Mediating influence on customer loyalty

Mei-Lien Li
Lynn University

Robert Green
Lynn University

ABSTRACT

In this study, the focus is on customer loyalty, and the antecedents of perceived value, and the marketing mix that creates the value. The mediating role of consumer perceived value in the marketing strategy-customer loyalty relationship is examined. A theoretical framework is established that is supported by empirical evidence. The findings indicate an inconsistent measure for perceived value that does not fully explain its mediating role.

Keywords: Customer loyalty, perceived value, marketing strategy

INTRODUCTION

While customer loyalty is challenging to achieve for marketers and to explain by researchers, it nevertheless continues to be a great importance and interest. In this study, the focus is on customer loyalty, and the antecedents of perceived value, and the marketing mix that creates the value. This relationship is supported in the theoretical literature (McCarthy, 1971; Oliver, 1997; Zeithaml, 1988), and has been tested in various empirical studies (Bloemer & Odekerken-Schröder, 2002; Cronin, Brady, & Hult, 2000; Yoo, Donthu, & Lee, 2000). However, studies have not been inclusive of all variables that better describes and explains the marketing strategy, perceived value, and customer loyalty relationship, as determined by, and proposed in this study. The purpose of this research is to advance the understanding of customer loyalty by examining the literature and determining consumer perception of marketing strategy and customer value. Therefore, what is the perceived value mediating influence resulting from marketing strategy on customer loyalty?

LITERATURE REVIEW

Marketing exists because of unfulfilled needs and desires of people (Kotler, 2005). Thus, the objective of marketing strategy is to deliver value to customers as well as build a long-term and mutually profitability relationship with customers (Dick & Basu, 1994; Kanagal, 2009; Rust, Lemon, & Zeithaml, 2001). Marketing strategies that are successful require market analysis, e.g., competitors, consumers, and internal analysis, e.g., marketing mix, which leads to a competitive advantage, e.g., relationship building, loyalty programs (Kanagal, 2009). As such, the marketing mix is defined as "the mix of controllable marketing variables that the firm uses to pursue the desired level of sales in the target market" (Churchill & Peter, 1995, p. 16).

Specific to marketing, strategies are based on segmenting, targeting, and positioning (Kotler & Keller, 2006). For decades, segmentation has been a marketing tool. Marketing activities require "precise utilization of both product differentiation and market segmentation as components of marketing strategy" (Smith, 1956, p. 7) in which the segment must be large enough to be profitable. Targeting is merely the selection of specific segment(s), e.g., gender and/or age in a demographic segment. Moreover, firms "must decide on a value proposition – on how it will create differentiated value for targeted segments and what position it wants to occupy in those segments" (Kotler & Armstrong, 2008, p. 203). Loyalty strategies, therefore, are created by having the suitable marketing mix – product, price, place, promotions (McCarthy, 1971) – and a value proposition to support (connected with) the target segments and to have the appropriate positioning in the minds of the targeted consumers in comparison to competitors (Kotler & Armstrong, 2008).

Customer perceived value is defined as "the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given" (Zeithaml, 1988, p. 14). Two essential conceptions are established with customer perceived value (CPV). First, CPV is a result from the consumers' pre-purchase perception (expectation), evaluation during the transaction (expectation versus received), and post-purchase (after-use) assessment (expectation versus received). Second, CPV involves a divergence between the benefits received and sacrifices given. The benefits include customers' desired value, e.g., quality (Monroe, 1990). Sacrifices, on the other hand, include monetary (price) and non-monetary (time, effort) considerations (Cronin, et al., 2000; Dodds, Monroe, & Grewal, 1991; Monroe, 1990). Monroe observes, "Buyers perceptions of value represent a tradeoff between the quality or benefits they perceive in the product relative to the sacrifice they perceived by paying the price" (1990, p. 46). Furthermore, non-monetary sacrifice includes customers' time and effort in acquiring products (Cronin et al., 2000). Therefore, to maximize customers' perceived value, a firm must either increase the customers' perceived value, e.g., quality, and/or decrease their sacrifice, e.g., price paid, time and effort to purchase.

