

QUT Digital Repository:
<http://eprints.qut.edu.au/>



Bennett, Rebekah and Bove, Liliانا (2002) *Identifying the key issues for measuring loyalty*. Australasian Journal of Market Research, 9(2). pp. 27-44.

© Copyright 2002 (please consult author)

Identifying the Key Issues for Measuring Loyalty

* Rebekah Bennett
Graduate School of Management,
University of Queensland.
11 Salisbury Road
Ipswich 4305
Tel: 61 7 3381 1076
Fax: 61 7 3381 1053
Email: r.bennett@gsm.uq.edu.au

Liliana Bove
School of Business
La Trobe University
Bundoora 3083
Tel: 61 3 9479 2615
Fax: 61 3 9479 5971
Email: l.bove@latrobe.edu.au

* Address for correspondence

Identifying the Key Issues for Measuring Loyalty

Abstract

In the past researchers have chosen to measure loyalty using purely behavioural or attitudinal measures or attitude-behaviour combinations. The authors recommend that both attitudinal and behavioural loyalty should be measured to gain an appreciation of the loyalty make-up of the firm's customer base. Knowing the proportion of each type of loyalty is important as customer reactions to marketing efforts will differ depending on the factors underlying consistent purchase behaviour.

Introduction

The concept of loyalty has long been regarded by marketing academics and practitioners as a valuable tool for developing effective marketing strategy. However, the goal of building and sustaining customer loyalty has been impaired by confusion in how to measure the construct. After 70 years of research there still isn't a unified approach to measuring the construct even though there appears to be considerable agreement on its conceptualisation. The purpose of this paper is to recommend to marketing research professionals the appropriate method for measuring loyalty.

This paper first outlines the benefits of loyalty for both the organisation and the customer. This is followed by a discussion of the four key issues in measuring loyalty: specifying the object of loyalty; identifying the nature of consumer behaviour; determining the appropriate attitudinal and behavioural measures; and analysing the data.

What is loyalty?

Over the past thirty years, loyalty has been debated by academics with the core issue being the dimensionality and measurement of the construct. Loyalty appears to be a complex multi-dimensional construct (Dick and Basu 1994; Ha 1998; Javalgi and Moberg 1997; Mellens et al. 1996). Yet during this period, views on loyalty have oscillated between uni-dimensional and two-dimensional views. Early research pursued either an attitudinal (Guest 1944) or behavioural approach (Cunningham 1956) and this is still prevalent today. However in the 1990's research has emerged which attempts to integrate both the attitudinal and behavioural dimensions of loyalty into two distinct but important constructs (Baldinger and Rubinson 1996; Dick and Basu 1994). Loyalty is thus defined as the relationship between an individual's attitudinal predisposition towards an object and the repeat patronage of that object.

The Benefits of Customer Loyalty

“When a company consistently delivers superior value and wins customer loyalty, market share and revenues go up, and the cost of acquiring and serving customers goes down” (Reichheld 1993, p64). However, it is not only the organisation that benefits from loyalty but customers benefit as well. Organisational and customer benefits are summarised below:

Loyalty Benefits for the Organisation

Acquiring a new customer costs more than retaining an existing one.

Establishing contact with a customer, and achieving the first sales often costs so much that the net return on the transaction is minimal or even negative. But as the relationship continues, leading to more business, the customer becomes profitable to

the seller (Grönroos 1990; Sheth and Parvatiyar 1995). Some services, for example traditional life insurance, only reach break-even point after five years such that if any customers leave before that, they generate a loss for the firm (Sherden 1992). In the credit-card finance business, the break-even time for a new customer is often more than six years because of high marketing and bad debt costs in the first year of a relationship with a cardholder (Heskett, Jones, Loveman, Sasser and Schlesinger 1994). The longer the relationship, the lower the amortised cost of acquisition (Clark and Payne 1995). New account set-up, credit searches and promotional expenses to sell to a new customer can add up to five times the cost of efforts that might have enabled the firm to retain a customer (Chakravarty, Widdows and Feinberg 1996; Congram 1991; Dawkins and Reichheld 1990; Sherden 1992; Zithaml Berry and Parasuraman 1996).

Loyal customers tend to be less deal prone.

