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Building And Maintaining Customer Loyalty

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Abstract

The topic of consumer loyalty has been explored by several authors in the marketing literature. Customer loyalty represents an emotional, positive, long-term relationship between a satisfied customer and the company. The importance of this topic stems from the fact that retaining existing (loyal) consumers is more cost-effective than acquiring new ones. Loyal customers ensure the survival, functioning, and profitability of the company. However, retaining existing customers is a complex challenge that requires a lot of effort on the part of the company. There are a lot of measures to retain loyal customers, including the implementation of loyalty rewards programs, personalized marketing, subscription services, exclusive deals for repeated customers, referral programs, bundle offers, engagement through social media, gamification, event marketing, exceptional service support, etc.

This paper aims, with the help of secondary data, to sublimate the theoretical viewpoints on customer loyalty, on its building, measurement, maintenance, as well as to note some of its future trends.

Keywords: customer loyalty, loyal consumers, personalization, referral programs, loyalty programs, gamification

Introduction

Customer loyalty is the probability that existing satisfied customers will continue to purchase products or services from the same company regardless of better competition offerings. Customer loyalty is a topic that has been researched and exploited in the marketing literature. The most cited thought in the literature is that it is cheaper for companies to keep existing customers than to look for new ones. Investing in customer loyalty is more effective than investing in new customers. (Painter, 2023). Ensuring customer loyalty is related to the company's quality offerings. Loyalty occurs because of multiple positive interactions and experiences consumers have with the company that build up a feeling of trust over time. (Ipek, 2024). However, this does not mean that every transaction of the consumer with the company is positive and successful. Consumers do not immediately become disloyal after going through a poor experience and disappointment. Customer loyalty is exactly forgiving the mistakes of the company with which long-term relationships are built mostly because of the many positive experiences. Hence, customer loyalty is defined as the emotional connection of consumers with companies. (Ipek, 2024). Customer loyalty is the result of many positive experiences, customer satisfaction, and the overall value of goods and services a customer receives from a company. According to Freedman (2024), the importance of customer loyalty derives from:

- **Loyal customers shop regularly and spend more**: loyal customers are more likely to buy frequently or in larger quantities of the company's products. They return multiple times to the company to purchase their favorite products. According to the Invesp study, loyal customers spend 67% more than new customers. (Saleh, 2023). Existing loyal customers are more likely to use the company's cross-selling (buying large quantities of regular-priced items) and upselling techniques (buying premium-priced items). This means that loyal customers are inclined to try new products or other products offered by the company. According to the same research, the average sales conversion rate for new customers is 5-20%, and the probability of selling to loyal customers is an impressive 60-70%. These data are very important for the profitability and growth of companies.
- **Loyal customers reduce the need and costs for customer acquisition**: According to Saleh (2023), the acquisition of a new customer is five times more expensive than the preservation of existing customers. To attract a new customer, the company spends on marketing, promotional campaigns, advertising,

sales and onboarding. Hence, the fact that 44% of companies have a greater focus on customer acquisition compared to 18% who focus on retention is worrying.

- **Loyal customers are ambassadors for a company** - consumers want to share their delightful experiences with others. They tell their friends and family about their positive experiences with the company. Such recommendations (word of mouth) are very important for increasing the company's customer base. Today, loyal consumers are ready to leave positive reviews on social media, defend the company's interests, share good experiences, and be real influencers on behalf of the company.
- **Loyal customers increase company profitability** - according to Invesp's study, company profits increase from 25-95% when the retention rate increases by only 5%. (Saleh, 2023).
- **Customer loyalty helps in effective planning** - thanks to customer loyalty, companies can more effectively predict their growth, plan financially, and make the right budget decisions.

Today, with changes in the world, such as global wars and pandemics, global warming, economic uncertainties, and natural disasters, consumer habits change as well. Companies must communicate to consumers that they understand the new circumstances and will do their best to make consumers feel safe, appreciated, and rewarded for their behavior. (McNichols, 2022). According to the KPMG Customer Loyalty Report (2019), if, in the past, location, convenience, and experience were important for consumers to be loyal to a company, today those priorities have changed. Today, consumers pay the most attention to trust, value, and communication with companies. No less important factors of loyalty are honesty, fair relations, transparency, credibility, familiarity, and comfort in purchases. 87% of companies agree that traditional experiences no longer satisfy consumers. (Zaki et al., 2023). 67% of consumers, when faced with a bad experience for the first time, immediately turn to better offers of the competition. And according to research by Harvard Business Review (Alemany, 2024), consumers' priority is trust. 75% of consumers emphasize trust as very important for building loyalty even though the products are not necessarily to be the cheapest. However, 72% of consumers believe that the value they get for their money is significant. With the emerging world trends, the prices of the products are constantly increasing, and the customer purchase power is decreasing. People are increasingly comparing the quality and

