Mechanics of engendering customer loyalty: A conceptual framework

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Abstract

This article attempts a qualitative review of the concept of customer loyalty and companies’ need to comprehend the character of customer loyalty in order to find a sound fit between their customer loyalty schemes and the prevailing nature of loyalty among customers. It suggests the mechanics of engendering customer loyalty by deliberating upon the concepts and dynamics of customer satisfaction and emotional attachment, the factors primarily responsible for promoting customer loyalty. A quantitative framework to assess customer loyalty to assess customer loyalty comprehensively through measurement of its antecedents and outcomes has also been proposed and discussed.

Introduction

Customer loyalty, the “holy grail” of marketing, has long been regarded as a business question of immense importance. The seemingly intangible, yet commercial merits of customer loyalty have placed it at a significantly strategic position in almost every organisation that faces a business environment characterised by hyper competitive
pressures due to supply substantially surpassing demand, loosening of customer bonds and higher probability of corporate failures.

Hence, customer loyalty continues to remain elusive for most marketers as even the most carefully designed customer centric measures, popularly known as loyalty programmes, have merely managed to retain customers at a superficial level. We submit that loyalty programmes have largely failed in building loyalty, as they are based on the fundamentally flawed premise of reward for retention being the driver for loyalty.

Customer loyalty has been monopolised by various promotional schemes devised to offer benefits to the customers through revisiting the same company, recommending the same brand and repurchasing the same product over time. But instead of infusing loyalty among customers, these loyalty programmes and schemes have merely ensured the customers’ patronage till they receive a relatively more tempting offer from another company. So, this model of infusing loyalty among customers was not exceptionally effective as temptation could not form the basis of loyalty. A relationship developed on the basis of temptation is predisposed to get shaky once greater benefits are spotted elsewhere.

Marketers mostly have been erring in internalising and implementing the very essence of customer loyalty by considering it merely as successful retention. The general mechanisms of much celebrated customer loyalty programmes are evidence of such short sightedness where behavioural patterns, desirable for obvious reasons, are encouraged without taking into account the underlying and understated affective and cognitive processes. At the same time, the world has also been witness to several brands with cult status whose customers require no loyalty points to revere and religiously pursue them. These brands could create such a committed following that preference for the brand became strong enough among their customers to ensure an obstinate price insensitivity and a keen sense of affiliation with the brand.

Recently Forbes\(^1\), an American business magazine that publishes original articles on a variety of subjects related to industry, investing, technology, finance, communications and marketing, declared Apple as the most valuable brand holding a value of $124 billion\(^2\), followed by Microsoft whose brand value is about half that of Apple’s. Also, anybody with an interest in technology and electronic gadgets would testify to the attraction that Apple

\(^1\)http://www.forbes.com/powerful-brands/list/
\(^2\)Values calculated November 2014
holds for its customers. In the face of the tremendous customer loyalty that it enjoys, what is interesting is that Apple has never designed an official loyalty programme for its customers!\footnote{https://blog.smile.io/apple-doesnt-have-a-loyalty-program} The online store website of the company states that “sometimes, a random act of appreciation can reward an employee, impress a client, or motivate a business prospect in a way that nothing else can”\footnote{http://store.apple.com/us/browse/home/campaigns/corporate_gifting} which seems to subtly communicate the idea of inspiring loyalty by touching the lives of customers through superior products and services, and of invoking a distinct sense of prestige associated with the brand. Such an approach may be more effective in reaping dividends for the company’s profitability.

Another instance of similar extraordinary customer loyalty, independent of loyalty programmes and schemes, is Louis Vuitton. Yim et al. (2008) pointed that this famous French fashion brand prefers to invest in cultivating “affectionate” associations with its customers, and encourages their passion for the brand by developing a sense of intimacy. The brand has no official loyalty programme but enjoys the enviable loyalty of its customers. Brands like Harley Davidson motorcycles and Levi’s jeans launched their official loyalty programmes just to offer greater rewards to their already loyal customers.

We submit that the cases discussed above illustrate the overrated significance of customer loyalty programmes to enhance and preserve “true” loyalty among the customers, and indicate a means through which customer loyalty is continually galvanised. The truest character of customer loyalty lies much beyond the spectrum of customer loyalty programmes, however captivating they may be, as these programmes fail to fully acknowledge that although customer behaviour is of great importance to business, there is more to customer loyalty than repurchases and revisits. It is made up of the attitude, behaviour and cognition of a customer which gets reflected in his preferring and patronising a brand, at times even at a premium. The core of customer loyalty is a source of powerful customer dynamics, and this calls for diving deeper into the connotations of customer loyalty in order to arrive at a clearer comprehension of the concept for corporates.

