

Customer loyalty research and practice: technology meets psychology

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The Handbook of Research on Customer Loyalty, edited by Debbie I. Keeling, Ko de Ruyter and David Cox, (Edward Elgar Publishing, 2022).

Customer loyalty, a concept combining the behavior of repeated purchase with customers' positive attitudes toward a product or brand, is one of the most intensively studied concepts in marketing and management. Yet, in today's world of social media, big data, artificial intelligence and sustainability the ideology of customer loyalty is due for a major makeover. *The Handbook of Research on Customer Loyalty*, edited by Debbie I. Keeling, Ko de Ruyter and David Cox is an admirable effort to assemble and synthesize the latest ideas and developments in customer loyalty research.

The handbook is structured in four parts:

- Part I reviews the state of the research-driven practice in customer loyalty, engaging the reader in fundamental concepts such as value co-creation, customer journey, customer touchpoints and the relationship between culture and customer loyalty.
- Part II summarizes research methods for studying and metrics for measuring loyalty. These include cutting-edge topics, such as data mining, text mining, machine learning and audio/voice analysis. More traditional

statistical methods for dealing with missing data, as well as unconventional qualitative research methods such as interactive introspection are also covered.

- Part III, the most extensive part of the handbook, focuses on customer loyalty programs. Here, we are treated to updates in the areas of loyalty program-based learning, gamification, social capital in loyalty programs, nudge marketing and habitual customer behavior. Case studies of both successful and unsuccessful loyalty programs attempted by businesses around the world are also furnished.
- Part IV reimagines the future directions in customer loyalty research and practice. Memorable topics include environmental and moral considerations in marketing, augmented reality, social media influencers, and the anthropomorphism of voice technologies.

The most memorable and thought-provoking aspects of the collection can be organized into a few core themes gleaned from various parts of the handbook's 25 chapters, authored by almost 50 contributors.

Defining customer loyalty

In sum, the handbook depicts customer loyalty as a positive

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“reciprocal relationship” between a business and its clients, one which varies according to different social norms and values and is constantly evolving with information and communication technologies. Characteristics of a customer “relationship” are reflected in standard customer loyalty parlance such as customer touchpoints, co-creation, socialization and loyalty-based learning. The “reciprocal” nature of the relationship is the assumption that customers offer their loyalty in exchange for enhanced benefits, either economic or non-economic, through loyalty programs. Finally, why and how this reciprocal relationship changes across cultures and over time, as values shift – for example, with greater focus on sustainable production and consumption – and technologies progress – for example, with machine learning and artificial intelligence – is an endless research endeavor.

The source of loyalty: function, pleasure and habit

A recurring question in the handbook is: what is the source of customer loyalty? Three distinct answers emerge:

- Loyalty is repeated business due to the reliable fulfillment of some functional need, as presented in Clayton Christensen’s theory of “Jobs to be Done.”^[1] He explains that commuter customers “hire” a milkshake, for example, to fulfill the job of keeping them entertained and nourished during their long morning drive to work. Loyalty arising from a functional need, referred to as a “commodity loyalty,” is considered least desirable. This is because seemingly loyal customers may

always be ready to defect if a superior choice for doing the same job arrives on the scene.

- Loyalty is an emotional response to a pleasurable experience – a deep, genuine affection for the brand – which is termed “true loyalty.” Loyalty resulting from this second source is more emotional than cognitive.

Aunt Keesje got her first Philips iron right after the Second World War. She got it as a wedding present from her mother who also owned a Philips iron. In her life she has bought quite a number of Philips irons, and if the one on her table breaks down, she will, without any doubt, buy another Philips. Aunt Keesje’s loyalty is undivided. – Introduction to the Handbook of Research on Customer Loyalty

Aunt Keesje’s relationship with the Philips brand, which reminds her of her childhood, her mother and her wedding stands as a good example of true loyalty.

- Loyalty has more recently been additionally defined, in the spirit of behavioral economics, as the habit of repeating or repurchasing something familiar.^[2] Under this framework, the business that can successfully “nudge”^[3] customers into early adoption of a product or service, then create a sticky customer experience and make repurchasing quick and convenient, will enjoy ample habitual customer loyalty. Social media applications that possess

an “addictive” quality exploit this source of customer loyalty.

The question, “How is customer loyalty cultivated?” is addressed in Part III of the handbook, which focuses on loyalty programs.

Loyalty programs, learning and social capital

Many of the handbook’s contributors highlight learning as an important goal of successful loyalty programs. Learning about your customers is critical, but providing incentives for your customers to learn about your products and services is sometimes no less important. Businesses obviously learn a lot from customer data collected through loyalty programs and use this data to build products and services on which customer loyalty is based – supermarket membership cards are a case in point. Conversely, and perhaps less intuitively, many loyalty programs can be viewed as arrangements to reward customers for learning about products or services on offer. Such rewarding can be achieved, for example, through gamification. The “Know Your IBM (KYI)” program, which rewards IBM clients for undertaking game-like training modules or certification of the company’s products, represents a prime example of rewarding customers for learning about a company’s products and services.

