

BUILDING CUSTOMER LOYALTY AS THE BASIS FOR THE STABILIZATION OF RELATIONSHIPS IN THE SUPPLY CHAIN

BRANSKA Lenka, PECINOVA Zuzana, LOSTAKOVA Hana

*University of Pardubice, Faculty of Chemical Technology, Pardubice, Czech Republic, EU,
Lenka.Branska@upce.cz, Zuzana.Pecinova@upce.cz, Lostakova@upce.cz*

Abstract

The loyalty of customers in the current market environment is vital for businesses. Loyalty is enhanced by all activities and tools that increase the size of the customer perceived value, making customers interested in closer cooperation and strengthening their emotional ties to the company. In terms of manufacturing companies, it is important to choose appropriate tools depending on whether they are to strengthen the loyalty of direct customers (other manufacturers, distribution intermediaries) or end customers. The literature, however, deals primarily with sales support tools, other tools and methods of their use are dealt with to a lesser extent. It is also usually focused on building the loyalty of end consumers without being concerned with tools for enhancing the loyalty of direct customers. It is minimally dealt with how to develop cooperation in the context of multiple entities (in a chain/value network or part of it) so as to strengthen the loyalty of end customers, which is the foundation of prosperity of the network links and that of the network as a whole. Based on the results of a research in two companies producing food products, the article evaluates the tools used for building loyalty in relation to the distribution intermediaries and final consumers, and consequently suggests ways to improve the process of building loyalty.

Keywords: Consumer loyalty, customer loyalty, loyalty programs, value network, food industry

1. INTRODUCTION

Contemporary customers are becoming more informed and educated and therefore more demanding and critical. They want to solve their problems finely, quickly and inexpensively and they are not even limited in terms of territory. On the other hand, they are overwhelmed with information that they do not have time to analyze or verify. Rapid transmission of information in the business world enhances the tendency to commoditize products and services.

In the long term, this situation is favourable neither for customers or suppliers. Customers often expect a very individual solution to a specific problem, which is something commoditized products cannot offer, or the customer has difficulties searching for them in excess of supply. Suppliers, on the contrary, are facing hyper competition, growth in costs related to the scope of services provided, while there is a pressure on decline in prices and reduction of customer loyalty.

Customers are the most valuable corporate asset. Their value usually increases over time, not only due to increasing direct financial benefits (increase in the volume of purchases and purchase of a wider product range entailing an increase in revenues, reduction of costs of servicing), but also indirect benefits (they provide valuable information, recommend a product/ brand/enterprise, advocate the enterprise, contribute to improving its image and credibility). It is these indirect benefits that are currently gaining in importance, as evidenced by a qualitatively new level of mutual relations, which are the foundation of customer loyalty. The authors agree that the loyalty of customers in the current market environment is vital for businesses and describe appropriate tools for its strengthening. They traditionally recommended using the marketing mix tools, in particular communication mix tools. Loyalty, however, is enhanced by all activities and tools that increase the size of the customer perceived value, making customers interested in closer cooperation and strengthening their emotional ties to the company. In terms of manufacturing companies, it is important to choose appropriate

tools depending on whether they are to strengthen the loyalty of direct customers (other manufacturers, distribution intermediaries) or end customers. The literature, however, deals primarily with sales support tools, other tools and methods of their use are dealt with to a lesser extent. It is also usually focused on building the loyalty of end consumers without being concerned with tools for enhancing the loyalty of direct customers.

The aim of the article is:

1. on the basis of a literature search, to define tools to build customer loyalty,
2. on the basis of primary research results in two enterprises producing food products, to carry out an assessment of tools used for building loyalty, applied in relation to independent intermediaries and to end consumers and to suggest how to improve the process of building loyalty.