Customer loyalty

Woodruff (1997) pointed out that service providers usually perceive customer loyalty as a significant source of competitive advantage. Srivastava and Rai (2013) underlined the significant impact of customer loyalty on the success and profitability of a
business, while Rai and Srivastava (2014a) opined that organisations with a relationship oriented approach have customer loyalty as their key objective, and suggested that customer loyalty “can be understood as the customer’s predisposition to prefer a particular product or service over its substitutes available in the marketplace” (p. 46). Kincaid (2003) referred to customer loyalty “as a consumer behaviour, built on positive experience and value, which leads to buying products, even when that may not appear to be the most rational decision” (p. 10). Hellier et al. (2003) described customer loyalty as the extent to which the customer has been involved in repurchasing the service of a particular company over the recent years and the importance of that portion of the customer’s expenditure with reference to his total outlay in that service category. Uncles et al. (2003) pointed out that majority of the customers remain polygamous in a way that they exhibit loyalty towards an assortment of brands within a single product category. With this understanding they defined customer loyalty as an ongoing inclination towards purchasing a brand out of many others.

Pfeifer (2005) emphasised that acquiring a new customer is five times costlier than retaining an existing one. Although Sterne (2002) found the precise cost ratio a contentious issue, in terms of commercial understanding it makes sense to take care of the existing customers before one can plan on acquiring new ones, as pointed out by Walsh et al. (2005).

Dick and Basu (1994) opined that a deeper assessment of the factors driving customer loyalty is called for. Gee et al. (2008) posited that the absence of a unanimous definition of customer loyalty is felt in the scholarly work aimed at comprehending the vital factors that engender customer loyalty. Terblanche and Boshoff (2006) agreed that comprehension of antecedents of loyalty is essential to garner the greatest gains of customer loyalty.

The next section attempts to outline the factors responsible for creating customer loyalty and to propose a comprehensive model for assessment of these factors with consequent customer loyalty assessment.

**Engendering customer loyalty**

Srivastava and Rai (2014) suggested that loyalty as a concept and construct has engendered sizeable research interest, and thus researchers took it upon themselves to explore it more by reverting to its originators. McCall and Voorhees (2010), in their research
focussed on identifying the drivers responsible for customer loyalty programmes, asserted that “the drivers of loyalty remain elusive” (p. 36). The renowned reflection by Oliver (1999), “Whence Customer Loyalty?” still poses a considerable challenge before marketers across industries worldwide, and the most obvious answer would seem to be “customer satisfaction”. Bearden and Teel (1983) asserted that customer satisfaction “is generally assumed to be a significant determinant of repeat sales, positive word of mouth and consumer loyalty” (pp. 21). Researchers established positive links between customer satisfaction and various aspects of customer loyalty such as relative attitude (Dick and Basu, 1994), reduced intensity of blame and anger in impaired relationships (Forrester and Maute, 2001), repurchase intentions (Reichheld and Sasser, 1990; Zeithaml et al., 1996; Mittal and Kamakura, 2001; Faullant et al., 2008), repeat usage intentions (Bitner, Booms and Tetreault, 1990; Jones and Suh, 2000), willingness to recommend (Howat et al., 1999; Faullant et al., 2008), and customers’ future intentions (Murray and Howat, 2002).

While satisfaction has often been regarded as the most obvious sign of customer loyalty (Anderson et al., 1994; Anderson and Sullivan, 1993; Bearden and Teel, 1983; Bolton and Drew, 1991; Fornell, 1992; LaBarbera and Mazursky, 1983; Oliver, 1980; Oliver and Swan, 1989a, b; Rust et al., 2002; Rust and Zahorik, 1993), delivering a satisfactory customer experience over and over again, however difficult that may be, does not earn the company much credit. Few customers have been expressly vocal about their consumption experience when a product has fulfilled all the promises it stands for. Moreover, the impact of customer loyalty or reward programmes on the actual state of loyalty and consequent performance of a firm is still not established (McCall and Voorhees, 2010). Smith and Sparks (2008) and Deykay et al. (2009) pointed out that customer loyalty programmes see participation in millions. Yet, as highlighted by O’Brien and Jones (1995), Dowling and Uncles (1997), and Bolton et al. (2000) there are still doubts about their effectiveness. O’Brien and Jones (1995) also argued that unsound design of reward structures under loyalty programmes may lead to repeat buying behaviour among “undesirable” sets of customers. McCall and Voorhees (2010) opined that in a scenario where the value of rewards is greater than the product it accompanies, or when such rewards lack reinforcement for loyal customers, firms may end up securing only short term buying with no effect on customers’ attitudes and future intentions.

