Profitability through Customer Relationship Marketing

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Abstract. The purpose of this literature study is to review and summarise the previous work on relationship marketing based on the relationship between satisfaction, loyalty and retention. The framework of relationship marketing is described within relationship between customer satisfaction, customer loyalty, and customer retention. For today’s savvy managers, Relationship Marketing is hardly a new concept. The firms have already focused on understanding the customer’s needs and building a marketing strategy around those needs. But it is critical that the main underlying principals (satisfaction, retention, and loyalty) are understood before an organisation starts to develop a relationship marketing strategy. In this literature study, we aim to understand that high levels of each of relationship marketing principals do not always yield high levels of the others and so as increased sales even though the relationship is positive.

This paper intends to discuss previous research findings, and an exploration of the theoretical and managerial implications.

Introduction

In order to determine the success of a product within the context of customer relationship marketing (CRM), three main factors need to be observed. These factors can be defined as: Customer Satisfaction Level (CSL), Customer Retention Probability (CRP) and the Degrees of Customer Loyalty (DCL). In recent years there have been substantial literature dedicated to evaluating CSL (CORE, QFD, ServQual, and Mass Customisation). Similarly, CRP and DCL experts have produced substantial research into these subjects (Hansemark and Albinsson 2004; Ranaweera et al., 2003). However, there seems to be a lack in comprehensive and practical solutions to relate CSL with CRP and DCL.

In this article we tend to investigate the latest literature regarding these relationships, and later provide an outline proposal to find a relationship between customer satisfaction, retention and loyalty and their impact on product/service design cost.

In essence we propose a marketing and process analysts tool that enable marketing and process analysts focus investments on product features that ensure the highest return of investment (ROI).

Relationship marketing attempts to improve profitability within two main dimensions; cost effective and time manner. The aim of this study is to consider two central constructs, satisfaction and retention, which may result loyalty. Therefore, it helps understanding clearly the process of generating leads resulting in higher revenue through a clear set of principles, and definition for attracting and sustaining customers.

The concept of relationship marketing is not new, as W. Edwards Deming commented:

Profit in business comes from repeat customers, customers that boast about your product and service, and that bring friends with them [1].

Based on a recent literature review, we define marketing relationship as a process includes three main stages (Figure 1).

![Figure 1](image-url)

At foster prospects, companies try to encourage customers to purchase their products by providing the essential and desirable requirements. These requirements must be supplied through purchasing cycle and also with exchanging information. During this stage we need to make a decent trial within moral incentive, encourage consideration and awareness due to attract more customers. This stage is a critical phase always to a business. They need to make wise choices about which lead generation tactics they pick and choose for investing their marketing dollars to gain higher revenue (for instance; relationship-building, demonstrating expertise, building trust and creating value within purchasing cycle).

The second stage includes the construction of long-term and profitable relationship based on repeat purchases incentive. Finally, in the last stage the firms attempt to classify...
customers and sustain the customer by re-engineering products and services.

It is important to note that a company implementing the process of marketing relationship should design its strategies and tactics based on the industry.

We continue the paper by introducing the relationship marketing significant principals (satisfaction, retention, and loyalty) across the format illustrated above. We then present the results of the study and discuss their significance.

**Customer Satisfaction**

“Satisfaction is defined as an emotional post-consumption response that may occur as the result of comparing expected and actual performance (disconfirmation), or it can be an outcome that occurs without comparing expectations” [2].

Customer satisfaction is a substantial issue in relationship marketing, particularly those in services industries. Keiningham et al. (2005), state that it is a significant affiliation between customer satisfaction, purchase intentions, and consequently financial performance [3]. The value of satisfaction has been more high-lighted through some past studies. Researches reveal that customer could defect if a rate of 10-30 per cent per year and meanwhile “a decrease of only 5 per cent in customer defection can increase profits up to 95 per cent, depending on the industry” [3]. Therefore, Satisfaction should always be a permanent goal for all businesses in the purchase cycle. But, it is important to realize that satisfaction may not necessary lead to high levels of customer retention and loyalty.

In fact in many cases, measuring satisfaction becomes difficult due to its fuzzy nature obtaining customer satisfaction may not be straight forward. For this reason, some believe that there is a weak relationship between customer satisfaction and retention. For example; there may be cases where the product enjoys customer satisfaction but due to other factors they may shift to other similar products such as changes in competitors’ offerings, new requirements of customers or other unknown intervention like changes in personal characteristics (e.g. demographic variables). Fredrick F. Reichheld (1994) states that “in most businesses, 60%-80% of customer defectors said that they were “satisfied” or “very satisfied” on the last satisfaction survey prior to their defection! In the interim, anything can happen and often does” [4]. Also, Bennett and Rundel-Thiele (2004), reveal in their research that there are different myriad factors (including latent and overt) influence the strength of satisfaction- retention and satisfaction- loyalty relationship [2]. Therefore, we cannot assume that high levels of satisfaction will certainly lead to increased sales.

Although satisfaction is an important factor in assessing the success of the product in the market, it may not be the sole factor to determine market value.

As a result, satisfaction is an effort to measure rate of mind. So, it may not always be reliable.

Yet, it is believed that high levels of attitudinal loyalty are an outcome of high levels of satisfaction. In short, it is important to understand that the link between satisfaction and profitability is not simple and straightforward as typically assumed.