Regarding the methods used to achieve the thus defined goals, to fulfil the first sub-objective two primary researches were carried out in food industry enterprises (by personal interviews based on an interviewing questionnaire). The third sub-objective will be fulfilled by comparing and synthesising the knowledge and information from both the practical researches. The respondents were employees of the marketing and sales department (Company A) and a top manager in the Company B (with respect to the size of the company and the division of powers and responsibilities). The second sub-objective will be fulfilled by comparing and synthesising the knowledge and information from both the practical researches.

2. BUILDING CUSTOMER LOYALTY

2.1. Theoretical background

Customer Loyalty

Ou [1] defines loyalty as a commitment to purchase another product in the near future. Loyalty is therefore perceived as customer behaviour - the customer purchases repeatedly (behavioural loyalty). Another distinctive feature of loyal customers is their mental positive relationship [2] to the product, brand, or company. According to Lostakova [3] customer loyalty requires such a degree of customer acquisition that leads to emotional customer adherence to a product or company (attitudinal loyalty). Repeatedly purchasing does not make a customer a loyal customer. It usually takes some time before the customer gets from one stage to the next - first they repeatedly purchase and, based on the positive experience with the purchase, they gradually create an emotional attachment to the product, business, or manufacturer. It is therefore a long-term preference, which is a consequence of maximum customer satisfaction with the provision of value and positive customer expectations for the future [4].

A prerequisite for customer loyalty are positive emotions that the supplier raises in interactions. Enterprises have long been trying to invoke positive customer responses, but it will always be customers who will decide, on the basis of subjective assessment, whether and how the relationship will develop further. Businesses can and must encourage and build customer loyalty, but in the long term they will achieve good results only with customers who voluntarily remain in a relationship that brings them an adequate value in the long term. Only these customers can create an emotional attachment to the company and only these customers may be willing to praise, recommend or even defend the company. Customer defending a company in public (advocacy) is considered a sign of the highest levels of customer loyalty.

For building and strengthening loyalty, companies can use a variety of tools and techniques. However, it should be noted that the use of specific tools or the method of deployment thereof will vary depending on whose loyalty the company actually seeks to achieve. The last link in the value network (retailer or wholesaler) seeks to achieve loyalty of the final consumer. Its goal is to create lasting, positive relationship of the customer to the shop. Consumer loyalty is not important only for it but also for other partners in the value network. Their goal is to build customer loyalty to a product/brand. It is desirable that the value network entities, especially the last manufacturer and shop, work together to strengthen the loyalty of end consumers but, at the same time,

suppliers must strive to increase the loyalty of their direct customers. Appropriate tools for enhancing loyalty will therefore vary depending on whom the efforts are focused.

Tools to Build Loyalty of the End Consumers

Tools of communication mix, sales support tools in particular, are considered to be suitable tools to increase loyalty of the end customer. To promote the sale, companies use mainly competitions, games, lotteries, premiums and gifts, coupons associated with a form of discounts, etc. These tools can be applied once or in the so-called loyalty programs. The aim of these programs is to reward the customer either immediately or after fulfilling specified conditions.

The importance of material rewards cannot be underestimated since one of the reasons why the customer is willing to enter into a relationship is saving money. Material rewards are an essential component of any relationship between the seller and the buyer [5] as they contribute to capturing the customer, enticing them to try the offer, which may have a not-to-be-sneezed-at value for him. In addition, if the reward requires repeat purchases, the supplier has a greater (repeated) opportunity to present the offer. Only in this context can the tools be seen tools increasing customer loyalty. Sales support tools create conditions for building loyalty - they enable customers to gain positive personal experience, they provide them with tangible benefits (which are particularly important for establishing the relationship) and require their involvement. These are all factors that are essential to creating a long-term relationship.

According to Bojei et al. [5], the loyalty of end customers to a shop can be enhanced by customer service, product customisation, personalization of the service (personal approach to the customer) and creating a community around a product, brand and shop. End customers are also very sensitive to references provided by other customers. This form of loyalty support tools is successfully applied in particular to the online shopping [6]. All these elements are aimed at strengthening personal ties between the seller and the consumer. Successful use thereof is subject to detailed knowledge of the customer.

