

Customer Loyalty and Customer Relationship Management

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Abstract. This is a conceptual article that aims to explore the role of customer loyalty in customer relationship management. Satisfaction is the beginning of loyalty that must be managed by the company. Because satisfaction provides a positive experience that will lead to loyalty. Loyal customers will be of value to the company (in terms of profit). Customer relationship management is an important concept in modern marketing today. The concept of CRM includes all aspects of acquiring, keeping and growing customers. Customer relationship management (CRM) is a combination of people, processes and technology that seeks to understand the company's customers, so that it can be used as an integrated approach used to manage customer relationships and focus on customer retention and relationship development so that it becomes a long-term relationship. Therefore, this concept can bridge the marketing strategy and information technology that aims to capture customer value.

Keywords: Customer loyalty · Customer relationship management · Technology Satisfaction

1 Introduction

The study in this article is a literature study that discusses the role of customer loyalty in managing customer relationship relationships (CRM). In this literature study the author will focus on managing customer relationships in the service sector. The concept of CRM itself is not a new concept. The concept of CRM first emerged from the relational marketing concept developed by Parvatiyar and Sheth in 2001, which added information technology attributes as part of CRM. This is due to various changes in the business faced in particular with customers and the total quality philosophy associated with efforts to minimize costs. So the focus of CRM is how to select customers selectively which will benefit the company. Therefore, the CRM model consists of four components namely relationship formation, management and leadership (management and governance), performance and evolution. Parvatiyar and Sheth have assumed that satisfaction and loyalty are part of performance in the concept of CRM [1].

Therefore, finding and retaining the right customers is the core of success for many service companies. Loyal customers will be of value to the company (in terms of profit). In a study conducted by Reichheld and Sasser [2] stated that the profit provided by a customer is different for each different industry. Customers will be more profitable if they increasingly use a service product from the company. There are four things that can create incremental profits (for the laundry industry, credit card, auto servicing,

distribution industry), namely the first profit generated from increased purchases; the second, profit is obtained from reducing operational costs, which is the profit obtained because customers need less information and assistance from the company so that the company can reduce operating costs. And make fewer mistakes in the involvement of operational processes so as to increase greater productivity; third profit from referrals to other customers, positive word of mouth is free advertising for companies that make companies can save expenses; fourth, profit derived from the premium price, satisfied customers will not be price sensitive, different from new customers who often expect promotional prices.

So maintaining loyal customers is the most important thing that must be done by a company. If a company knows how much it costs to lose a customer, then they will conduct an accurate investment evaluation to retain that customer. So it can be stated that customer relationship management may be an important concept in the current marketing concept. CRM is the overall process of building and maintaining profitable customer relationships by delivering superior customer value and customer satisfaction. The concept of CRM includes all aspects of acquiring, keeping and growing customers. The important thing that must be done by the company is how to treat customers who have different needs with different treatments so that the company can reach loyal customers.

2 Literatur Review

2.1 The Concept of Customer Loyalty

To understand the concept of customer loyalty must begin with customer satisfaction, Lovelock [3] states that the basis for true loyalty is customer satisfaction and service quality, which are key in the service process. So customer satisfaction and customer loyalty have inseparable relationships. Although satisfied customers sometimes do not have loyal behavior. According to the researchers, satisfaction consists of several levels, namely the first level is completely satisfied, that is, having very loyal behavior, the second level is satisfied, that is, the behavior that is easily moved to competitors, and the third level is dissatisfied, which is very disloyal behavior. Therefore, the relationship between satisfaction with loyalty consists of three main zones, namely defection, indifference and affection. The defection zone occurs at a low satisfaction level. Customers will switch to another brand unless the cost of switching to another brand is expensive and there is no other alternative. The indifference zone is found at the intermediate level of satisfaction; in this zone the customer will move to another brand if there is an alternative. Affection zones occur at the highest level of satisfaction where customers have high attitudinal loyalty and they do not look at other alternatives [4]. To reach the affection zone is not easy, but companies can use various programs to increase customer loyalty, especially those related to service quality. Because customer loyalty is not obtained by giving a membership card or becoming a member of the club but is obtained by meeting the expectations of the customer. Researcher in his study have also proven that getting new customers requires greater costs and retaining old customers can generate profits and reveal a close relationship between customer retention and profitability in various industries [2].