Customer loyalty calls for an association deeper and stronger than cognitive judgements or accumulated benefits. The character of loyalty is created when a relationship...
tacitly transcends the boundary of satisfaction to assimilate with emotional attachment. It is the point where a customer’s cognitive evaluations are equalled or even overpowered by the strong emotional and affective dynamics of the company-customer relationship. Thus, it is the confluence of customer satisfaction and customer’s emotional attachment which together engenders customer loyalty in its truest form. The sections that follow proffer individual discussions about the creation and construction of satisfaction and emotional attachment.

**Satisfaction**

Homburg et al. (2006) highlighted the interest received by customer satisfaction from academicians and researchers in the field of marketing and consumer studies over the years. Spreng et al. (1996) pointed out that customer satisfaction is deep-seated in the concept of marketing and refers to satisfying the needs and desires of customers. Giese and Kote (2000), while reviewing the available literature on customer satisfaction found inconsistency in satisfaction definitions. Peterson and Wilson (1992) noted that customer satisfaction studies lacked “definitional and methodological standardization” (p. 62). Yi (1990) opined that "For the field of consumer satisfaction to develop further, a clear definition of consumer satisfaction is needed" (p. 74).

Satisfaction is pleasure or gratification largely perceived as a cognitive process involving evaluation of perceived performance against pre conceived expectations. Customer satisfaction/ dissatisfaction is the cognitive judgement of a customer resulting out of an interaction between the customer’s personality and the company’s marketing practices from the perspective of the expectation that the customer had with the product, and perception of the benefits received. Howard and Sheth (1969) referred to customer satisfaction as the cognitive state of a buyer which results from his feeling of being sufficiently or insufficiently rewarded for the benefits he has foregone. According to Oliver (1980), customer satisfaction is a summary psychological state characterised by the association of emotions surrounding disconfirmed expectations and consumer’s previous evaluations about the consumption experience.

Hence, satisfaction is the outcome of customers’ favourable evaluative judgements about the extent to which a product’s performance could meet their expectations, and customer satisfaction is considered essential for profitability of the business as it increases
the strength of customers’ revisit and repurchase intentions. Being a post-consumption psychological state, satisfaction is inescapably attached to the possibility of dissatisfaction where customer’s negative experience results in disappointment and dissent.

**Satisfaction – dissatisfaction paradigm**

A rational company strives to attract and retain customers through a number of marketing practices largely wrapped around the key issues a business focusses upon viz product, price, place and promotion. As marketing developed into a more sophisticated function led by superior growth of the service sector, people, process and physical evidence were added to the aforementioned 4Ps of marketing in order to render a more holistic approach to the overall marketing system of the modern dynamic business environment. The transactional marketing approach based on these 7Ps primarily aimed at wooing customers and getting them to enter into a transaction. A need for relationship marketing practice was felt to retain customers and leverage their stay with the company for the creation and sustained survival of a sound organisation.

Transactional and relationship marketing practices have been playing a significant role in forming customer expectations. A customer, when exposed to different combinations of marketing elements from distinct sources, processes the information with the help of several personal and contextual factors such as social background, educational qualification, cognitive mind processes, previous consumption experiences, emotional quotient, and knowledge and expertise in order to arrive at a decision. These company and customer specific factors significantly affect the interaction that takes place between a company and its customers, and shape the individual consumption experience thereby leading to the customer’s evaluation of the product which results in the specific state of customer satisfaction or dissatisfaction. Figure 1 depicts the process of customer satisfaction formation.

Customer’s evaluation, which is the interplay of a customer’s expectation from the transaction and his perception about the actual receipt, thus takes place. If perception is more than expected, it results in customer satisfaction which offers several advantages to the company such as repeat purchase, customer retention, cross-sell and up-sell. However, if the customer’s performance perception is less than the expectation, a state of customer dissatisfaction follows which could be detrimental to the company's fortunes as it could lead to negative publicity, and loss in sale. Rai and Srivastava (2014b) asserted that “Customer
satisfaction/dissatisfaction is the cognitive judgement of a customer resulting out of an interaction between the customer’s personality and a company’s marketing practices from the perspective of the expectation the customer had with the product and perception of the benefits received” (p. 43).