Tools to Build Business Partner Loyalty

Not only a supplier of consumer goods must strive for loyalty of its customers (i.e. wholesaler and/or retailer), but every link in the supply or even value chain or value network that precedes it. These efforts should lead to the strengthening of relations between the links in the chain (network) and consequently to stabilization of the whole group and development of cooperation, of which both the end customer and selected or all links of this group should benefit. It is therefore important for producers (of consumer goods) to strengthen the relationship with business partners that sell the manufactured products to end users. At the same time, however, they must provide these businesses with effective support in their quest for satisfaction and loyalty of end users.

As for tools that the manufacturer can use to strengthen the relationship and increase the loyalty of direct customers, many of them are the same as with the wholesaler and retailer building loyalty of consumers. Undoubtedly, they can use the tools of sales promotion as part of the communication mix, yet modified with respect to the recipient of the action. Tools that are used towards business partners can be divided into two groups [7]:

- tools that make the product price more advantageous (discounts, rebates, coupons) and
- tools that offer a value added (gifts, bulk pack).

The manufacturer can use these tools in combination with various competitions, focused on one-off or repeat purchases. Competitions must be designed somewhat differently than when focused on end customers. Another convenient tool to increase the loyalty of customers is the direct provision of samples or the provision of part of goods without payment requirement, i.e. for free.

In terms of increasing loyalty, these sales promotion tools will work in an approximately same way as in the case of their use in relation to end customers. They can help to capture the retailer, convince to try the offer,

even repeatedly. But if the retailer does not find this offer to be impossible to refuse, the tools will probably not lead to any significant strengthening of the relationship, or to increasing of loyalty.

A very effective instrument for growth of loyalty can be seen in setting fair terms of cooperation and support of the customer by the supplier in resolving problems that arise. If a mutually satisfactory agreement is concluded between the manufacturer and an independent intermediary on what actions each party will perform, as well as an agreement on the form of delivery, payment terms, on methods to resolve complaints, etc., we can expect the strengthening of the relationship. When it turns out thereto that employees of the supplier are very trustworthy and reliable, willing and able to solve the customer's problems when they emerge and work together to strengthen its supply position, it will probably further strengthen the relationship and increase customer loyalty towards the supplier.

A very effective tool for increasing the direct customer loyalty can be the support to customers in their efforts to increase the loyalty of the end customer. The supplier may, for example, help to bear the costs incurred in the implementation of sales promotion tools in relation to the end customer or support the suppliers by providing them with gifts, helping to create loyalty programs, helping to organize them while supporting the sale in the premises of retail and wholesale stores. Suppliers and customers thus become partners in increasing the loyalty of consumers, which is ultimately also linked to the improvement of the relationship and increasing barriers to exit from the relationship.

Direct customer loyalty can be developed through the development of cooperation with other appropriate companies that are current or prospective suppliers of complementary products and services. It allows them to create more complex solutions to possibly complex solutions creating a specific added value for the direct customer, higher than that provided by the product marketed on its own and therefore usually higher than that provided by the competition.

2.2. Research results

For the research into tools used for increasing the loyalty of the food industry enterprises, two businesses were selected, namely Company A (producer of packaged beverages) and Company B (filled confectionery manufacturer). Company A is a representative of large, financially strong producers with a fully-established market position. It operates in a highly competitive environment, but maintains a high market share. In contrast, Company B is a representative of small producers, operating in local markets, satisfying market niches with its product range. It is able to stay in the market mainly due to the benefits of employing the handicapped persons.