Although it is understood that customer satisfaction and loyalty have a very close relationship, it is also understood that the relationship is asymmetrical. It can be said that loyal customers are usually satisfied, but this does not necessarily translate into satisfaction. However, satisfaction is an important step in the formation of loyalty and becomes less significant when there are other mechanisms that influence [5]. Satisfaction is defined as pleasurable fulfillment, that is, consumers feel that consumption can meet needs, desires, goals and so on, which is called pleasurable fulfillment. Because the concept of satisfaction is felt by consumers as a pleasant or unpleasant thing. To be able to influence loyalty, satisfaction must occur frequently (cumulative satisfaction) so that individual satisfaction episodes can be added up or mixed together [6]. While loyalty is a strong commitment to repurchase or consistently re-patterning the product or service used in the future, which causes repeated brand purchases despite situational influences and marketing stimuli that have the potential to cause behavioral changes [5].

This has been explained by Schiffman and Kanuk [7] that loyalty is a commitment from a customer to a product or service that is measured by repurchase or attitudinal commitment. Loyalty can occur in two forms, namely behavioral and attitudinal loyalty. Behavioral loyalty is explained when a consumer makes a repeat purchase of a product or service but does not have a pleasant attitude towards the product. This occurs because there is no comfort, habits or because of other obstacles [8]. Attitudinal loyalty is defined as consumer predisposition of a brand as a function of psychological processes, including attitudinal preferences and commitment to the brand [9].

Loyalty to an object such as a brand, shop, service or company is shown through a favorable tendency towards the object. These tendencies can be behavioral or attitudinal. In service industry and marketing, behavioral loyalty is seen as retention of a brand [10]. Dick and Basu (1994) in East et.al [10] stated that customer loyalty is seen as the strength of the relationship between the relative attitude of individuals with their repetition patterns. What is meant by relative is that alternatives are available because they can motivate behavior. As mentioned earlier, that customers do not become loyal suddenly but there are things that cause them to become loyal. Companies need to create value for customers so they remain loyal. Research results suggest that relationships can create value for individual customers through factors such as inspiring greater self-confidence, offering social benefits and providing special treatment.

Oliver [5] introduces the four phases of the loyalty model, which implies that the different aspects of loyalty do not arise simultaneously but are more sequential over time. This model expands the cognitive-affective-positive sequence of Dick and Basu, by including observable behavior. At each stage of loyalty, different factors that influence loyalty can be detected. The stages are (a) cognitive loyalty. Is the first phase of loyalty. An information attribute of a brand is available to consumers which indicates that the brand can be chosen. Loyalty is based on brand belief. Consciousness (cognition) can be based on prior knowledge or on the information of recent experiences. If the transaction is routine then satisfaction does not occur, only limited to performance. If satisfaction occurs, then become part of the consumer experience and start at the beginning of the affective; (b) affective loyalty. The second phase is the development of loyalty. Favorite or attitude towards the brand that is developed based on the accumulation of satisfactory usage. This reflects the pleasure dimension of the definition of satisfaction which is pleasurable fulfillment. Commitment that occurs in the phase is called affective loyalty and encoded in the consumer's mind (consumer's

mind) as awareness (cognition) and affect. Conversely cognition is a direct subject to an idea, affect is not easily issued. The image of brand loyalty is associated with the level of affect (liking) for a brand. Similarly, cognitive loyalty, this form of loyalty can change behavior by switching to another brand; (c) Conative loyalty. The next phase is the development of loyalty at the conative (behavioral intention) stage which is influenced by repetition of positive influences on the brand. Conative implies a brand's specific commitment to repurchase. So that it can be said conative loyalty is the first loyalty that has a strong commitment in the definition of loyalty. This commitment is the intention to repurchase (intention to rebuy) and more the same motivation. Actually consumers want to buy back but similar to the interests of other products, this desire can be anticipated but not realized into action. (d) action loyalty. The study of the mechanism by which intention is turned into action is called action control in the sequence of action control interest is motivated in previous loyalties which are transformed into readiness to act. This action control paradigm proposes that the interest must be accompanied by an additional desire (attitudinal desire) to overcome obstacles that prevent action. Action is perceived as an outcome that needs to be involved in both levels of loyalty. If this involvement is repeated, then the action of inertia develops which then facilitates repurchase.