Customer satisfaction is a function of customer’s expectation and perception, the value of which is obtained as the difference between the weighted mean of customer’s perception and expectation.

$$S(f(E,P))$$

$$S = A_s + \text{weighted}(P - \bar{E})$$

$$S = A_s + \frac{\sum_{i=1}^{n} w_i D_{si}}{\sum_{i=1}^{n} w_i} - \frac{\sum_{i=1}^{n} w_i D_{ei}}{\sum_{i=1}^{n} w_i}$$

where

- $A_s$ is constant
- $w$ is the weight assigned by the customer to different determinants of satisfaction
- $n$ is the number of determinants
- $D_{si}$ is the perceptual value of $i^{th}$ determinant of perception
- $D_{ei}$ is the expectation value of $i^{th}$ determinant of expectation

Researchers have argued that satisfaction is the most noteworthy cause of customer loyalty (Oliver and Linda, 1981; Cronin and Taylor, 1992; Fornell, 1992; Reichheld, 1993; Anderson and Fornell, 1994). Some researchers have proposed that research over the past years considered customer satisfaction as responsible for customer loyalty (Newman and Werbel, 1973; Oliver and Linda, 1981; LaBarbera and Mazursky, 1983; Bearden and Teel, 1983; Bitner, 1990; Fornell, 1992; Anderson and Fornell, 1994; Dick and Basu, 1994; Oliver, 1997; Cronin and Taylor (1992); Cronin et al. (2000); McDougall and Levesque (2000); and Chiou et al. (2002) referred to the empirical evidence in literature regarding effect of satisfaction on customer loyalty in terms of continuity in customer’s positive purchasing behaviour. However, Jones and Sasser (1995) contended that the association of satisfaction with loyalty is anything but simple and linear. They further argued that even satisfied customers may defect.
The all prevailing “awe” of customer satisfaction as a vital tool of survival and revenues more often than not drives companies into a state of myopia where they fail to develop a visionary approach involving a much needed relationship orientation in interactions with customers, and instead keep on delivering only what is necessary to attain customer satisfaction in a particular transaction. Since satisfaction generally seems to be equated with loyalty, companies concentrate on ensuring satisfaction in various transactions with a customer, expecting that these continued episodes of satisfaction will result in the formation of customer loyalty towards the company. Such a situation has been termed as “satisfaction trap” by Reichheld (1996) who suggested that 65% to 85% of satisfied customers are prone to switching as satisfaction does not universally convert into loyalty despite being generally related to it (Oliver, 1999). It is important to understand that all loyal customers may be termed as satisfied customers, but all satisfied customers do not qualify as loyal customers of the company as loyalty demands an enduring association between a company and its customers.

Hence, customer loyalty demands more than customer satisfaction. The conventional measures adopted by companies to create customer satisfaction have so far been an assortment of measures related to customisation, post-sale service, employee behaviour, tangibility and the like, focussed on meeting customers’ expectations. But in the world of undifferentiated offers, a customer is more likely to place his loyalty with the company which offers him a familiar environment of trust, belongingness and concern, than with one that treats him like any other visitor to its premises. Formation of customer loyalty calls for an empathetic environment in which both the customer and the company co-exist with mutual trust. So, the formation of customer loyalty requires the customer’s emotional attachment to the company.

It has been the norm of customer character to defect despite being satisfied in a relationship whenever a new relationship provides a greater avenue for satisfaction. It has been observed that customers defect for a variety of reasons, and one of the prominent reasons is brand fatigue. Splendor motorcycle, the world’s largest two wheeler maker from India, Colgate toothpaste from England, and Samsung smart-phones from South Korea peaked and slid from their sales growth trajectory not on account of any dissatisfaction or absence of satisfaction, but out of brand fatigue, as observed by the author. Hence, while satisfaction is an important component in engendering loyalty in a relationship, it is not sufficient enough to bind the customer-company relationship forever. So, satisfaction is the
hygiene factor in loyal relationships whose presence may not engender loyalty but whose absence would result in dearth of loyalty. Thus, to create the bond of customer loyalty, sustained satisfaction coupled with the emotional attachment a customer develops with his company is important. Westbrook (1987) and Oliver (1993) noted that as far as consumption experiences are concerned, satisfaction is inextricably related to emotions. Zins (2002) pointed towards the availability of “ample evidence that emotional reactions associated with the consumption experience are fundamental for the determination of satisfaction” (p. 4). Bigne et al. (2005) argued that the need to integrate both affective and emotional components in customer satisfaction is getting greater recognition by more and more researchers.

**Emotional attachment**

The role and effect of emotion is vital in determining the shape and intensity of customer response. Barsky and Nash (2002), Mattila and Enz (2002), Oliver (1997), and Westbrook and Oliver (1991) posited that emotions are significantly responsible for the choice of service providers, service quality assessment, repeat buying behaviours and cultivation of brand loyalty. Bagozzi et al. (1999) defined emotions as psychological states of willingness arising from cognitive evaluations of events or one’s own views. These emotions can be understood as discrete groups of emotional experience and expression, such as delight, resentment, or trepidation. They can also be seen as a limited number of dimensions which are fundamental to emotional groups like pleasantness/unpleasantness, relaxation/action, or calmness/excitement (Izard, 1977; Plutchik, 1980). Emotional attachment is the result of positive emotions which are not only helpful in lessening customers’ agitation in the event of service failure but also induce positive behavioural intentions among customers. Negative emotions, on the other hand, are bound to affect service quality evaluations and resultant level of satisfaction, unfavourably. Isen et al. (1982) suggested that positive emotional states are likely to reduce the intricacies and duration of decision making of people in comparison to those with negative emotional states.