Loyal customers have been found to be less deal prone than non-loyal customers (Bowen and Shoemaker 1998; Jain, Pinson and Malhotra 1987). Moriarty, Kimball and Gay (1983) found that because customers in long-term relationships with banks received significant intangible benefits, the demand for banking services by such customers was less sensitive to price than the demand by non-relationship customers. Similarly, Goodwin and Gremler (1996) found that some customers who had a friendly, personal relationship with their service provider did not consider alternatives and were willing to override price or convenience attributes.

Loyal customers are likely to provide free word-of-mouth advertising and referrals.

Customer loyalty is consistent with a favourable attitude towards the service provider (Jain, Pinson and Malhotra 1987) promoting positive word-of-mouth (Gremler and Brown 1997). For example, Beatty et al. (1996), found that customers who formed relationships with their sales associates appeared to engage in extensive word-of-mouth advertising. Similarly, Bowen and Shoemaker (1998) found that a guest who felt loyal to a specific hotel relayed positive comments about the hotel to a median of 10 people. In addition to strong, positive word-of-mouth, loyal customers offer other promotional advantages to service firms. For example, loyal hotel customers have been found to make business referrals, provide references and publicity, and serve on advisory boards (Bowen and Shoemaker 1998).

Loyal customers are likely to purchase additional products with less marketing effort.

The longer a customer stays with a firm, the higher the likelihood that they will place a greater share of their business with the firm, even to the extent of single sourcing (Payne, Christopher, Clark and Peck 1995). Existing customers who like a company's services are less expensive to serve with new services (Blattberg and Deighton 1996). This is because there is less need to conduct a wide variety of activities that are a major part of the new prospect sales process such as: awareness building, qualifying activities, "comfort building", competitive proposals and presentations, etc. (Maister 1995). Also loyal customers are more receptive to new service offerings (Gremler, Gwinner and Bitner 1997).

Loyal customers tend to place frequent, similar orders and, therefore usually cost less to serve.

When customers have a good relationship with their service providers, co-operation is increased and the match between product flow and consumption can be more easily accomplished (Mummalaneni 1987; Sheth and Sisodia 1995). Also, regular customers are easier to serve because they understand the service provider's operation and therefore make fewer demands on employee time (Chow and Holden 1997; Congram 1991).

Customer loyalty and employee loyalty tend to be positively correlated.

Improved customer retention leads to increased employee retention because employee job pride and satisfaction increase (Gremier, Gwinner and Bitner 1997; Shetty 1993). Long-term customers are easier to serve because they know the system and how to use it and have built up good working relationships with loyal employees. Increased employee retention leads to improved customer retention because long serving customer contact personnel become increasingly experienced in creating value for their customers (Reichheld 1993).

Increased knowledge of loyal customers can be used to improve the effectiveness of marketing activities and negotiations with customers

As a company gains experience with its customers, it can serve them more efficiently allowing cost savings (Ennew and Binks 1996; Reichers and Schneider 1990). Cather and Leverett (1989) suggest that increased knowledge of existing customers significantly improves the service an insurance agency provides. This "can lead to more efficient agency management, lower premiums for errors and omissions coverage, and decreased customer dissatisfaction" (Cather and Leverett 1989, p94).

Long-term customers also supply ideas for new product designs (Mummalaneni 1987).

Loyal customers allow a service provider to recover in the event of service failure

Loyal customers provide organisations with a “goodwill” or credibility factor that encourages customer tolerance in the event of a service failure (Oliver 1997; Parasuraman, Berry and Ziethaml 1991). In fact a customer in a communal relationship will attribute service failures, such as excessive waiting time, to factors beyond the service provider’s control (Goodwin and Gremler 1996). Alternatively, a customer will express a desire to work at overcoming core service failures in order to maintain the relationship (Goodwin and Gremler 1996). Loyal customers also show a willingness to voice dissatisfaction and to give time to the firm to overcome its shortcomings, as opposed to exit (Kandampully 1998).