Customer loyalty is defined as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver, 1997, p. 392). Oliver's (1997) perspective proposes that loyal customers go through four stages. First is a cognitive sense (belief). For example, sales promotion or high quality products of a firm for first-time purchase consideration attracts a customer. To be loyal, the customer must consistently confirm that his or her expectations about the goods or services are met. Second is the affective sense (favored attitude) in which consumers are repeatedly satisfied from purchasing decisions. Third is the conative stage that consumers have a behavioral intention – committed deeply to buy. The intention leads to the fourth stage of action. Customers have the desire to overcome obstacles, e.g., attraction of competitors or price increase by a firm, to achieve the actual purchase behavior (Oliver, 1997).

With loyal customers, companies can maximize their profit by which these customers are willing to (1) purchase more frequently, (2) spend money on trying new products or services, (3) recommend products and services to others, and (4) give companies sincere suggestions (Reichheld & Sasser, 1990). Thus, loyalty is linked to the success and profitability of a firm (Eakuru & Mat, 2008). Customer loyalty has been measured by (1) cognitive components (Huddleston, Whipple, Mattick, & Lee, 2009), (2) affective elements (Chowdhury, Reardon, & Srivastava, 1998), (3) trust and commitment (Haelsig, Swoboda, Morschett, & Schramm-Klein, 2007), (4) purchase intention (Bloemer & Odekerken-Schröder, 2002; Cronin et al., 2000), (5) positive word-of-mouth communication (Bloemer & Odekerken-Schröder, 2002; Cronin et al., 2000; Eakuru & Mat, 2008), (6) complaining behavior (Bloemer & Odekerken-Schröder, 2002; Ibrahim & Najjar, 2008; Zeithaml, Berry, & Parasuraman, 1996), (7) price insensitivity (Bloemer & Odekerken-Schröder, 2002; Ibrahim & Najjar, 2008), (8) switching behavior (Eakuru & Mat, 2008; Ibrahim & Najjar, 2008), (9) first choice (Lee & Overby, 2004; Zeithaml et al., 1996), and (10) do more business (Zeithaml et al., 1996).

Of particular interest to this study, word-of-mouth communication as measured by recommending a company or product (good or service), encouragement to do business, and saying positive comments to others are frequent considerations of customer loyalty. Another frequent component is repurchase intention as measured by continuing to doing business, repeat purchases, and purchase frequently. Third, price insensitivity is measured by the willingness to pay a higher price, continue to purchase with a price increase, and continue the relationship even if alternatives are less expensive. Finally, complaint behavior is measured by voice responses (to sellers), private responses (to others), and third party responses (legal action) (Bloemer & Odekerken-Schröder, 2002; Ibrahim & Najjar, 2008; Zeithaml et al., 1996).

A major objective for delivering value to customers is to develop loyal customers who can increase purchase frequency, purchase quantity, and avoid switching behavior (Rust, Lemon,

& Zeithaml, 2004). Thus, delivering customer value is a primary method to build a firm's competitive advantage (Kanagal, 2009; Lee & Overby, 2004). Moreover, customer perceived value is the result of marketing strategy (Moliner, Sanchez, Rodriguez, & Callarisa, 2007; Sangkaworn & Mujtaba, 2010). That is, a firm's marketing strategy should be developed based on value creation for customers (Bilington & Nie, 2009). Yoo et al.'s (2000) study confirms that marketing strategy positively influences customer perceived value (perceived quality), and leads to customer's (brand) equity.

Perceived value is critical to the success of buyer-seller relationships (Lemon, Rust, & Zeithaml, 2001), e.g., customer loyalty, and consists of "the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given" (Zeithaml, 1988, p. 14), or the benefits received and the sacrifices made (given). Benefits include customers' desired value, e.g., quality (Monroe, 1990). Sacrifices, on the other hand, include monetary (price) (Dodds, et al., 1991) and non-monetary (time, effort) (Cronin, et al., 2000) considerations. Therefore, value includes three key factors: (1) quality, (2) price, and (3) convenience (Lemon, et al., 2001), where convenience is the time and effort expended by the customers (Cronin, et al., 2000).

Many researchers state that value is a tradeoff between benefit (quality) received and sacrifice made (Cronin et al., 2000; Moliner et al., 2007). Besides receiving benefits of perceived quality, monetary and non-monetary sacrifices are used to measure customer value. Cronin et al. (2000) conduct a study to examine the effects of service quality, perceived value, and customer satisfaction on consumer behavioral intention in service environments. The service value is received primarily from perceptions of quality. That is, consumers view service quality of greater importance than the sacrifices they made.