Goleman (1997) explained emotion as a psychological and biological condition inspired by the blend of feelings and thoughts. Graillot (1998) viewed emotion as an affect-based subjective, experimental, transitory phenomenon with multiple dimensions and motivational impact caused by exogenous factors over the individual, while interacting with the processing of information collected for consumption experience. Zohra (2011) reviewed
the work of Amine (1998) and stated that “emotion is a conscious occurrence caused by the combination of cognitive changes that can be (good, bad, pleasant, unpleasant, harmful, desirable, etc.) and the physiological assessment.” (p.169).

The state of a relationship is dependent upon the nature and intensity of emotions among its stakeholders. Influence of emotional attachment in a relationship marks the possibility that two parties will continue to trust and depend upon each other. Lacoeuilhe (1997) asserted that attachment as a notion was largely studied under psychology, and referred to Bowlby (1979) for early research investigating parents’ relationship with new babies. The resilience and reverberation of positive emotions such as happiness, hopefulness and positive surprise (Liljander and Strandvik, 1997) nourish this emotional attachment and ensure the well-being of the relationship. Underlining the importance of possession for individual sense of identity, Zohra (2011) stated that “the attachment to an object, which is a powerful psychological investment in an object, reflects the role of ownership in maintaining the identity and the expression of self-concept of an individual” (p. 170). While defining attachment, Heilbrunn (2001) emphasised the psychological course of the close relationship between consumer and brand, and pointed that attachment is an emotion and an affect-driven relationship formed by a consumer with a particular brand.

Park et al. (2010) reviewed several researchers in marketing and concluded that apart from interpersonal contexts, attachment has also been investigated with respect to customers developing attachment to various market “entities including product brands” (Fournier, 1998; Keller, 2003; Schouten and McAlexander, 1995), “celebrities” (Thomson, 2006), and “special possessions” (Ball and Tasaki, 1992; Kleine and Baker, 2004) (p. 2). Rai and Srivastava (2013) underlined the involvement of attachment in the formation of loyalty while arguing that loyalty stands for a feeling or an attitude emerging out of ardent attachment due to affection in case of personal relationships.

However, the foundation of unswerving emotional attachment lies in deeper human psychology than mere instances of receiving desirables. Park et al. (2010) suggested that attachment as a construct is largely elusive despite gaining popularity. Malär et al. (2011) posited that emotional brand attachment stands for the bond that serves as a link between a consumer and a specific brand, and encompasses feelings toward the brand which include affection, passion, and connection (Thomson et al. 2005). Brakus et al. (2009) mentioned affection, passion and connection as the three dimensions of brand attachment. Bagozzi and Dholakia (2006) defined brand identification as “the extent to which the consumer sees his
own self-image as overlapping the brand’s image” (p. 49). Malär et al. (2011) referred to the concept of self-congruence which stands for suitability of a brand’s personality or image for the consumer’s self (Sirgy 1982; Aaker 1999), while pointing that an emotional brand attachment requires consumer’s self-concept. They defined self-concept as “the cognitive and affective understanding of who and what we are.” Park et al. (2010) pointed out that when the customer classifies the brand as an extension of himself, he develops a sense of oneness with it, thereby creating cognitive connections between the brand and himself. Mikulincer and Shaver (2007) and Thomson et al. (2005) posited that such linkage between brand and self is inherently emotional despite being cognitive in terms of representation. Park et al. (2010) asserted that brand–self connection is an acute and non-redundant pointer of attachment. The research findings discussed above serve as a basis for the identification and elaboration of the attributes of emotional attachment with a company or a brand, proposed in the ensuing sections.

**Affinity:** Affinity determines the direction and duration of every relationship. It is the very core of a relationship that keeps it secure from the occasional disappointments and disagreements that are natural to relationships. The feeling of affection plays a significant role in the formation and growth of emotional attachment. The pesticide issue with Coca-Cola and Pepsi in India⁵ led to a huge loss in sales, profit and brand equity despite their not being any substantiated flaw in the products. In our view, this happened on account of lack of emotional attachment with the companies.

**Identity:** Identity is another attribute which affects the formation of emotional attachment. Being able to identify with a company or a brand has immense impact over its desirability quotient for the customer. This sense of identification with the company or the brand could be at different levels of a customer’s personality such as race, region, religion, relation, caste, culture, community, or language. A company’s or brand’s positioning and a customer’s desired placement becomes a cause for formation of emotional attachment between the company and the customer.