**Customer Retention**

Retention can be defined as “a commitment to continue to do business or exchange with a particular company on an ongoing basis” [5]. Also, “The direct retention effect is based on the customer benefit effect”. [2]

In today’s highly competitive markets, companies strive to build professional customer retention management system alongside common strategies like process re-engineering and employee redundancy exercises. There are two central reasons for doing so, the first is the intensive cost of gaining new customers in competitive markets which is claimed that attracting a new customer costs five to six times more than retaining one [6]. It is therefore safe to know that profitability gained by a sustained customer is much higher than new customer attendant. Second, it is a considerable profitability gained by a sustained customer is much higher than new customer attendant during the duration of business relationship. This was confirmed by Jameson (1994) states that a two per cent improvement on customer retention has the same impact on profit as a ten per cent reduction in overheads [7]. The main questions that need to be addressed in customer retention are about customer satisfaction drivers? What are customers’ expectations? What are of their towards product attributes? And how much effort needs to be invested to improve their attributes?

It is recognized in this literature study that customer satisfaction has a good feedback to the firms to answer following questions in terms of customer needs. It is also confirmed that retention issues are initially based on customer satisfaction. As Bennett and Rundel-Thiele argue [2], customer retention is central to the development of business relationships with respect to satisfaction. While some surveys and researches confirm satisfaction as a profitability driver and state that a satisfied customer is a sustained customer [5], [2].

Customer retention brings some remarkable benefits such as lower price sensitivity, higher market share, positive word-of-mouth, lower costs [4], higher efficiency, and higher productivity [5]. Furthermore, customer retention has often been assumed as a sign of the customer loyalty. We also have to consider this fact that the factors found to increase retention differ widely such as chemistry between people, presentation of changes and so on.

There are some factors that help measure retention, such as annual retention rate, frequency of purchases. They aim directly at the real target: does customer’s behavior show that they are being convinced to maintain their stake in the firm? Do they buy the value proposition of the company, i.e., are they coming back for more?

**Customer Loyalty**

“In a business context of loyalty has come to describe a customer’s commitment to do business with a particular organization, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates”[8].
The aim of loyalty in all successful firms is based on long term beneficial relationship between the customer, and enterprise. “When a company consistently delivers superior value and wins customer loyalty, market share and revenues go up and the cost of acquiring new customers goes down”[9].

The nature of the relationships between satisfaction and loyalty is complex. Anyway it has emphatic influence in cash flow terms because of the link between loyalty, value, and profit [4],[2].

Loyalty depends on industry, culture and market behavior. For instance, management consultant KPMG has defined three ways in which retail loyalty strategy works; (1) pure loyalty, (2) pull loyalty and (3) push loyalty. But the ultimate goal of all firms is to make the intention in their customers to make future purchases. The relationship between loyalty and satisfaction is not simple. It is assumed that loyalty is an outcome of high levels of satisfaction. But, there are some instances that show the prerequisite for loyalty is not always high levels of satisfaction. For instance, a study on 4 Australian big banks demonstrate that banks have 23-32 percent dissatisfied customers while their profits are in the top six public companies in Australia [2]. This shows that dissatisfied customers can remain loyal.

By this we mean a highly satisfied customer may not be a loyal customer. Customer loyalty schemes bring some long term advantages and benefits through premium prices, decreasing costs, and increasing volume of purchases.

If the customer feels a stronger identification with the corporation, he or she will remain [2]. This can be due to other factors such as price, demand experiences and habits. For instance, “Waitrose management stress that it is the total customer experience that creates loyalty, not promotions”[10].

Proposal

Our findings to date show that, there is little evidence of practical demonstrator for determining the relationship between CSL, CRP and DCL. We propose that CSL evaluation (Mousavi et. al., 2001) to be the intermediary between CRP/DCL and product key attributes (Figure 2).

![Figure 2](image)

For example, assume that, CSL for a specific product attribute is 55/100, and CRP is 60%, and DCL is average. The company may need to invest £100 on modifying the attribute to increase the CSL to 75/100, this increase may increases the CRP to 65% and customer loyalty may stay at average level. This investment results in 5% improvement in CRP that may affect profitability by 25% to 85%. This analysis can only be viable if and only if we are able to find the relationship between the three CRM factors. Our next step is to investigate this relationship and possibly provide a model represent this relationship.

The aim will be to measure the influence of satisfaction levels on CLD and CRP, and their impacts on profitability of product or service.

We employ CORE model [12] to measure satisfaction levels, which is based on product/ service attributes.

In the next step, the impact of changes in satisfaction levels on customer retention and loyalty will be measured.

In this model, we aim to maximize profitability through identifying the sources of customer dissatisfied towards a product or service attributes. This may then become a practical tool to make the proper decision on investments and quality improvements. For example if the company invests on redesigning of their product, the customer satisfaction will increase, and the probability of customers wanting to purchase the product will also increase. Therefore my investment will be returned with a profit will be made.

Discussion and Conclusion

In this paper we tried to argue the case for profitability modeling based on three CRM main principals. We reviewed the latest relevant literature to outline the relationships between these three key factors.

The ultimate goal here is to obtain experimental analysis to prove the concept. The focus of this study has been on understanding client profitability through key issues relating to relationship marketing (satisfaction, loyalty and retention). This research reveals that customer needs must be defined as a continuous progress improvement.

References