Therefore, the literature supports marketing strategy and perceived value as antecedents of customer loyalty (Cengiz & Yayla, 2007; Dodds et al., 1991), and perceived value has a critical mediating role and a direct (positive) relationship with customer loyalty (Lemon et al., 2001; Yoo et al., 2000). However, perceived value has not been sufficiently, and completely measured in the empirical studies. This value is the "perceptions of what is received and what is given" (Zeithaml, 1988, p. 14). Quality is received and coupled with monetary and non-monetary sacrifices are given, such as quality, price, and convenience (Lemon et al., 2001). These components do not have a linear relationship, but rather curvilinear (Dodds et al., 1991), e.g., quality and price (Lemon et al., 2001). As a result, we argue that these constructs should be included (together) to measure and determine perceived value. This a priori categorization is consistent with Zeithaml (1988) and Lemon et al. (2001). Hence, this study posits that perceived value is the total measure of perceived quality and sacrifices (cost, time, effort) by the customer and a critical mediating influence between marketing strategy and customer loyalty.

IMPLICATIONS

In today's highly competitive markets, businesses are more challenged to increase, or even maintain market share. With the globalization and continual technology innovations, consumers have greater access and more purchase alternatives, and opportunities to be less store and product loyal. As a result, customer perceived value becomes paramount to being competitive in the marketplace. For marketers to concentrate or compete only on price is not only detrimental to profits, but also shortsighted. Generally, price is the marketing mix element that competitors can react to the easiest, or the quickest to change (Kotler & Keller, 2006), and provides the least sustainable competitive advantage (Kanagal, 2009).

Furthermore, with the curvilinear price relationship (Dodds et al., 1991), quality considerations become marginal at certain low and high price points (lower perceived value). Dodds et al. state, “people not only may refrain from purchasing a product when they consider the price too high, but also may be suspicious of the quality of a product if its price is too much below what they consider acceptable” (1991, p. 308). Consumers may perceive that a lower price occurs by reducing product quality to maintain profit margins (Yoo et al., 2000). Therefore, contrary to efforts by marketers and researchers to focus solely on quality (benefits) and price (monetary sacrifice) as perceived value, other sacrifice considerations are important, e.g., convenience (Lemon, et al., 2001) where convenience is the time and effort expended by the customers (Cronin, et al., 2000). Hence, the mediating influence of perceived value on customer loyalty can be increased with other marketing mix elements, e.g., product, place, promotion (Yoo et al., 2000), rather than just the price-quality relationship (Cengiz & Yayla, 2007; Dodds et al., 1991).

Therefore, customer perceived value must be “what is received and what is given” (Zeithaml, 1988, p. 14), and “what is given” is a monetary and non-monetary sacrifice (Cronin et al., 2000; Lemon et al., 2001). Monetary is obviously the financial cost (sacrifice) to the customer. Nevertheless, non-monetary factors are also a sacrifice, and must be measured as a component of perceived value. To be valid, such non-monetary measure should include scale items for convenience (Lemon et al., 2001) or time and effort (Cronin et al., 2000) that would increase (or decrease) perceived value and for a customer to purchase a good or service, just as the monetary sacrifice component does.

REFERENCES

Billinton, C. & Nie, W. (2009). The customer value proposition should drive supply chain design: An example in mass retailing. *Perspectives for Managers*, 177, 1-4.

Bloemer, J. & Odekerken-Schröder, G. (2002). Store satisfaction and store loyalty explained by customer- and store-related factors. *Journal of Consumer Satisfaction, Dissatisfaction and Complaining Behavior*, 15, 68-80.

Cengiz, E. & Yayla, H.E. (2007). The effect of marketing mix on positive word of mouth communication: Evidence from accounting offices in Turkey. *Innovative Marketing,* 3(4), 73-86.

Chowdhury, J., Reardon, J., & Srivastava, R. (1998). Alternative modes of measuring store image: An empirical assessment of structured versus unstructured measures. *Journal of Marketing Theory and Practice,* 6(2), 72-86.

Churchill, A. G. & Peter, J.P. (1995). *Marketing: Creating Value for Customers.* Burr Ridge, IL: Irwin.

Cronin, J.J., Brady, M.K., & Hult, G.T.M. (2000). Assessing the effects of quality, value, and customer satisfaction on consumer behavioral intentions in service environments. *Journal of Retailing,* 76(2), 193-218.

