loyalty of existing and potential customers, as one of the components of the quality of the enterprise, was offered. The loyalty is determined by the stability of sales or their positive dynamics. It is based on the provided constant support of interaction between companies and customers, as well as the system of feedback and response to changes occurring in some segments of the
consumer market. Development of measures to increase customer loyalty will provide the company with a significant increase in the quality of its operations. Over time, consumers satisfied with the quality of products and services will actually act as agents of influence expanding customer numbers and improving quality of performance. At the same time, consumers who are dissatisfied with the company gradually reduce the level of loyalty to it, and then change the manufacturer. Therefore, it is advisable to monitor regularly the customer loyalty.

The theoretical value of the study is in the development of the appropriate methodological approach to assessment of the customer loyalty that will be further tested on the machine-building enterprises. The next step of the research will be the development of the concept of strategic quality management, one of the components of which is the consumer loyalty.

References