Loyalty Benefits for the Customer

Long-term relationships with service providers minimise risk, simplify choice, and provide a feeling of optimal satisfaction for the customer (Cowles 1994; Gremler and Brown 1996). A long-term relationship with an organisation reduces a customer’s perceived risk and fosters customer confidence that the firm will not supply an inappropriate or non-performing product, or if such a product is inadvertently sold, the customer is assured that the organisation will take effective corrective action (Gremler et al. 1997; Gwinner et al. 1998; Jarvis and Wilcox 1977; Moriarty, Kimball and Gay 1983). Loyalty is also seen as a means by which customers can economise on decision effort by substituting habit for repeated, deliberate decisions (Bauer 1967; Day 1969). A greater understanding of a customer’s needs derived from a long-time association with a service provider reduces the time and effort expended by the

customer in supplying new information, communicating problems or product needs (Goodwin and Verhage 1989; Moriarty et al. 1983; Ziethaml 1981). By staying with the same service provider customers avoid the cost of learning new procedures (Goodwin and Verhage 1989). Also long term customers encourage service providers to become more interested in their satisfaction and this may result in the receipt of “special treatment” from the service provider, which may take the form of price breaks, faster service and/or customisation. Customisation may include preferential treatment, extra attention, personal recognition and special services not available to other customers (Gremler et al. 1997; Gwinner et al. 1998). Finally, customers derive social benefits from long-term relationships with service providers that include feelings of familiarity, personal recognition, friendship, rapport, and social support (Adelman, Ahuvia and Goodwin 1994; Berry and Gresham 1995; Goodwin and Verhage 1989).

In summary, loyalty provides many benefits to both the organisation and the customer. To obtain a truly loyal customer base is a highly desirable goal for firms but its achievement is subject to accurate measurement.

Issue 1: Specifying the object of the loyalty

Customer loyalty has been conceptualised in many ways: personality trait (Mellens et al. 1996; Raju 1980); store loyalty (Macintosh and Lockshin 1997; East et al. 2000), organisational or service loyalty (Gremler et al. 1997; Reynolds and Beatty 1999); brand loyalty (Ajzen and Fishbein 1980; Cunningham 1956; Ehrenberg and Goodhardt 1970; Guest 1955); and service worker loyalty (Bove and Johnson 2000; Reynolds and Beatty 1999). Essentially these can all be classified as levels of generality or abstraction. Low levels of abstraction focus on a single person or

product, medium levels of abstraction focus on a product category or across product categories. High levels of abstraction include personality traits and propensities. The higher the level of abstraction, the more generalisable the findings. However, the trade-off is that there is a decrease in predictive power with the higher levels of abstraction (Dowling 1986).

An important implication of the varying levels of abstraction is that the researcher must make it very clear to the respondent what is the object of their loyalty assessment, as the different levels will capture different, albeit related constructs. In other words, store loyalty is not the same as brand loyalty. This is also a problem with other marketing constructs such as perceived risk (Dowling 1986), where the use of varying levels of abstraction has contributed to the lack of understanding of the concept.

The loyalty concept has been defined in a myriad of ways and measured in too many to name here. Some of the terms used with loyalty such as service loyalty and customer loyalty appear to be used interchangeably in the marketing literature resulting in confusion about the most appropriate method of measurement. This paper proposes that the level of abstraction needs to be clearly understood to be able to identify the appropriate measure. So the first issue for the marketing professional when faced with a loyalty study is to define the object of the loyalty; is it propensity to be loyal, loyalty to the company, to the store, to the brand or the service firm or service worker? It may be that a combination of these is desired which then requires analysis to identify the inter-relationships. For example, does the loyalty to the store translate into loyalty to the brands sold within the store? Or does loyalty to an

individual service worker translate into loyalty to the service organisation where the employee works? It is important for both the client and marketing research professional to understand that customers may exhibit differing levels of loyalty across these levels of abstractions.

Issue 2. Consumer behaviour: planned or random?

Once the desired level of loyalty abstraction has been identified, the next issue is to define the nature of consumer behaviour. This is important as it influences how loyalty is operationalised. This again is where there are a myriad of methods presented in marketing literature. The operationalisation strongly reflects the philosophical beliefs of the researcher as to the nature of consumer behaviour. There are two schools of thought on what drives consumers to behave the way they do, the attitudinal approach and the behaviourist approach. The attitudinal approach believes that consumer behaviour is rational and planned whereas the behavioural approach proposes that it is unplanned and random.