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⁵ In the year 2003, reports of Coca Cola and Pepsi containing pesticides surfaced. The Centre for Science and Environment alleged that as many as 12 brands of Coke and Pepsi contain pesticide levels several notches higher than permissible limits. This sparked a controversy that slowly took the shape of a crisis for both the companies as their sales plummeted substantially and remained on a downward track despite large-scale attempts to control damage including advertisements.

Proximity: Proximity refers to the physical and psychological propinquity which reinforces the interpersonal liking between two parties as the more they come into contact, the more are the chances of cultivating close relationships. Backman (1981) considered proximity as a sign of attraction while Berscheid (1999) posited that proximity influences attachment in a relationship. Batool and Malik (2010) asserted that “Proximity is the most powerful determinant for increased interpersonal attraction” (p. 145). Rai (2013) discussed proximity as a key factor in the formation of relationships. The multiple contacts arising out of proximity provide opportunities for interaction which impact the formation of emotional attachment, and also the replenishment and rejuvenation of the relationship over and over again.

Thus, in order to build and sustain emotional attachment in a relationship, affinity, identity and proximity need to be developed and nurtured. Emotional attachment can, thus, be seen as a function of affinity, identity and connectivity. It can objectively be ascertained with the help of the following equation:

\[ EA = f(A, I, P) \]

Where, \( EA \) = emotional attachment
\( A = \) affinity, \( I = \) identity, \( P = \) proximity

\[ EA = A_c + \text{weighted}(A, I, P) \]

\[ EA = A_c + \sum_{i=1}^{n} \left( w_{EA_A} \epsilon_1 + w_{EA_I} \epsilon_2 + \cdots + w_{EA_P} \epsilon_n \right) \]

\( A_c \) is constant and \( w_{EA_A}, w_{EA_I}, w_{EA_P} \) are the weight factors of the components forming emotional attachment. These weights vary with customers, context, culture, company, etc.

\( \epsilon_1 \ldots \epsilon_n \) are the items to assess the value of components forming affinity
\( \epsilon'_1 \ldots \epsilon'_n \) are the items to assess the value of components forming identity
\( \epsilon''_1 \ldots \epsilon''_n \) are the items to assess the value of components forming proximity

Character of customer loyalty

Srivastava et al. (2012) pointed out that customer loyalty had primarily been viewed as a double-fold concept with repeat purchase intentions and positive customer attitude as its main dimensions. Rai and Srivastava (2012) asserted that “a customer can express his
degree of loyalty towards a service provider by either displaying a positive attitude or indulging in favourable actions or making conscious evaluations and finding a particular service worth sticking to” (p. 66). Customer loyalty, which is principally valued for the resultant character, develops to its full strength when loyalists demonstrate three attributes viz. preference, patronage and premium towards the company (Figure 2).

Preference stands for a customer’s decision to choose a particular company over other alternatives in terms of repurchase and retention. Zeithaml et al. (1996) and Jones et al. (2000) pointed out that repurchasing from the same company is a result of customer loyalty. Rai (2013) saw a customer’s repurchase intentions and resistance towards switching as significant behavioural outcomes of customer loyalty. Hozier and Stern (1985), Zeithaml et al. (1996), Walker and Knox (1997), Narayandas (1999), and Ganesh et al. (2000) referred to a customer’s unwillingness to switch to other offers, thereby choosing his existing service provider over others, which Rai (2013) considered a manifestation of loyalty.

Patronage brings forth the strength of the relationship between the company and the customer in his willingness to get associated with the company actively. Mitra and Lynch (1995) underlined the strong inclination towards the service provider while Butcher et al. (2001), and Javalgi and Moberg (1997) emphasised recommendation as outcomes of loyalty. Fournier (1998) suggested that loyal customers feel a sense of affiliation with the product or organisation. Price et al. (1995) and Patterson and Ward (2000) argued that expression of loyalty also takes place when customers display altruistic behaviours enabling superior service delivery.

Premium points toward a conscious choice of opting for the products of a particular company offered even at higher prices or with longer waiting time. It refers to the willingness of the customer to walk that extra mile to own a product. Anderson (1996) and deRuyter et al. (1998) posited that loyalty is expressed through lower price sensitivity. Rai (2013) defined price indifference or insensitivity as the customer’s apathetic approach towards the gap between prices of his service provider and other market players, and categorised it as a major cognitive outcome of customer loyalty.