Dick, A.S. & Basu, K. (1994). Customer loyalty: Toward an integrated conceptual framework. *Journal of the Academy of Marketing Science*, 22(2), 99-113.

Dodds, W.B., Monroe, K.B., & Grewal, D. (1991). Effects of price, brand, and store information on buyers' product evaluations. *Journal of Marketing Research,* 28(3), 307-319.

Eakuru, N. & Mat, N.K.N. (2008). The application of structural equation modeling (SEM) in determining the antecedents of customer loyalty in banks in South Thailand. *The Business Review, Cambridge,* 10(2), 129-139.

Haelsig, F., Swoboda, B., Morschett, D., & Schramm-Klein, H. (2007). An intersector analysis of the relevance of service in building a strong retail brand. *Managing Service Quality*, 17(4), 428-448.

Huddleston, P., Whipple, J., Mattick, R.N., & Lee, S.J. (2009). Customer satisfaction in food retailing: Comparing specialty and conventional grocery stores. *International Journal of Retail & Distribution Management,* 37(1), 63-80.

Ibrahim, H. & Najjar, F. (2008). Relationship bonding tactics, personality traits, relationship quality and customer loyalty: Behavioral sequence in retail environment. *The Icfai University Journal of Services Marketing,* 6(4), 1-37.

Kanagal, N. (2009). Role of relationship marketing in competitive marketing strategy. *Journal of Management and Marketing Research*, 2(May), 1-17.

Kotler, P. (2005). *According to Kotler: The World's Foremost Authority on Marketing Answers Your Questions*. New York: AMACOM.

Kotler, P. & Armstrong, G. (2008). *Principles of Marketing* (12th ed.). Upper Saddle River, NJ: Prentice Hall.

Kotler, P. & Keller, K.L. (2006). *Marketing Management* (12th ed.). Upper Saddle River, NJ: Prentice Hall.

Lee, E.J. & Overby, J.W. (2004). Creating value for online shoppers: Implications for satisfaction and loyalty. *Journal of Consumer Satisfaction, Dissatisfaction and Complaining Behavior*, 17, 54-67.

Lemon, K.N., Rust, R.T., & Zeithaml, V.A. (2001). What drives customer equity. *Marketing Management,* 10(1), 20-25.

McCarthy, E. J. (1971). *Basic Marketing: A Managerial Approach* (4th ed.). Homewood, IL: R.D. Irwin.

Moliner, M.A., Sanchez, J., Rodriguez, R.M., & Callarisa, L. (2007). Relationship quality with a travel agency: The influence of the post-purchase perceived value of a tourism package. *Tourism and Hospitality Research*, 7(3/4), 194-211.

Monroe, K. B. (1990). *Pricing: Making Profitable Decisions* (2nd ed.). New York: McGraw-Hill.

Oliver, R.L. (1997). *Satisfaction: A Behavioral Perspective on the Consumer*. New York: McGraw Hill.

Reichheld, F.F. & Sasser, Jr., W.E. (1990). Zero defections. Quality comes to services. *Harvard Business Review,* 68(5), 105-111.

Rust, R.T., Lemon, K.N., & Zeithaml, V.A. (2001). Where should the next marketing dollar go? *Marketing Management*, 10(3), 24-28.

Rust, R.T., Lemon, K.N., & Zeithaml, V.A. (2004). Return on marketing: Using customer equity to focus marketing strategy. *Journal of Marketing,* 68(1), 109-127.

Sangkaworn, C. & Mujtaba, B.G. (2010). Marketing practices of hotels and resorts in ChiangMai: A Study of products, pricing, and promotion practices. *Management and Marketing Research*, 4(March), 1-17.

Smith, W.R. (1956). Product differentiation and market segmentation as alternative marketing strategies. *Journal of Marketing*, 21(1), 3-8.

Yoo, B., Donthu, N., & Lee, S. (2000). An examination of selected marketing mix elements and brand equity. *Journal of the Academy of Marketing Science*, 28(2), 195-211.

Zeithaml, V. (1988). Consumer perception of price, quality, and value: A means-end model and synthesis of evidence. *Journal of Marketing*, 52(July), 2-22.

Zeithaml, V.A., Berry, L.L., & Parasuraman, A. (1996). The behavioral consequences of service quality. *Journal of Marketing*, 60(2), 31-46.