prices of products across different stores and online platforms to make the best possible consumer decision. They manage their expenses more strictly, demanding higher quality for affordable, reasonable prices. Hence, companies are working on increased innovation, added benefits, and increased quality of the company's offerings. However, consumers are human beings, and they still want and expect rewards from companies for their loyalty, such as "bogof" campaigns ("buy one get one free"), loyalty cards, personalized messages, cashback, points, and other loyalty programs. (Zaki, 2023).

Literature review

In marketing literature, the most cited definition of customer loyalty is by Oliver (1999), according to which it is "a deep-held commitment to rebuy and repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviors". According to Paton (2022), customer loyalty is a positive, ongoing and enduring relationship between a consumer and a business or brand. That relationship is based on more frequent repeat purchases that are characterized by high quality and extraordinary consumer experiences that encourage consumers to choose the company's products over those of the competition. According to Zaki et al., (2023), customer loyalty is a buyer's attachment or commitment to a product, service, brand, or organization. This attachment stems from a positive consumer experience.

There are three key dimensions or components of customer loyalty (Zaki et al, 2023):

- **Attitudinal or rational part** (what buyers think),
- **Emotional part** (what buyers feel) and
- **Action part** (what buyers do).

Because of these components of customer loyalty, there are various definitions in the marketing literature. However, each component is significant. The attitudinal component means that the consumer is loyal when he/she is satisfied with the quality, performance, functionality, and features of the products, or seamless delivery of services. The emotional component of customer loyalty means that the customer is loyal to the company because of his feelings, i.e., he "loves," "adores," "favors," or is "happy" with a particular product or brand. The action part refers to the consumer's willingness to act about the product or brand, such as spreading

positive news about them on social media, recommending the product to family and friends, and buying upgrades or new products from the same company.

Loyal customers are those who make frequent purchases or buy in large quantities, are reluctant to competitors' products even though they may be good deals, engage in more company channels, defend the company's interests on social media and websites, give feedback to improve the company's operations, spread positive news about the product, service or brand, recommend them to family and friends, and easily forgive the company's mistakes. (Panter, 2023). According to Panter (2023), there are the following types of loyal consumers:

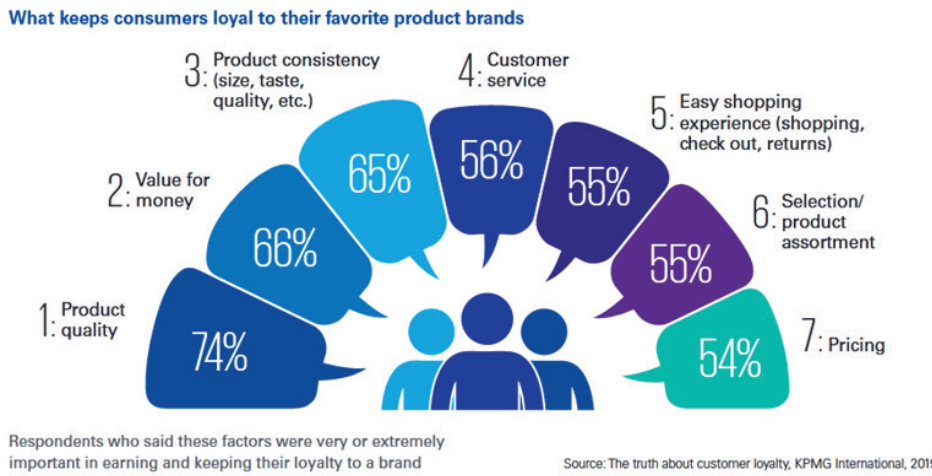
- **Satisfied (happy) consumers** who like and buy the company's products, but they are easily swayed to the competition if it offers better deals,
- **Convenience loyals** who buy from the company because the purchase is simple and easy, the location of stores is near, and there are more available channels, but they also easily transfer to the competition if it offers lower prices,
- **Loyalty program loyals** are interested in earning points, rewards, bonuses, discounts, freebies, but they transfer to the competition if it offers better deals.
- **Low-price loyals** are driven by the company's lowest prices, but even they are transferred to the competition if it decreases its prices and
- **Truly loyal consumers** - true brand advocates who buy often or buy in large quantities and encourage friends and family to buy as well.