The attitudinal approach takes a deterministic view of purchase behaviour and seeks to explain it in terms of attitudes, values and beliefs. Essentially it is concerned with the underlying attitudinal process and evaluation criteria of a given purchase (Mellens et al. 1996). Deterministic theory consists of logical relationships between variables (Hunt 1991); thus researchers in this field posit a causal ordering between attitude and behaviour and are concerned with identifying the variables that influence purchase behaviour, including attitudes. Three of the most well-known consumer behaviour models in this field are the Howard-Sheth Model (Howard 1974), Theory of Reasoned

Action (Ajzen and Fishbein 1980) and the Engel-Kollat-Blackwell model (Engel, Kollat and Blackwell 1968).

The attitudinal approach to loyalty stresses the importance of understanding the antecedents of the purchase and incorporates measures of attitude towards the object such as preference or liking (Pellemans 1974; Ajzen and Fishbein 1980; Mellens, Dekimpe and Steenkampe 1996), commitment (Traylor 1981; Foxall 1987; Martin and Goodell 1991; Mellens, Dekimpe and Steenkampe 1996), and intentions to (re)purchase (Ajzen and Fishbein 1980; Oliver 1980; Shimp and Dyer 1981; Westbrook and Oliver 1981; Patterson, Johnson and Spreng 1997; Gremler and Brown 1998). It appears to be commonly accepted amongst cognitive researchers that attitude precedes behaviour in the context of repurchasing a product and is important because attitudes towards an object determine choice (Day 1969; Foxall 1987; Gremler and Brown 1998; Jacoby 1971; Keller 1993; Martin and Goodell 1991; Traylor 1981). This belief is acknowledged in Oliver's (1999, p34) definition of loyalty as "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior."

The behaviourist approach, while not denying the presence of internal processes, merely states that because they cannot be directly measured they have no place in research (Bass 1974). Within this approach there are two views: reinforcement and stochastic. The reinforcement view holds that behaviour is modified through external reinforcers (Rothschild and Gaidis 1981). In a marketing context, these reinforcers

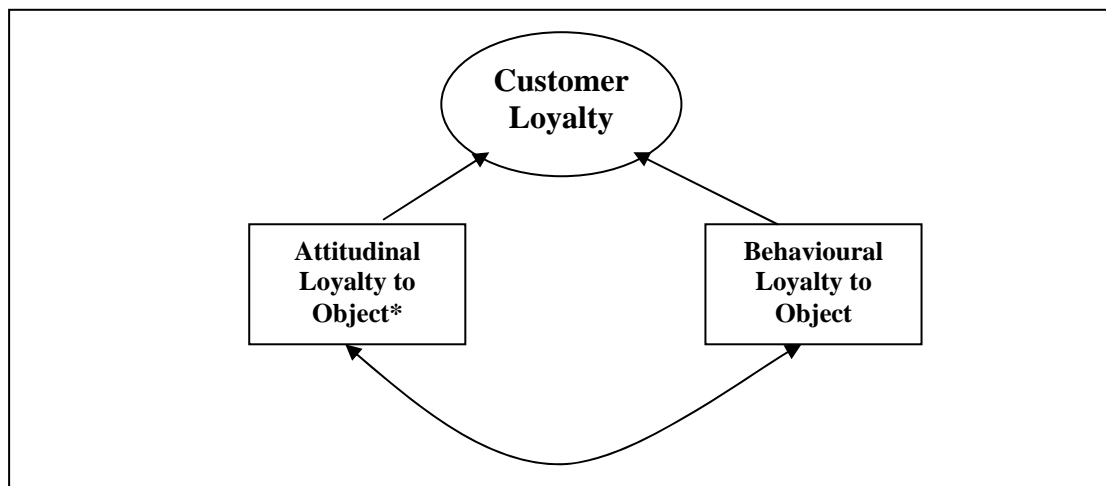
may be in the form of sales promotions items such as samples or discount coupons. This view reflects the operant conditioning philosophy of learning, whereby individuals learn as the results of a reward or punishment (Rothschild and Gaidis 1981). The reinforcement view of loyalty is that individuals purchase brands where incentives are offered, thus their behaviour is shaped. However extinction also occurs when these incentives disappear and the reinforcement is not continued (Rothschild and Gaidis 1981). The lack of long-term effect of sales promotions on sales reflects the extinction of the desired behaviour when the reinforcer (sales promotion) is discontinued (Ehrenberg, Hammond and Goodhardt 1994).