2.2 The Concept of Customer Relationship Management

Customer relationship management (CRM) is a combination of people, processes and technology that seeks to understand the company's customers. CRM is an integrated approach to managing customer relationships with a focus on customer retention and relationship development. Many companies today are trying to rebuild relationships with customers who still exist to encourage customer loyalty for the long term (customer lifetime value). Because the longer a customer is in a company or uses a brand, the greater the profit obtained by the company. The study results state that the success of a CRM system can exceed sales, marketing and customer service [11].

Kotler and Keller [12] define CRM as a process that is carried out carefully in managing detailed information about individual customers and customer touch points for all customers to maximize loyalty. The customer's touch point is any time when a customer faces a brand and product, from actual experience to personal or from mass communication to casual observation. For a hotel, for example the customer's touch points are reservation, check-in and check-out, room service, business service, laundry service, facilities service and so on. CRM makes the company provide satisfying services for real time for customers by using effective information about customers. Clay and Maite [13] also mentioned the same thing that CRM is a concept that aims to create long-term profitable relationships with customers, and this concept bridges between marketing strategies and information technology. Capossela [14] states that customer relationship management is looking for the most effective way to focus on marketing efforts that can generate profits. The development of technology helps companies to reach customers to the fullest. The availability of internet and web networks allows companies to easily establish relationships with customers [15].

So, to create maximum benefits from CRM, it really depends on the right management. A consistent CRM will provide many benefits, including increasing cross sales, reducing customer dislike, high levels of satisfaction and loyalty, reducing

procedure costs, ie being able to form close contacts and relationships with customers in terms of technology, informative and social, offering competitive profitable for the company as well as forming learning relationships with each customer that provides opportunities for companies to find new products or services for their customers, loyal customers will provide references for potential customers, the cost of acquiring new customers is more expensive than retaining existing customers. CRM can help reduce these costs. increased customer loyalty increases the level of staff loyalty [16].

The problem faced in CRM is that CRM has different meanings for different people, for some people assume that CRM means direct e-mails. As for the others is mass customization or product development in accordance with customer needs. So the question arises what should be done by managers to find out about their customers and how information about these customers can be used to develop CRM. Winner [15] developed a basic model of effective customer relationship management that can be used by managers, which consists of seven basic components, namely: creating a customer database, analyzing the data base, selecting customers, targeting customers, namely determining the means to reach customers the target. relationship marketing is building relationships with target customers, personal issues, metrics that are used to measure the success or failure of a CRM program.

In the CRM basic model there is relational marketing, which consists of three parts, namely data base marketing, interaction marketing and network marketing. In a marketing database, the focus remains on the transaction but includes information exchange. Marketers base their information technology, usually in the form of a data base, to form relationships with target customers and maintain customer patterns throughout time. Technology is used to (1) identify and build a database of potential and current customers, (2) deliver different messages based on customer characteristics and preferences, (3) explore each relationship to oversee the cost of acquiring customers and the lifetime value of purchases that are generated. In interaction marketing, close relationships often occur in face-to-face interactions between customers and representatives of suppliers. Although service is important, value is added by people and social processes. Included in interactions are negotiation and sharing of views. This type of relational happens in many local service markets, from the bank community to the dentist where buyers and sellers know one another. In network marketing, a person becomes a good networker when he can put an individual in contact with other people who have the same interests. In the context of B2B marketers develop a network of relationships with customers, distributors, suppliers, media, consultants, trade associations, government agents, competitors and even relationships between customers and customers [3].

From a customer perspective, a well-implemented CRM system can offer customer integration that delivers customization and personalization. That is in every transaction, obtain relevant customer account details, customer preferences and transactions in the past or record service problems that can improve customer service and value. Meanwhile, from a company perspective, CRM systems enable companies to understand, segment and even implement warning systems that signal that customers will move. Strategies that can be used to detect lost customers are analyze customer defections and monitor declining accounts, address key churn drivers, implement effective complaint handling and service recovery procedures, increase switching costs [3].

The five key processes in the strategy that must be emphasized so that CRM can run well are (1) strategy development, which involves evaluating business strategies (including mentioning the company's vision and mission, industry trends and competition). Business strategy is usually the responsibility of top management. Once determined, the strategy must be a guide for customer development strategies including choosing target customers, customer base tiering, designing loyalty bonds and churn management; (2) value creation translated into business and customer strategies into specific value propositions for customers and companies. Value created for customers' needs to include all benefits received through multilevel priority services, loyalty rewards, customization and personalization. The value created for a company needs to include acquisition, reduction of customers and retention costs and increase welfare; (3) Multichannel integration. Most service companies interact with customers through many channels. And this is a challenge for companies to provide the same service in every channel; (4) Information management. Service through many channels makes the company must be able to gather information about customers from all channels and integrate it with relevant information. So that information can be used; (5) Performance assessment. There must be a performance evaluation by giving three important questions. First, does the CRM strategy create value for key stakeholders namely customers, employees and shareholders. Second, whether marketing objectives and service goals can be achieved. Third, the CRM process itself can meet the company's expectations [3].