Thus, the character of customer loyalty is a function of 3 Ps viz. preference, patronage and premium.

\[ CL_C \ f (P_1, P_2, P_3) \]

\[ CL_C = A_L + \text{weighted} \ (P_1 + (P_2 + (P_3))) \]
where,

\[ CL_C = \text{Customer loyalty character} \]

\[ P_1 = \text{Preference} \]

\[ P_2 = \text{Patronage} \]

\[ P_3 = \text{Premium} \]

A comprehensive account of the aforementioned attributes of customer loyalty character is provided below:

**Preference:** A loyal relationship should essentially exhibit preference character. A consistent stay in the relationship, also known as retention, cannot be a true reflection of loyalty character if there are no other options to select from. Loyalists holding a strong preference for the relationship demonstrate loyal behaviour characterised by repurchase intentions, switching resistance and exclusive purchase. All the above-mentioned actions express customers’ proclivity for the company or its brand which is preferred over others. This form of loyalty is more action based instead of being driven from an attitudinal predisposition of the mind which may or may not yield any tangible results for the company. This makes preference character the most well accepted and used proxy of customer loyalty.

For an objective assessment of preference character of customer loyalty, the following equation is proposed:

\[ P_1 = f (RI, SR, EP) \]

Where, \( P_1 = \text{preference} \)

\[ RI = \text{repurchase intentions} \]

\[ RS = \text{switching resistance} \]

\[ EP = \text{exclusive purchase} \]

\[ P_1 = \frac{\left( w_{p_{1a}}r_{p_{1a}} + w_{p_{1b}}r_{p_{1b}} + \ldots + w_{p_{1n}}r_{p_{1n}} \right)}{\sum_{i=1}^{n} w_{r_{p_{1i}}}} + \frac{\left( w_{p_{2a}}r_{p_{2a}}' + w_{p_{2b}}r_{p_{2b}}' + \ldots + w_{p_{2n}}r_{p_{2n}}' \right)}{\sum_{i=1}^{n} w_{r_{p_{2i}}'}} + \frac{\left( w_{p_{3a}}r_{p_{3a}}'' + w_{p_{3b}}r_{p_{3b}}'' + \ldots + w_{p_{3n}}r_{p_{3n}}'' \right)}{\sum_{i=1}^{n} w_{r_{p_{3i}}''}} \]

are the items to assess the value of components forming preference

where, \( A_{P_1} \) is constant and \( w_{P_{1a}}, w_{P_{1b}}, w_{P_{1c}} \) are the weight factors of the components forming preference character of loyalty. These weights vary with customer, context, culture, company and the like.
I₁,………Iₙ are the items to assess the value of components forming preference

**Patronage:** Patronage is the affect component of customer loyalty character which motivates a loyalist to patronise his relationship by extending his full cooperation and support towards the company. Customers with high patronage intentions not only recommend the company in their social circles but also lend support for the betterment of performance through constructive feedback, service co-creation and congenial service environment creation, as these customers believe their service provider to be better than others in the business. Thus, patronage can be understood and articulated as a function of the manifestation of customer loyalty in the form of customers’ actions.

For an objective assessment of patronage character of customer loyalty, the following equation is proposed:

\[ P₂ = f(SP, WR, A) \]

Where, \( P₂ = \text{patronage} \)

\( SP = \text{strong preference} \)

\( WR = \text{willingness to recommend} \)

\( A = \text{altruism} \)

\[ P₂ = \left( \sum_{i=1}^{n} w'_{P₂a, i} I'_1 + w'_{P₂a, i} I'_2 + \ldots + w'_{P₂a, i} I'_n \right) \left( \sum_{i=1}^{n} w'_{P₂w, i} I'_1 + w'_{P₂w, i} I'_2 + \ldots + w'_{P₂w, i} I'_n \right) + \left( \sum_{i=1}^{n} w'_{P₂a, i} I''_1 + w'_{P₂a, i} I''_2 + \ldots + w'_{P₂a, i} I''_n \right) \]

where \( A_{P₂} \) is constant and \( w_{P₂a}, w_{P₂b}, w_{P₂c} \) are the weight factors of the components forming patronage attribute of loyalty. These weights vary with customers, context, culture and company and the like.

I₁  ...  ...  Iₙ are the items to assess the value of components forming patronage

**Premium:** This component of customer loyalty character reflects the rational decision-making of customers which guides them to attach their loyalty to the relationship on the basis of a conscious appraisal of distinctive features that bind the relationship. One of the most prominent traits of this component is the customer’s readiness to own the relationship even at a cost greater than that of other available options. A customer stays with the company as he values the relationship, and thus remains assured of the costs being offset by the merits of the relationship with the company. Such loyalists are ready to bear the super-normal cost in terms of money, time and effort to own and remain in the relationship.
The premium aspect of customer loyalty character can be ascertained through the following equation considering it to be a function of price insensitivity, exclusivity and identification.