Assessing the Tools used for Increasing Loyalty in the Surveyed Companies and Recommendations for Improvement

Both the companies are striving for loyalty of both direct customers and end customers. It is clear, that companies consider those customers to be loyal who buy repeatedly. Therefore, they use such tools to stimulate the customer to purchase their own products over competing products and to purchase repeatedly. Both companies use the classic tools of sales promotion, tempting customers to try out their product range and purchase larger numbers of products, thus focusing on achieving behavioural loyalty. Nevertheless, the research has shown that a prerequisite for product trial and repeat purchase is an offer of the corresponding value. Therefore, both companies seek to create value for the customer through various elements of the product, price and distribution mix, as well as other elements of the communication mix.

Both companies strive for loyalty (in their understanding) not only of end customers, but also for that of direct customers. Also in relation to them, they use sales promotion tools with the same objective as among end customers. However, they understand that to develop the relationship (which should lead to strengthening direct customer loyalty) it is a very important for them to set fair trade terms and have such a form of supplies that will secure supply emergency for the customer in relation to consumers. Quite clearly, the research has proved that companies A and B work together with their retailers in activities aimed at attracting and retaining

consumers. The manufacturer is willing to get involved in various events, support the retailer materially and/or financially during these events. Communication is rather one-way, from the company towards the retailer/consumer.

As is evident from the results of the primary research, the surveyed manufacturing companies deliberately do not use tools to promote emotional adherence of the end customers to the product, nor do they participate in any activities of the retailers focused in this direction. They do not apply a sufficient degree of personalization (personal approach) to direct customers and basically not whatsoever in relation to the end customers. However, it is true that the commodity nature of the products and the essentially anonymous way of their sale to the end customers create obstacles to the application of tools based on a personal approach. However, the companies do not either build or significantly support the creation of customer communities that could help overcome these barriers. Neither are they characterized by any pronounced tendency to deepening cooperation in the horizontal direction, i.e. with manufacturers of complementary products, which would allow them to create more complex offer especially for direct customers.

To develop all these activities, the companies need much greater awareness of the needs, desires and requirements of both direct and end customers. One-way communication, however, does not allow obtaining the necessary information, it does not provide sufficient feedback nor does it allow activating the customers to the position of partners, value co-creators. Communication is focused primarily on transactions, not customer engagement in the relationship. The lack of information and the transactional focus discourages the use of the concept of value as an offer of a solution to the problem, which also includes the product. This concept (service-dominant logic) requires that the output value is co-created by customers and with a set of appropriately selected firms in accordance with how it is predetermined by the customer [8].

Given the nature of the manufactured food products the companies cannot make the customer engaged in the relationship probably otherwise than through the use of information technology. The Internet allows manufacturers to make contact and build relationships with consumers. It is recommended to use websites to allow customers express their opinions and to create customer clubs [9]. Communities in the form of customer clubs offer their members value-added activities in connection with products and services and encourage interaction among the customers [9]. A community must be a place providing customers with important information that interest them and activates them to get involved in the relationship. It brings together people of the same interests, trying to solve the same problem - such as a healthy diet, impact of food consumption on human health, etc. A community cannot be created with the aim of immediate sales.

Internet communication should not only concern products and services. It should not only contain articles and discussion forums for exchanging information about products, consumption experience, process of purchasing, etc. Communication related to products can significantly influence customers currently considering to purchase a product, because if the products are praised and recommended by customers, it is much more credible than if it was promoted by the company itself (of course, it requires the value of the products themselves higher than those offered by competitors). However, communication must provide value also to customers who do not need the product at the moment nor are they currently considering purchasing it. But they do get interesting information necessary for them that may be used at an opportune time in various ways.

This results not only in strengthening relationships between companies and customers (current and potential), but most importantly among customers, which increases the credibility of the information provided. This approach allows the manufacturer to obtain information about customers and their ideas of purchase, so they actually become co-creators of products, thereby being helped to identify the form of a complex product offer. This communication should show them not only how to improve their own products, but also help to identify other companies to connect with so that the customers are provided with complex solutions to their problem. Of course, large property groups producing a variety of products are advantaged, because they have a better opportunity to create a comprehensive proposal and gain cross benefits.

