THROUGH CUSTOMER SATISFACTION TO CUSTOMER LOYALTY

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Introduction

Transforming enterprises to become customer-centric while still increasing revenue and profit is one of the hottest strategies in business today. The essence of this strategy is to change organizations from a products-centric to customer-centric philosophy. Through this strategy organizations can increase customer loyalty, may create value for the customer. One of the most important problems in research of customer relationships is that organizations should divest from unprofitable customer. To evaluate which of your customers are unprofitable we can be applied "the Pareto principle". Another problem is that you should communicate with your existing customers to ensure they stay with you well into the future. The awareness of these problems leads organizations to deeper understanding of their customers' requirements.

This paper is organized as follows: Section 1 presents the definitions of key terms. Section 2 describes the strategies how to identify our key or loyal customers and target our efforts towards keeping them through a range of promotional ideas.

The main point in the paper is a model which describes the way through customer satisfaction to customer loyalty.

1 Definitions

Loyal customers are people who consider a certain firm as their best choose. They believe this firm will provide the maximum outcome for them and meet their need best. Therefore, this group of customers are the most meaningful and profitable customers. Focusing on long-term development and relationships, offering them more benefit and set up concrete loyalty makes sense.

In terms of Pareto Principle, investing on loyalty program is never too much. It determines how far a firm can go.

Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior — behavior which is potentially of benefit to the firm [1].

The **Pareto principle** (also known as the 80-20 rule [2] the law of the vital few, and the principle of factor sparsity) states that, for many events, roughly 80% of the effects come from 20% of the causes [3,4].

It is a common **rule of thumb** in business; e.g., "80% of your sales come from 20% of your clients."

2 Key customers

The first problem that we stated in introduction is how to define key customers and high-risk customers.

So, who are your key customers?

Following the Pareto Principle, 80% of your sales come from 20% of your customers, and in a recession the numbers are closer to 95% and 5%, says Ajit Maira, senior vice president of the Information Technology Services Marketing Association. Some of the names in your top 20% may also be unexpected but these customers are the key to your business and should be a main focus of your Customer Loyalty program.

Next we should focus on another category of customers - high-risk customers. Take a look at a list of your active customers this year and compare it to previous years. Who is missing and why? Some customers will always be lost through natural wastage, but others may leave because they are dissatisfied with your business.

Besides the top 20% and high-risk customers, we should remember about all other customers. We should keep a close attention at the rest customers, because in future some percentage of them may be in the top, from some you should get rid of.

The second problem that we mentioned in introduction regards some simple ideas of activities which you can undertake to help sustain closer relationships with your customers.

Here is the list of simple but effective tips for a customer-oriented firm.

Set Customer Targets

Look at each of your existing customers and set them an individual sales target. For the top 20% of customers, if you can achieve a small increase it will have a far greater impact on your business. For high-risk customers, your target may simply be in keep them whilst the majority of other customers may have larger growth. Then consider how you will achieve this growth in your business - are you going to sell more of your existing products/services, increase prices whilst maintaining volume or perhaps introduce new products/services.

Organize Internally

Allocate key customers to different members of staff, so that someone is responsible for providing a great service to each. If you don't have many staff, at least put a list of your top 20% on the wall so that you are reminded everyday of their importance to your business.