The stochastic approach suggests that loyalty is a constant rather than the result of change, and is the outcome of random behaviour that has little to do with involvement or attitudinal processing (Bass 1974; Olshavsky and Granbois 1979). Behavioural researchers holding this view question the traditional consumer behaviour models that include decision-making as part of the purchasing process. There are many situations proposed by behavioural researchers where purchases are made without decisions, sometimes not even on the first purchase (Bass, Pessemier and Lehmann 1972; Olshavsky and Granbois 1979). These include purchases: made out of necessity; derived from culturally-mandated lifestyles; reflecting preferences acquired in childhood; conforming to group norms; based on recommendations/referrals; surrogates; or, made on a random basis (Olshavsky and Granbois 1979). An example of this would be the purchase of fuel from BP because it is the only available petrol station when the purchaser is running low on fuel rather than attitudinal predisposition towards BP.

The end-result of these perspectives is that if you believe consumer behaviour to be deterministic, then an attitudinal approach is taken to measuring loyalty. If however, you believe that behaviour is stochastic, then a behavioural approach is taken.

However, the authors suggest that to use a solely attitudinal or behavioural approach would be limiting to the research and the findings. Traditionally the attitudinal approach, being concerned with the decision-making process, does not measure the result of the decision-making i.e., the actual purchase. It has tended to be intention and past behaviour focussed (Ajzen and Fishbein 1980; Mellens, Dekimpe and Steenkampe 1996). Because it does not look outside the human brain, it does not take into account the constraints or situation-specific variables at the time of purchase which may lead the purchaser to buy an alternative brand (East 1997) or patronise an alternative firm to that he/she had intended. On the other hand, the behavioural approach is only concerned with observable measures. A criticism of this approach is that it does not distinguish between repeat buying and true or intentional loyalty (Day 1969; Mellens, Dekimpe and Steenkampe 1996). A customer may purchase a brand or service, thus exhibiting high loyalty (as defined by the behavioural approach) but may be ready to switch at any time (Baldinger and Rubinson 1996) due to competitor sales promotions or unavailability of brand or service at time of need. This type of loyalty, which is not accompanied by a high relative attitude towards the object, has been labelled as spurious loyalty (Dick and Basu 1994). Further, the behavioural approach assumes a stable market, with little change in environmental factors that would influence a change in behaviour. Finally, the behavioural theories do not explain how loyalty is developed or modified (Dick and Basu 1994).

One way to overcome the deficiencies of pure attitudinal or behavioural measures is to treat loyalty as a higher-order latent construct composed of two dimensions, a customer's attitudinal disposition towards the object, and his/her patronage behaviour towards the object (Czepiel and Gilmore 1987; Day 1969; Dick and Basu 1994; Snyder 1986). (See Figure 1). In other words, attitudinal and behavioural loyalty are formative or causal indicators of loyalty.



*Composite variable
Ovals depicts latent variable
Rectangle depicts observed variable

Figure 1: Loyalty to an Object

The relative importance of attitude or behaviour to the loyalty construct would appear to be related to the object of loyalty and the conditions of the market. For example in the case of fast moving consumer goods where customer purchase involvement is low one would expect behavioural loyalty to play a stronger role in predicting loyalty than attitudinal loyalty. Similarly, when switching costs are perceived to be too high or customers perceive a lack of choice or competitive differentiation, behavioural loyalty would again play a greater role in explaining loyalty.

Issue 3. Which measures should be used?

The more common attitudinal and behavioural loyalty measures used are summarised below in Table 1. As observed, the attitudinal loyalty items are questions asked of the respondent regarding his/her intentions to remain a customer or repurchase (commitment), attitude or relative attitude towards the object, object preference and likelihood of word-of-mouth. The behavioural loyalty measure consists of either self-reported behaviour to derive “share of category requirements” or actual behaviour through scanner panel data or company records.