The dialogue can provide the companies not only with the information for the actual form of the offer, but other information of more personal nature that will enable personalization, for example. This could allow the company to accompany the customer in the long term - from the cradle to the grave. The company then accompanies the customer through different life stages and situations in the family, working life and leisure time. The point is to make use of the sales promotion tools, but in an appropriate manner and at an appropriate time so that the company becomes a friend, partner, entity that is always close, and on which the customer can rely.

3. CONCLUSION

As shown by the primary research carried out in two enterprises of the food industry, loyalty of their customers is extremely important for the evaluated companies, and therefore they seek to strengthen it with various tools. These tools are deployed in relation to both the direct customers and the consumers. Both companies are trying to work together with the direct customers to strengthen the loyalty of end customers.

As both companies consider a customer to be loyal who buys repeatedly, they use tools that encourage the customer to purchase their products over competing products and to purchase repeatedly. They use conventional tools of sales promotion, enticing their customers to try the menu and purchase larger numbers of products. In relation to the consumer, what they use most are tools of sales promotion, in relation to direct customers they are trying to support their loyalty not only with sales promotion tools, but also by setting fair trade conditions and by supporting them in executing business activities. They help direct customers in various ways, but they also directly support them (materially and / or financially) to build the loyalty of their customers, i.e. consumers. However, these companies manufacturing food products and their retailers apply the push method in the application of marketing mix and, within it, sales promotion tools without purposefully striving for customers' emotional adherence to a product or retailer.

It seems desirable, in terms of building consumer loyalty, to approach using tools that will establish and build a relationship between producers and end customers. Communication via the Internet, especially the building of communities, provides a basis for developing complex, the so called service-dominant logic solutions. The given community must be specific in the sense that it relates to the line of business of the manufacturer (and its business links) and it is a trusted source of information for the customer (which can be used for making purchasing decisions) and information about customers, allowing creating a value inducing customer enthusiasm through a suitable composition of suppliers.

REFERENCES

- [1] OU W., SHIH Ch., CHEN C., WANG K. Relationships among Customer Loyalty Programs, Service Quality, Relationship Quality and Loyalty: An empirical study. *Chinese Management Studies*, Vol. 5, No. 2, 2011, pp.194-206.
- [2] PELSMACKER P., GEUENS M., BERGH J. *Marketing Communication*. Prague: Grada Publishing, 2003.
- [3] LOSTAKOVA H. *Customer Relationship Management (CRM) by Differentiated Value Management*. Pardubice: University of Pardubice, 2008.
- [4] REICHHELD F. F. *The Loyalty Effect - The Hidden Forces behind Growth, Profits and Lasting Value*. Boston: Harvard Business School Press, 1996.
- [5] BOJEI J., JULIAN C. C., WELCH. A. B. C., AHMED Z. U. The Empirical Link between Relationship Marketing Tools and Consumer Retention in Retail Marketing. *Journal of Consumer Behaviour*, Vol. 12, No. 3, 2013, pp. 171-181.
- [6] PATAK M., LOSTAKOVA H., CURDOVA M., VLCKOVA V. The E-Pharmacy Customer Segmentation Based on the Perceived Importance of the Retention Support Tools. *Procedia Social and Behavioral Sciences*, Vol. 150, No. 1, 2014, pp. 552-562.
- [7] BROZ F. B2B Sales Promotion. *Marketing Journal* [on line]. 12. December 2008. Available from: http://www.m-journal.cz/cs/podpora-prodeje/b2b-sales-promotion_s282x429.html.
- [8] VARGO S. L., LUSCH R. F. Service-Dominant Logic: Continuing the Evolution. *Journal of the Academy of Marketing Science*. Vol. 36, No. 1, 2008, pp.1-10.
- [9] GRANT L. *Sticky Marketing*. Prague: Management Press, 2011.