

Theoretical aspects of determining the types of customer loyalty

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Abstract. An approach to identifying types of customer loyalty which is based on the customer loyalty matrix in terms of attitudinal and behavioral loyalty has been further developed. The proposed criteria are divided into three levels: high, medium and low. The improved customer loyalty matrix includes nine types of loyalty: true, active, latent, projected, neutral, basic, spurious, ultimate and no loyalty. Based on the loyalty matrix, a gradation of consumers according to the type of loyalty is made, which enables to develop a further strategy to increase the loyalty of an individual consumer.

1 Introduction

In modern business, the level of competition is quite high, so every company seeks to attract loyal customers to ensure their success. Information about the degree of customer loyalty is an indicator of how well or poorly an enterprise meets the needs of its customers. Therefore, it is strategically important to understand correctly what different consumers say. For the enterprise long-term relationships with the consumer together with an increased volume of transactions and their frequency are the most profitable; therefore, concentrating strategic efforts on building customer loyalty to the enterprise and its services (goods) is indisputably beneficial.

Before choosing a strategy of forming customer loyalty, it is necessary to determine the type of customer loyalty. The ambiguity of approaches to the formation of customer loyalty and contradictions in distinguishing its types require clarification of the conceptual framework of loyalty marketing.

2 Literature review

The issues of determining the type of customer loyalty were given considerable attention in the works of scientists [1-17] and others. In the marketing literature, three most common approaches to defining loyalty can be distinguished.

The first is based on the consideration of loyalty as a certain type of consumer behavior, expressed in long-term interaction with the company and making repeated purchases. This is the most popular point of view on loyalty, since the behavioral aspect of loyalty is closely related to the economic results of the enterprise. This type of loyalty is called behavioral (transactional) loyalty [1-4].

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According to the second approach, loyalty is considered as the attitude or preference of consumers, which is formed as a result of the generalization of feelings, emotions, opinions about the service (or its supplier). This type of loyalty is called attitudinal (perceptive, perceived) loyalty [5-7].

The third approach suggests that loyalty is determined by a combination of behavioral and attitudinal characteristics. The combination of these aspects is called complex loyalty [8-13].

Most authors, when identifying loyalty types, take into account the behavioral and attitudinal characteristics of the consumer. J. Hofmeyr, B. Rice [8] introduce three types of loyalty based on the delimitation of the concepts of “loyalty” and “commitment”: 1) loyalty without commitment; 2) commitment without loyalty; 3) loyalty + commitment. Here we consider separately the behavior and perception of the consumer, as well as the combination of these categories.

Within these two categories of loyalty, the author [9] highlighted four essential types of loyalty: contractual, transactional, functional

Categories of loyalty proposed by A. Dick and K. Basu [10] are defined by the relationship between attitudinal and behavioural aspects of loyalty. Antecedents to loyalty include cognitive, affective and conative factors. They described loyalty as the strength of the relationship between a customer's relative attitude and repeat patronage, four dimensions had been identified here: true loyalty, latent loyalty, spurious loyalty and no loyalty.

The author's classification [11] is based on three basic approaches to loyalty: loyalty as behavior, loyalty as attitude and loyalty determined by the circumstances of the purchase.

Several authors consider loyalty types in the form of successive stages. Customer loyalty development had been categorized into four sequential phases by R. Oliver [12]: cognitive loyalty, affective loyalty, conative loyalty and action loyalty. A. Bakanauskas and L. Pilelienė [13] identified four stages: neutral, potentially loyal, unconsciously loyal and sincere loyal.

Some authors distinguish consumer groups depending on their behavior and loyalty status. J. Rowley identified four types of loyalty: captive, convenience-seekers, contented and committed [14].

Philip Kotler [15] defines four statuses of loyalty:

1. Hard-core Loyals - who buy the brand all the time.
2. Split Loyals - loyal to two or three brands.
3. Shifting Loyals - moving from one brand to another.
4. Switchers - with no loyalty (possibly «deal prone», constantly looking for bargains or “vanity prone”, looking for something different).

According to the neobehavioristic concept of customer loyalty, customer loyalty is expressed as: 1) behavioral loyalty, which reflects the actual brand-specific product / service and the number of purchases within a specified period of time; 2) approach loyalty, which reflects the preference for certain goods [16].

Comparing the considered approaches it is possible to make a conclusion that the selected types of loyalty correlate with each other to various extents. A review of existing classifications of consumer loyalty showed that the principle of identifying loyalty types is not entirely clear, there is no single approach in identifying classification indexes and criteria. Existing methods for determining the types of customer loyalty do not fully solve the problem of the possibility of their clear delimitation. Each author divides loyal customers differently, there is no single method for identifying loyalty types, according to which the buyer can be classified.