Besides that, marketers must understand the antecedents in the CRM system, so that the CRM system can run well. Therefore, one of the antecedents in the concept of CRM is to focus on customer lifetime value (customer orientation). This focus on customers is seen from how long an individual is a customer of a company that is calculated based on customer lifetime value. The concept of customer lifetime value is explained as the net present value of the expected profit flow as long as the customer continues to make purchases. The concept of a customer's life value has evolved and made smart marketers see opportunities to differentiate potential profits for each market segment they serve. Marketers focus on retaining customers and improving business costs less than getting new customers. For example, such a level of service from independent credit cards such as platinum, gold and classic. By providing levels at each of these credit card levels, customers have received different services. So the company can provide satisfying services for every level. Moreover, relational customers do not care if they pay a premium price for each service used, in contrast to transactional customers who are very sensitive to price and often look for promotional prices when they want to buy a product or service. So that from the lifetime value it can be seen that a customer's retention rate is the rate at which consumers will continue to be customers in the future. Retention rates can be used to measure loyalty. The next antecedent of CRM is the development of technology, especially the internet, which causes marketers to gather information and deal directly with customers at a low cost (reduce operating costs). For example, the costs incurred to send a letter to customers using physical mail and electronic mail (e-mail). So with the development of these technologies, the concept of CRM can develop. With the development of this technology, marketers can create loyalty programs that can bind customers, gather information about customers, send messages that value customers (recognition and appreciation) [12].

The same thing was stated by Capossela, according to Capossela [14] some antecedents of CRM are the concept of customer lifetime value, which is an elaboration of the development of the Pareto principle. The Pareto Principle states that eighty percent of the organization's revenue will be generated by the twenty percent of customers that will still be received for decades. Each lifetime value (LTV) calculation requires three factors to consider: margin, retention rate and discount rate. With this LTV analysis, a company can identify customers who have the greatest value and benefit the company. Then a decision can be made to see which customers have high, marginal prospects and which do not benefit the company. This analysis can also help promotional strategies that can increase company profitability efficiently. In addition, other antecedents of CRM are customer acquisition cost (CAC), split-run testing (A / B) and RFM (Recency, Frequency and Monetary). Customer acquisition costs are part of implementing customer lifetime value that can determine customer acquisition costs accurately. The cost of getting new customers is rarely free and not every customer needs the same costs, because every customer is unique. The customer acquisition cost ratio is used to determine whether the customer is retained or looking for new customers. CAC is defined as total sales and marketing costs divided by the number of new customers. The next antecedent is the key to direct marketing success, the concept of testing. Marketing directly tests every variable that can be used as an effort to achieve optimization of merchandise choices, value propositions and elements of promotional material. The term used by marketers to do testing is split-run testing. On the internet it can be used to test product features such as web page design, navigation and value. The last antecedent is recency, frequency and monetary analysis. RFM analysis is carried out to predict customer behavior and also investigate the most successful promotional programs in the market segment.

3 Conclusion

Customer relationship management has become a mantra for companies, through the CRM system that is built, the company can focus on marketing efforts to generate maximum profits. The company will focus on serving customers who will benefit the company. If traditionally the marketing managers focus on getting new customers that cost a lot, then with this CRM concept the manager can cut the costs of marketing communications such as advertising aimed at consumers at large and more focus only on the intended customers.

With this CRM concept, managers must be able to understand consumer behavior better so that it can change the satisfaction felt by consumers into customer loyalty. Technological developments such as the internet and web sites have helped companies to improve relationships with customers, through these web sites companies can inform new programs for loyal customers. And through technology development the company can also identify which customers are truly loyal and not just satisfied.

The CRM concept consists of people, processes and technology. only by integrating these three aspects will make CRM successful, if the company only focuses on one aspect such as technology or only on people, but does not take into account the process then CRM cannot run properly. so the company does not achieve maximum profit instead it costs money for the provision of technology.

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