Table 1: A Sample of Empirical Loyalty Studies

Author(s)	Object of Loyalty	Product/ service	Items	Source (survey, scanner data etc)	Approach
Andreassen (1999)	Organisation	Market research service	How probable or improbable is it that you will continue being a customer of x company in a year from now? In case a friend of your asks you for advice when choosing x company, how probable or improbable is it that you would recommend the person to choose x company?	Self-reported	Attitudinal
Ajzen and Fishbein (1980)	Brand	Various – stores, automobiles	I intend to buy XX brand for my own use next week Likely unlikely Buying XX brand next week would be Good bad	Self-reported	Attitudinal
Biong (1993)	Supplier	Grocery Trade	To which degree does the outlet want the company to continue as a supplier to this outlet?	Self-reported	Attitudinal
Caldow (1998)	Organisation	Services	Think of a firm that that you would consider yourself to be a loyal customer to? Describe in detail why you have stayed loyal.	Self-reported	Attitudinal
Cunningham (1956)	Brand	Various consumer goods	Proportion of total purchases represented by the two largest single brands used	Panel data	Behavioural
Ehrenberg and Uncles (1997)	Brand	Various fast moving consumer goods	Share of category	Panel data	Behavioural
Ganesh, Arnold and Reynolds (2000)	Service	Bank	Active loyalty (3 items) Passive loyalty (3 items)	Self-reported	Attitudinal & Behavioural
Guest (1944)	Brand	Consumer goods	Stated preference for a brand “Here are 5 kinds of coffee, put a cross through the kind you like best”	Self-reported	Attitudinal

Author(s)	Object of Loyalty	Product/ service	Items	Source (survey, scanner data etc)	Approach
Jain, Pinson and Malhotra (1987)	Service	Retail banking	Propensity to switch banks (8 items)	Self-reported	Attitudinal
Macintosh and Lockshin (1997)	Store	Discount liquor stores	Store attitude (2 items) Repurchase intention (2 items) Proportion of total category purchase at the focal store	Self-reported	Attitudinal & Behavioural
Pritchard, Havitz and Howard (1999)	Service	Airline travel & Hotel	Attitude (4 items) combined with proportion of purchase to form a Loyalty Index.	Self-reported	Attitudinal & Behavioural
Reynolds and Beatty (1999)	Salesperson and Company	Clothing and accessories	I am very loyal to my sales associate at (company name) I don't plan to shop with my sales associate at (company name) in the future* I am very committed to my sales associate at (company name) I don't consider myself very loyal to my sales associate at (company name)	Self-reported	Attitudinal

* Reverse-scored

Where there is some consistency in the measurement of behavioural loyalty, there is none with respect to attitudinal loyalty. Whether simply attitude towards the object (Mitchell and Olsen 1981; Snyder 1986), relative attitude towards the object (Dick and Basu 1994; Mägi 1999) or a combination of commitment to the object, intention to purchase and attitude towards the behaviour (Bennett and Rundle-Thiele 2000; Mellens et al. 1996), further construct validity work regarding attitudinal loyalty is needed so some consensus can be reached. This involves identifying which of the attitudinal loyalty options is the most effective in predicting the desirable outcomes of loyalty such as referrals, positive word-of-mouth, immunity to competitive communications and retention. However the key recommendation of this paper is that measures of both attitudinal and behavioural loyalty should be included.

Issue 4. What do you do with the data?

Once attitudinal and behavioural loyalty measures are gathered the researcher may respect the dimensionality of loyalty and treat the two variables as separate constructs in further analysis (eg. structural equation modelling, regression) and/or use cluster