Therefore, the classification of the types of customer loyalty should be systematized depending on the combination of behavioral and attitudinal aspects.

3 Purpose of the article

The purpose of the article is to improve the approach to identifying the types of customer loyalty by the criterion of the level of behavioral and attitudinal loyalty. The basis for solving this problem is ranging consumers according to the loyalty type by building a loyalty matrix based on behavioral and attitudinal aspects. Dividing consumers into loyalty types will help determine further strategic actions to build customer loyalty and improve the company's relationship with the consumer.

4 Results and discussion

Conducting visual definition of the type of customer loyalty on the basis of building a customer loyalty matrix is proposed. For the most complete and comprehensive assessment, using an approach that involves monitoring of both behavioral and attitudinal customer loyalties is most appropriate [17].

The approach proposed by the authors [11, 18] is of great interest. It highlights the types of customer loyalty based on building up a loyalty matrix, where the axes represent behavioral and attitudinal loyalty. The proposed criteria are divided into two levels – high and low, and at the intersection of these levels, four main types of loyalty are distinguished: true, latent, spurious, no loyalty. The disadvantage of this approach is the enlarged division of criteria into two levels, which entails the absence of a smooth transition of consumer loyalty from one type to another. This causes the difficulty of defining boundaries, since the consumer, having a behavioral or attitudinal loyalty value slightly below the average level, is considered disloyal, but with a slight excess of the average level of indicators his loyalty becomes absolute (true). In order to avoid these shortcomings in the classification of loyalty types, it is proposed to divide the indicators of attitudinal and behavioral loyalty into three levels – high, medium and low.

The matrix is built in a two-dimensional plane formed by indicators of attitudinal and behavioral loyalty which are applied to the coordinates of the final indicators characterizing the loyalty of each consumer. As a result of constructing the matrix (Fig. 1), five new types of loyalty are added to the four types of consumer loyalty described.

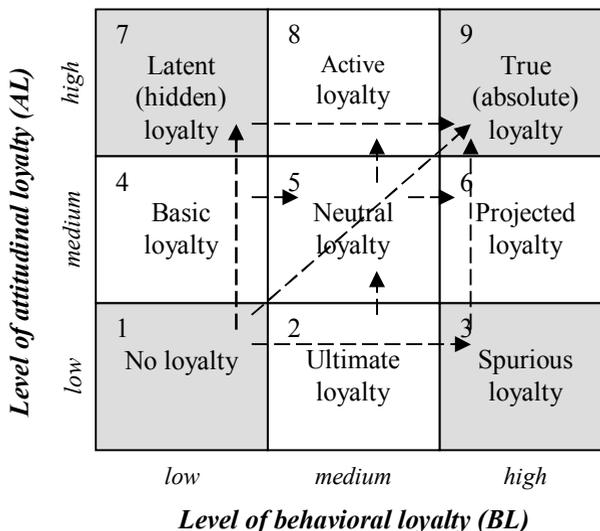


Fig. 1. Matrix of customer loyalty types.

The matrix space is divided into nine cells, the consumers who fall into one of these sectors can be grouped together, and, based on this, develop loyalty programs separately for each sector. The existing types of loyalty are flooded in gray, and the unpainted white cells are the proposed transitional types of customer loyalty. Let us consider them in more detail:

- *True (absolute) loyalty* is a situation in which a high level of attitudinal loyalty corresponds to a high level of consumer behavioral loyalty and is most favorable for the enterprise. This is the most stable part of the clientele, which is the least sensitive to the actions of competitors (price lowering, introduction of additional amenities, etc.). Customers with absolute loyalty are much easier to retain. Moreover, this may be sufficient for maintaining existing quality standards;

- *Active loyalty* is specific for the consumer when the consumer is emotionally attached to the enterprise, distinguishes it from a number of competitors and has an average level of consumption of services. The company needs to strengthen and maintain the position it has reached, and to increase behavioral loyalty through various activities;

- *Latent (hidden) loyalty* means that a high level of attitudinal loyalty is not supported by consumer behavior. That is, they differentiate this enterprise among the competitors, but purchase its products or services less frequently or not in such quantity as the absolutely loyal consumers. The reasons for this include, first of all, external factors, for example, insufficient income, high price, legal barriers (for example, there may be long-term contracts with other suppliers). In such a situation, the organization needs to strengthen its position through the development of behavioral loyalty. For this purpose, for example, price incentives can be used;

- *Projected loyalty* means that with a high level of consumption of services by the consumer, the attachment to the enterprise grows. It is quite favorable, since when it affects the level of attitudinal loyalty it becomes absolute loyalty;

- *Neutral loyalty* takes place at medium levels of attitudinal and behavioral loyalty, that is, the consumer is interested in interacting with the enterprise, which is supported by his behavior. This interest should be maintained and developed, the quality of services must be improved, and the client should be proposed some special offers;