The question is, what drives loyal customers to buy the same products, brands, or services over time?

The largest percentage, 74% of consumers, believe that loyalty to companies is due to the high quality of products, and 66% think it is the value that matters. Quality, trust, value for money are the most significant reasons for a long-term relationship between the consumer and the company. The price is not so important if the company has open, transparent and honest communication with consumers. (KPMG Report, 2019). According to Statista's 2023 global survey of 28,400 participants from all over the world, the most significant factor for consumer loyalty is the high quality of products and services (61%), followed by good consumer service support (47%) and with 43% low prices. At the end of the list of factors is "to do good for society" with 18%. (Faria, 2024). According to this research, a total of 6 out of 10 respondents believe that the quality of the company's offerings is the most important driver for customer loyalty.

Figure 1

Drivers of customer loyalty



Source: KPMG Customer Loyalty report. (2019). The Truth about Customer Loyalty, Wonderly, London, UK

Instruments that can help consumers stay loyal to brands are loyalty programs, such as:

- **Point-based loyalty program** – with every purchase of products or completing a task and providing feedback, the consumer earns points that can be redeemed for rewards, special offers, discounts. This program is the most popular and widely used by consumers.
- **Tiered loyalty program** - is linked to the level of spending. Benefits and rewards increase as spending levels increase. Consumers at lower levels are motivated to spend more to reach special benefits at the higher tier of the program.
- **Referral loyalty program** -rewards loyal consumers who manage to refer the company's offerings to family and friends. In this way, through word of mouth, the company acquires new customers in a cheaper way.
- **Subscription loyalty program** - or premium loyalty program requires consumers to pay a subscription fee for products and services and then receive rewards in return. Customers can exchange these rewards and use them toward future purchases.
- **Game-based loyalty program** - use fun activities for loyal customers, such as contests, sweepstakes, polls, surveys, puzzles, and mini-games, which is a wonderful experience for them.

Loyalty programs are customer retention strategies that stimulate buyers to continue purchasing products from the company. But the type of programs and rewards depends on consumer preferences and requirements. Programs give consumers a feeling of trust and reasons to keep in touch with the company. (McNichols, 2022).

Methodology

Several published books, many marketing blogs and journal articles dealing with the topic of customer loyalty were used for the preparation of this article. Historical, comparative, and induction methods are used as scientific methods. The paper also uses surveys of popular research houses that were performed on a global level, covering many countries and respondents. (Statista, KPMG, Harvard Business Review, University of Cambridge, Forbes, Deloitte, European Journals, etc.) The data that have been collected have a secondary character and have been processed with the tools of descriptive statistics.

Discussion and Analysis

For companies, the greatest challenge is retaining loyal consumers who are a reliable source of product sales and revenue generation. There are several ways to build customer loyalty, but the most significant are the following ones (Katz, 2022):

Understand the needs and wants of consumers: It is important for the company to know consumer preferences, buying trends, and shopping habits. Every time consumers become interested in a product, the company should record it and offer multiple or better options. Considering that loyal customers prefer the company's products, the company should offer its upsell and cross-selling products. It can also suggest certain recommendations to solve customers' issues. More recently, personalized messages are being talked about as marketing success stories. Personalization means being a closer friend to the consumer and offering them personal solutions, store or online tours, educating them about some product performance and benefits, sales knowledgeable teams sharing their positive experiences with the products, etc.

Engagement of consumers in loyalty programs: According to Forbes, 68% of consumers want to join loyalty programs if offered by companies. Involvement in loyalty programs means that consumers will buy more products and contribute to the profitability of the company. They are designed to encourage repeat business,

offering people a reward for store/brand loyalty. (Dimitrieska & Efremova, 2021). There are a lot of loyalty programs, and the company, based on the preferences and information from the customers, should offer them the most suitable one. Modern loyalty program trends extend beyond traditional rewards. Gamification introduces elements like scores and badges to make user engagement competitive and fun.

Communication: Companies should provide omnichannel opportunities for communication with consumers. Companies should have an online presence in the form of their own website and social networks, and they should constantly monitor and moderate them. The goal is for consumers to quickly and efficiently find information about the company and its products or services, news, discounts, promotional events, upgraded products, etc. Some companies have chatbots to provide the most basic information and answer simple customer questions. Sometimes, loyal customers are asked to share some of their positive experiences with products on online platforms, which is a great way to promote the company. In this case, the company should have established an attractive and interesting referral program to reward loyal consumers for their recommendations.