Establish a Loyalty or Reward Scheme

To make your top customers feel special, set up a VIP customer loyalty club. Customers included in the scheme could be offered priority service, special discounts, offers, exclusive product lines and many other benefits. Membership could be based on achieving a minimum level of business, to give smaller customers a target to aim towards.
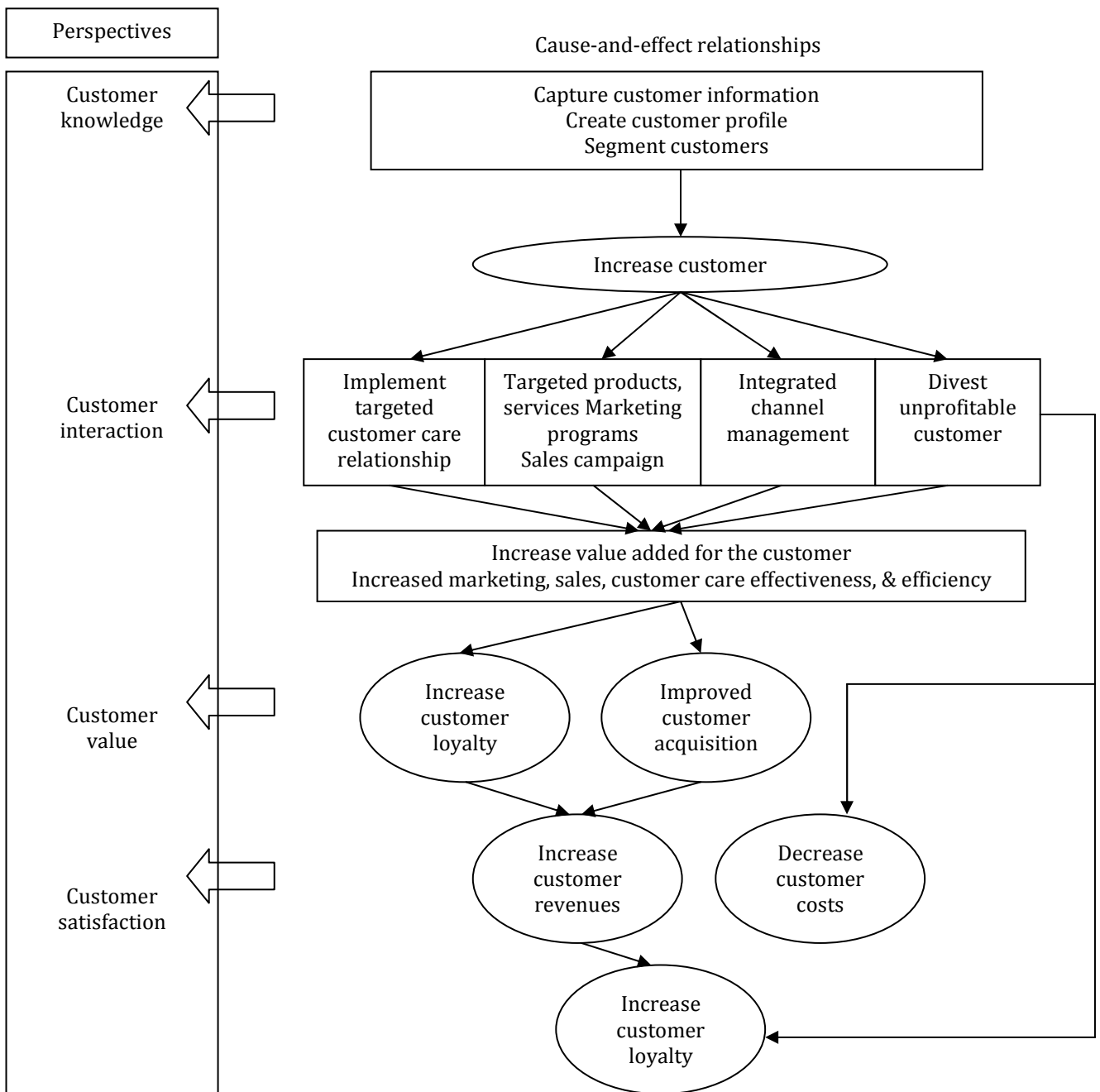
Give out branded gifts

Make sure all your most important customers get something from you at least once year in the form of a branded corporate gift. This could be anything from a branded pen, to a mouse mat, desk set or briefcase, depending on the budget you can set aside for each customer. A small thank you can go a long way and provide a permanent reminder of your name.

3 A model describing the way to get through customer satisfaction to customer loyalty

We have a firm we can and should work with. This model (Figure 1) describes the way to achieve your customer loyalty.

As Figure 1 shows, customer loyalty can be achieved through customer satisfaction. First, we should capture customer information, then, create customer profile and segment customers to key, high risk and others. As information about customers increase through year to year, we may create and then increase value added to the key customers, which, in the end, can lead to customer loyalty. This model is studied in more detail in paper "A model for evaluating the effectiveness of CRM using the balanced scorecard" by Jonghyeok Kim etc. from Pohang University of Science and Technology [5].

Perspectives

| Perspectives | Cause-and-effect relationships |

Customer knowledge

Capture customer information
Create customer profile
Segment customers

Increase customer

| Implement targeted customer care relationship | Targeted products, services Marketing programs Sales campaign | Integrated channel management | Divest unprofitable customer |

Customer interaction

Increase value added for the customer
Increased marketing, sales, customer care effectiveness, & efficiency

Increase customer loyalty

Improved customer acquisition

Customer value

Increase customer revenues

Decrease customer costs

Customer satisfaction

Increase customer loyalty

Figure 1

Conclusion

To summarize, customer loyalty can be achieved through the following actions:

– Appropriate response to customer request (such as number of frequency of contents update , total cost for promotion, number of marketing campaign);

– Maximizing the effectiveness and efficiency of enterprise operations (number of average delivery time after order fulfillment, number of response time to customer inquiry);

– Customizing products and services (detailed product information, timeliness sales in popular product).

REFERENCES

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2   The Pareto principle has several name variations, including: Pareto's Law, the 80/20 rule, the 80:20 rule, and 80 20 rule.

3   Bunkley, Nick (March 3, 2008), Joseph Juran, 103, Pioneer in Quality Control, Dies, New York Times, http://www.nytimes.com/2008/03/03/business/03juran.html .

4   What is 80/20 Rule, Pareto's Law, Pareto Principle, http://www.80-20presentationrule.com/whatisrule.html.

5   Kim, J.H. A model for evaluating the effectiveness of CRM using the balanced scorecard / J.H. Kim, E.H. Suh, H.S.Hwang // Journal of Interactive Marketing. – 2003. - Vol. 17, N 2. – P. 5 – 19.