- *Basic loyalty* is a type of loyalty in which the level of consumption of services does not change and remains low, but there is a tendency to improve consumer perception of the enterprise. In such a situation, an enterprise needs to find out the reasons for low behavioral loyalty and implement programs aimed at its improvement. Along with this, strengthening and developing the attitudinal customer loyalty is advisable;

- *Spurious loyalty* occurs when behavioral loyalty corresponds to a low level of attitudinal loyalty. This situation is threatening, since the consumer is not emotionally attached to the enterprise. Their purchases may be due to limited offers, seasonal or cumulative discounts, habits, lack of awareness of competitive offers, therefore, as soon as consumers find an enterprise that satisfies them more (for instance, a competitor offers more significant discounts), they will refuse from service. In order to retain consumers demonstrating this type of loyalty, the attitudinal loyalty needs to be bolstered;

- *Ultimate loyalty* is a situation in which the average level of behavioral loyalty corresponds to a low level of attitudinal loyalty. The emergence of this type of customer loyalty is not entirely desirable for the enterprise, since development in this direction leads to the appearance of false loyalty. The growth in consumption of enterprise services may mislead contact personnel about the true nature of the buyer's motives. In cooperation consumers may be interested in discounts or bonuses provided by the company, without experiencing emotional attachment the consumer remains indifferent, and can go to competitors as soon as they offer more favorable conditions of interaction. In this case, developing the attitudinal customer loyalty is necessary;

- *No loyalty* provides minimal retention. The enterprise should either refuse to keep this part of consumers (very beneficial for it, by the way), or take special measures to increase, above all, the attitudinal loyalty. This includes the competitors' customers that correspond to both true and false loyalty groups.

In Fig. 1 the arrows show the possible prospects for the development of customer loyalty. Based on the prospects of developing relations with each consumer, that are potential and desirable for the enterprise, the company develops a number of strategic actions (loyalty development programs) for the formation of consumer loyalty, given in Table 1.

Table 1. Determination of strategic actions of an enterprise according to consumer loyalty groups.

Loyalty type	Strategic actions to develop customer loyalty
1. No loyalty	Development of new ways and forms of stimulating consumer choice, individualization of the services offered, increased value of the service for the consumer
2. Ultimate loyalty	Marketing loyalty programs that create a permanent long-term incentive to buy and rely not only on financial but also on emotional motivation
3. Spurious loyalty	Building customer relationships based on emotions and trust, offering unique and highly valued privileges within the program
4. Basic loyalty	Implementing consumer incentive programs, replacing short-term stocks with a long-term partnership program with the consumer, increasing the value of the service for the consumer
5. Neutral loyalty	Introduction of programs to encourage customer activity of the client, the formation of the consumer's emotional attachment to the enterprise
6. Projected loyalty	Maintaining the achieved level of interaction, increasing the consumer's emotional motivation
7. Latent (hidden) loyalty	Programs that support the level of attitudinal loyalty, encouraging consumer to increase orders, expanding the range of purchased services
8. Active loyalty	Programs that encourage customers for loyalty to the company, material motivation of the consumer to increase orders
9. True (absolute) loyalty	Programs that encourage customers for loyalty to the company, maintaining the level of purchases, maintaining customer loyalty

The study will provide a basis for assessing the level of customer loyalty and identifying which type of loyalty each client belongs to, it will also enable to consider specific groups of consumers in terms of their contribution to the enterprise. Using the methodology for assessing the integral customer loyalty index of motor transportation services using the fuzzy set theory formalisms described in [19], the calculation procedures are carried out to determine the level of attitudinal and behavioral loyalty of each service consumer, and the proposed matrix will allow characterizing the type of loyalty of the client in question. In the interval $[0, 1]$ the values of the membership function lie, which reflect fuzzy consumer assessments. Therefore, the loyalty matrix axes are in the interval from 0 to 1, and are divided into three loyalty levels in equal parts.

Grouping customers by type of loyalty enables to identify the most loyal customers who are most valuable to the enterprise, to develop measures to reduce the number of non-loyal customers and assess customer loyalty in more detail. According to the consumer's type of loyalty, the loyalty development programs are elaborated.

5 Conclusion

Thus, the approach to identifying the types of customer loyalty has been further developed by adding an average level of attitudinal and behavioral loyalty, resulting in five new transitional loyalty types. The customer loyalty matrix has been improved, which includes nine types of loyalty, based on it a gradation of customers according to the type of loyalty is made. With the proposed loyalty matrix, marketers can effectively segment their customers based on the type of loyalty that they show and, therefore, develop effective loyalty programs to elaborate and strengthen the existing loyalty. This is instrumental in developing a further strategy to increase customer loyalty, which improves the efficiency of operations and the competitiveness of the enterprise itself.

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