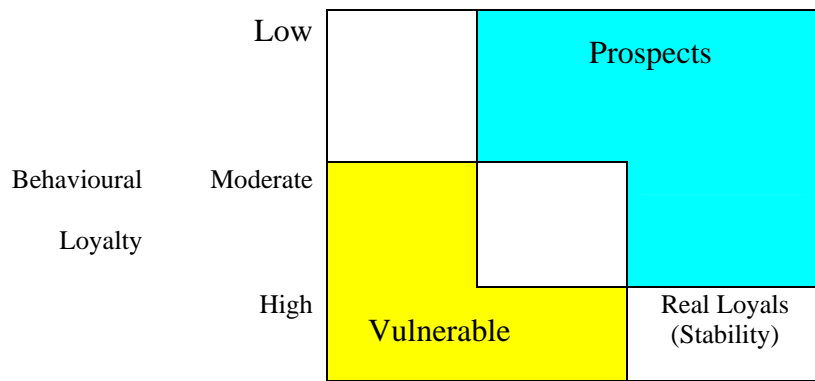
analysis to categorise the loyalty forms as a 3 x 3 matrix (see Baldinger and Rubinson 1996) or a 2 x 2 matrix (see Dick and Basu 1994). Collapsing attitudinal and behavioural measures to provide an overall index defeats the theoretical promise of multidimensionality (Pritchard, Howard and Havitz 1992).

The Baldinger and Rubinson (1996) model combines both attitudinal and behavioural measures into a nine-box grid (see Figure 2). The three behavioural classifications that customers can belong to behaviourally are:

1. High loyals -those with >50% probability of purchasing the brand
2. Moderate loyals to the Brand - those with 10%-50% probability of purchasing the brand
3. Low Loyals/non-buyers - those having 0% - 9% probability of purchasing the brand

Once the behavioural classification is completed, attitudinal loyalty scores are added to produce a 3 x 3 matrix (Figure 2). Baldinger and Rubinson (1996) demonstrated that the more attitudinal commitment to the brand, the more likely customers were to remain loyal or become loyal. In order to address the issue of whether the linkage between attitude and behaviour could be used as a predictive model, the researchers developed two main groups: prospects and vulnerables. The prospects were the group whose attitudes towards the brand were stronger than their behaviour, while the vulnerables were those whose attitudes towards the brands were weaker than their behaviour.

	Attitudinal Loyalty		
Low	Moderate	High	



Source: Baldinger and Rubinson (1996, p.32)

Figure 2 : Behaviour/Attitude Matrix

The conclusions of their research were:

1. A large share brand is likely to have more loyal buyers (double jeopardy effect) but not necessarily retain them over time.
2. High loyal buyers who have consistent attitudes towards the brand tend to stay loyal compared to those with inconsistent attitudes. Therefore it is the kind of high-loyal buyer that you have that is the true indicator of retention.

Dick and Basu (1994) argue that the motivation to repurchase comes from either an attachment (or relative attitude) a customer feels toward the product that is high in comparison to potential alternatives, or a fear in the customer’s mind that switching to a competitor will cost the customer in terms of time, money, or performance (Griffin 1995). Two dimensions shape the attachment or relative attitude a customer feels toward a product: the degree of preference (attitudinal strength), and the degree of perceived product differentiation (attitudinal differentiation), see Table 2.

Table 2: Attitudinal Strength and Differentiation and their Effect on an Individual’s Relative Attitude Toward an Entity.

Attitude Strength	Attitudinal Differentiation	
	No	Yes
Strong	Low relative attitude	Highest relative attitude

Weak	Lowest relative attitude	High relative attitude
-------------	--------------------------	------------------------

Source: Dick and Basu (1994, p.101)

Relative attitude or attachment is highest when the customer has a strong preference for a product and clearly differentiates it from competitive products. An attitude that is weak toward a company's product but differentiates it from competitors' offerings translates to high relative attitude or attachment and may in turn contribute to loyalty. In contrast, a strong preference combined with little perceived differentiation may lead to multi-product loyalty. In this case the customer has a set of two or three favourites and situational factors like store positioning or promotions will drive that particular purchase. Finally, a positive but weak preference associated with no perceived differentiation leads to lowest attachment, with repeat purchase being less frequent and varying with occasion (Dick and Basu 1994; Griffin 1995).

Determining the type of loyalty present involves the examination of the relationship between a customer's level of attachment (or relative attitude) toward an entity (brand/service/store/vendor), coupled with his/her level of repeat purchase (patronage) (Baldinger and Rubinson 1996; Dick and Basu 1994b; Griffin 1995; Mellens et al. 1996). The combination of level of attachment and repeat purchase leads to a two-dimensional matrix that identifies four specific conditions of loyalty as shown in Table 3.