To objectively assess the premium component of customer loyalty, the following equation is proposed:

\[ P_3 = f (P_I, E, I) \]

Where, \( P_3 \) = premium  
\( P_I = \) price insensitivity,  
\( E = \) exclusivity  
\( I = \) identification

\[
P_3 = \frac{\left( w_{P_{3a}} \cdot I_1 + w_{P_{3b}} \cdot I_2 + \ldots + w_{P_{3c}} \cdot I_n \right)}{\sum_{i=1}^{n} w_{P_{3a}} \cdot I_i} + \frac{\left( w_{P_{3a}} \cdot I'_1 + w_{P_{3b}} \cdot I'_2 + \ldots + w_{P_{3c}} \cdot I'_n \right)}{\sum_{i=1}^{n} w_{P_{3b}} \cdot I'_i} + \frac{\left( w_{P_{3a}} \cdot I''_1 + w_{P_{3b}} \cdot I''_2 + \ldots + w_{P_{3c}} \cdot I''_n \right)}{\sum_{i=1}^{n} w_{P_{3c}} \cdot I''_i}
\]

where \( A_{P2} \) is constant and \( w_{P_{3a}}, w_{P_{3b}} \) and \( w_{P_{3c}} \) are the weight factors of the components forming premium attribute of loyalty. These weights vary with customers, context, culture, company, and the like.

\( I_1, \ldots, I_n \) are the items to assess the value of components forming premium.

One of the biggest merits that a company can derive with customer loyalty is increased lifetime value known as customer lifetime value (CLTV). Customer lifetime value is the total monetary value realised by the company with sustained stay of the customer along with all the added benefits of his up-scaling in consumption. Rai (2013) defined CLTV as “the net present value of the total profits that a company could realise with the average new customer within a given customer segment during a given number of years” (p.341).

Customer lifetime value, which is the sum total of all the expenditure by the customer during his stay with the company, can be ascertained with the following equation:

\[ CLTV = \sum_{i=1}^{n} M_i \]

\[ CLTV = M_1 + M_2 + M_3 + M_4 + \ldots + \ldots + M_n \]

\[ CLTV = M_1 \left( 1 + \frac{r}{100} \right)^0 + M_1 \left( 1 + \frac{r}{100} \right)^1 + M_1 \left( 1 + \frac{r}{100} \right)^2 + \ldots + M_1 \left( 1 + \frac{r}{100} \right)^{n-1} \]
\[
CLTV = M_1 \left[ \left(1 + \frac{r}{100}\right)^n - 1 \right]
\]

where:

- \( M_1 \) denotes total expenditure made by the customer in 1st year
- \( n \) denotes the total number of years of customer’s stay with the company
- \( r \) denotes the annual rate of growth in expenditure (on account of increase in purchase, upscaling in own consumption and additional revenue brought to the organisation through positive referral, and so on.)

The above equations are aimed at finding an objective way to assess the rate of return on investment in maintaining a relationship with a particular customer. The assumptions that lie therein are as follows:

- Rate of growth of expenditure with the company’s product is constant all through the customer’s stay years.
- Simultaneous existence of company and the customer is for \( n \) years.

Customer lifetime value enables companies to decide on an appropriate estimate of investment an organisation would or should make in building and developing customer loyalty. Depending on the value of individual customer (group), the company may invest to retain and thus reduce the rate of customer defection, or to turn low-profit customers into more profitable ones by increasing the longevity of the customer relationship and/or by enhancing the growth potential of each customer through cross-selling, up-selling and increased share of wallet.

Thus, as stated by Rai and Srivastava (2014b), “Customer loyalty is a psychological character formed by sustained satisfaction of the customer coupled with emotional attachment leading to a state of willingly and consistently being in the relationship characterized by preference, patronage and premium” (p. 64). Figure 3 illustrates the mechanics of engendering customer loyalty.

**Conclusion**

Loyalty, in its most basic sense, leads to retention, repurchase, and a long-term commitment. Customer loyalty is the sum total of a customer’s satisfaction and his emotional attachment with the company or the brand. Both the aforementioned
components of customer loyalty are largely determined by the way a company looks at its customers and the sincerity with which it serves them.

While delivering satisfactory service is vital to retain customers, creating an emotional attachment with them is equally important to lower the risk of defection, negative word of mouth, unyielding customer stay and loss-making customer relationships. A high degree of customer satisfaction, coupled with the customer’s emotional attachment, forge an enduring association between the company and its customers, which transforms into a loyal relationship characterised by preference, patronage and premium.

References:


Figure 1. The satisfaction – dissatisfaction paradigm

Figure 2: Character of customer loyalty
Figure 3. Mechanics of Engendering Customer Loyalty