Finally, social benefits that customers derive from loyalty programs, may play a key role in building pleasurable fulfillment and loyalty. The “Yamaha Tribe” loyalty program in Australia organizes weekly motorcycle rides, social gatherings and annual Moto Grand Prix for its members. Pets at Home, a UK pets care supplier, uses its network of its loyalty program members to help reunite lost pets with their owners. Studies have found that the higher the value of social capital embedded within the loyalty program, the better the program’s performance.

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A potential concern about loyalty programs is that the market will become saturated as many firms offer such gimmicks. Posing an alternative view, the business classic *Co-opetition*^[4] offers the case study of the GM credit card for which 5 percent of the users' charge volume can be applied to the purchase of a new GM car or truck. The case points out that the adoption of similar credit cards by competitive car manufacturers will give each seller a secure market share because it makes sense for each customer to own and use only a single card. The proliferation of such auto-maker credit cards – essentially a loyalty program – therefore reduces competitive pressure, and can thus help prevent ruinous price wars.

Customer loyalty gets entangled with morality

“Loyalty” is one of the universally shared tenets of morality according to the psychologist Jonathan Haidt's “Theory of Moral Foundations.”^[5] It is therefore not surprising that questions of morality will sooner or later creep into discussions of customer loyalty research.

In Part I, the handbook authors examine what happens when customer loyalty morphs into a moral issue. Does terminating relationships with undesired, but loyal customers represent a moral violation? Terminating a long-standing relationship can adversely affect not only the customer but also other stakeholders, such as suppliers of complementary products or services. However, the making of strategic choices, swayed by the moral connotations of the term “loyalty” illustrates how a useful marketing

concept might mutate into a strategic trap if taken too far and with too much zeal.

AI, voice technology and anthropomorphism

The potential of exponential marketing technology being able to peak into our lives and make accurate predictions of our choices and actions promises many surprises. For example, The authors note that greater “harmonics-to-noise ratios” – higher voice clarity in speech – during a conversation with a sales person, signals customer loyalty development! Shorter pauses or faster response times may also mean the customer is in the loyalty-development stage. Such voice qualities can easily be picked up and analyzed in real time by software during conversation.

Researchers also tell us that it is in our nature to attribute human qualities to non-human entities, such as software and robots, which have been trained to mimic human traits. This tendency, known as anthropomorphism, can be employed to generate customer warmth, care and trust toward the non-human entity.

Additional ethical conundrums are examined in Part II of the handbook, which focuses on metrics for measuring customer loyalty. From the discussion of the potential applications of voice analysis – pitch, pause, tone – to infer what is going on in the minds of the customer, the reader cannot help but wonder about the ethical implications of such capabilities. Will we soon be warned at the beginning of our phone conversations with a sales person or a customer support chatbot that our

voices will be recorded for analysis and maybe even be used to manipulate us, either in real time or in future interactions?

Dilemmas

As modern ideologies such as environmental sustainability become increasingly mainstream, a few difficult marketing sustainability dilemmas have also surfaced. For example, regularly purchasing fashion items offered by your favorite brand can easily result in excessive waste.

Part IV of the handbook offers some thoughts on such dilemmas, most of which are not very comforting. There are serious incomplete and asymmetric information problems in sustainable production and consumption. First, consumers have imperfect information about what choices are actually most environmentally sustainable. For example, are re-usable cotton bags really better for the environment than single-use plastic bags?^[6]

Second, both producers and consumers have strong incentives to foster the appearance of authentic environmentalism. Yet, verifying the genuineness of such claims and the effectiveness of the production or consumption choices in furthering sustainability causes can be prohibitively costly.

The authors propose the idea of “utilitarian consumption” as a more sustainable alternative to “hedonistic consumption.” A few companies are designing their customer loyalty programs on the practice of offering products with genuine functional benefits and sustainability. The problem with this strategy is that loyalty based on product function is “commodity loyalty,” and such a source of loyalty is the least defensible against competitive threats.

Notes

1. Christensen, C.M., Hall, T. Dillon, K. and Duncan, D. S. (2016), *Competing Against Luck: The Story of Innovation and Customer Choice*, HarperCollins.
2. Lafley, A.G. and Martin, R.L. (2017), *Customer Loyalty is Overrated*, *Harvard Business Review*, 95 (1), pp. 45-54.
3. Thaler, R. and Sunstein, C. (2008), *Nudge: Improving Decisions about Health, Wealth and Happiness*, New York: Penguin Books.
4. Brandenburger, A.M. and Nalebu, B.J. (1996), *Co-opetition*. New York: Currency Doubleday.
5. Haidt, Jonathan, (2012), *The Righteous Mind: Why Good People are Divided by Politics and Religion*, New York: Knopf. His other moral foundational elements include care, fairness and respect.
6. An organic cotton grocery bag needs to be re-used 2,375 times to have as low an environmental impact as a standard single-use plastic bag. Source: <https://ourworldindata.org/grapher/grocery-bag-environmental-impact>