For a company to know more about consumer loyalty, it needs to find ways to measure it. There are a lot of metrics for measuring and tracking customer loyalty, and some of them are presented in the following table:

Table 1

Key metrics of customer loyalty

I. FINANCIAL METRICS	**II. ENGAGEMENT METRICS**
CLV - Customer Lifetime Value	CLI - Customer Loyalty Index
RPR - Repeat Purchase Rate	NPS - Net Promoter Score
Upsell Ratio	CSAT - Customer Satisfaction
CAC - Customer Acquisition Costs	CES - Customer Engagement Score
AOV - Average Order Value	Social Media Engagement
CCR - Customer Churn Rate	
III. BEHAVIORAL METRICS	**IV. ADDITIONAL METRICS**
Purchase Frequency	CES - Customer Effort Score
CRR - Customer Retention Rate	Number of Customer Complaints
Product Return Rate	
Referral Rate	
Reward Redemption Rate	

Source: Own research

The most important measure of customer loyalty is CLV (Customer Lifetime Value), that indicates how much a customer spends with a company over a certain period. CLV shows how valuable a customer is to the company not according to individual one-time purchase transactions but for the entire time of relationship with the company. (Qualtrics, 2024). This metric differs from others in that it is a financial indicator based on revenue rather than emotions and intangible promises of consumer satisfaction and loyalty. CLV shows how much truly loyal customers bring financial benefit to the company for the entire time they spend purchasing from the company. The formula for its calculation is as follows:

CLV = (Customer value x Average customer lifespan in years) – Customer acquisition costs

Where customer value is the product of the average number of purchases and the average value of the purchases, and the CAC is the customer acquisition costs, that is, the cost of acquiring a new customer, mostly for marketing, advertising, sales, onboarding, etc. A ratio of 3:1 is considered optimal because it indicates that one customer spends three times as much as the cost of acquiring a new customer. (Wren, 2024). It is better for the company to have a higher value of this indicator because it means that consumers are valuable to the company, generate higher revenue, and are likely to remain loyal. (Jain, 2023). This metric helps companies to improve their strategies on acquisition, customer retention, customer support, and even the quality of products and services.

What can companies expect in the future? According to Deloitte's 2024 Consumer Loyalty Survey of 9,800 respondents in several countries, consumer purchasing habits are changing due to global economic, political, technological, and climate changes. According to this Report, the following three customer loyalty trends are noted:

- **Financial rewards, simplicity and ease of use of loyalty programs**: 86% of respondents said they like loyalty programs, but they would expect it to be easier to get the earned rewards and promised bonuses.
- **Greater personalization of messages**: 4 out of 5 respondents are looking for more tailored offers and deeper connections with the company, even at the expense of revealing personal data and

- **Engagement and enjoyable digital experiences, especially for younger consumers**. They are looking for a shopping experience enriched with fun, extraordinary purchasing journeys, and games. Gamification becomes a very important promotional tool for retaining existing customers.

It is very important for any company to create customers who will bring more customers. Customer loyalty brings greater profitability and effectiveness to the company. But loyalty is not built overnight. In this sense, there is a quote from Jeffrey Gitomer: "You don't earn loyalty in a day. You earn loyalty day by day."

Conclusion

Customer loyalty is a positive and enduring relationship between a satisfied customer and a company. Loyal customers are those who repeatedly purchase products or services from the same company rather than rival brands. They are reluctant to switch to competitors, even though sometimes they miss better options. Retaining existing customers costs five times cheaper than acquiring new customers. Loyal customers are important for the survival, functioning, and profitability of a company. There are three dimensions of customer loyalty: emotional, action, and rational. According to them, consumers are loyal not only because of their emotional connection with the brand but also because of the quality, functionality, and performance of the products, as well as because of fair relations, transparency, and trust in the company. Due to the great importance of loyal customers as precious assets for the company, several methods for their retention are implemented in the literature and in practice, such as more intensive communication with customers, high-quality products and services, good service support, loyalty reward programs, etc.

In the new digital age, consumers are changing, habits and consumer demands are more sophisticated. Research indicates that for loyalty to companies, consumers are looking for personalized marketing, greater enhancing engagement and a more interesting shopping experience, gamification, as well as enrichment of loyalty programs.

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