Table 3: The Four Types of Loyalty

Relative Attitude (Attachment)	Repeat Patronage (Purchase)	
	High	Low
High	True or Premium Loyalty	Latent Loyalty

Low	Spurious or Inertia Loyalty	No Loyalty
------------	--------------------------------	------------

Source: Adapted from Dick and Basu (1994) and Griffin (1995)

A low relative attitude (attachment) combined with low repeat patronage signifies an absence of loyalty. A low level of attachment coupled with high repeat purchase produces spurious or inertia loyalty where non-attitudinal factors such as familiarity, convenience, price deals, switching costs, lack of perceived differentiation influence behaviour, or the customer simply buys out of habit where their involvement is low (similar to Baldinger and Rubinson’s 1996 “Vulnerables”). A high relative attitude combined with low repeat purchase reflects latent loyalty (similar to Baldinger and Rubinson’s 1996 “Prospects”). Here non-attitudinal influences such as subjective norms and situational effects are at least equally if not more influential than attitudes in determining patronage behaviour. For example patronage barriers such as price, convenience or location may cause the consumer to share their purchase behaviour with multiple service alternatives (Jacoby 1971; Mägi 1999). Lastly, premium or true loyalty (the most preferred of the four conditions), is obtained when a high level of attachment and repeat patronage coexist (Dick and Basu 1994; Griffin 1995), similar to Baldinger and Rubinson 1996 “Real Loyals”. In this case, customers have “a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and competitive marketing efforts having the potential to cause switching behavior” (Oliver 1997, p392).

Empirical support for this two-dimensional matrix of loyalty types is given by Backman and Crompton (1991), Pritchard and Howard (1997) and Mägi (1999). They

found that customers classified as true, spurious, latent or low loyalty represented a different mix of loyal attitude and behaviour.

Conclusions and implications

Most of the “customer loyalty” programmes that have currently been adopted by organisations are directed to changing behavioural loyalty with little or no consideration given to their effects on attitudinal loyalty. A two-dimensional approach to defining and measuring loyalty invites behavioural and attitudinally relevant marketing strategies. Furthermore, meaningful distinctions can be drawn between those who buy goods and services strictly from habit or convenience, and those whose repeat purchase behaviour is accompanied by a genuine attachment towards the good or service. Segmenting customers on the basis of their attitude and purchase behaviour provides marketers with a strategic understanding and ability to assess and track each loyalty segment and implement marketing strategies that target the different types of loyalty.

This paper makes four contributions to loyalty theory and practice; first it provides a concise summary of the literature surrounding customer loyalty, second it identifies the key issues that face the measurement of loyalty and offers recommendations for these issues. Finally it presents two models for marketing practitioners to use when analysing the data and presenting it to a client.

References

- Adelman, M. B., A. Ahuvia, and C. Goodwin (1994), "Beyond smiling. Social support and service quality," in *Service Quality. New Directions in Theory and Practice*, R. T. Rust and R. L. Oliver, Eds. Thousand Oaks, California: SAGE Publications, 139-171.
- Andreassen, T. W. (1999), "What drives customer loyalty with complaint resolution?" *Journal of Service Research*, 1 (4), 324-332.
- Ajzen, I. and M. Fishbein (1980), *Understanding Attitudes and Predicting Social Behaviour*. New Jersey: Prentice-Hall.
- Backman, S. J. and J. L. Crompton (1991), "The usefulness of selected variables for predicting activity loyalty," *Leisure Sciences*, 13, 205-220.
- Baldinger, A. L. and J. Rubinson (1996), "Brand loyalty: the link between attitude and behaviour," *Journal of Advertising Research*, 36 (6), 22-34.
- Bass, F. (1974), "The theory of stochastic preference and brand switching," *Journal of Marketing Research*, 11 (1), 1-20.
- Bass, F. M., E. A. Pessemier, and D. R. Lehmann (1972), "An experimental study of relationships between attitudes, brand preference and choice," *Behavioural Science*, 17, 532-541.
- Bauer, R. A. (1967), "Consumer behavior as risk taking," in *Risk Taking and Information Handling in Consumer Behavior*, D. F. Cox, Ed. Boston: Division of Research, Graduate School of Business Administration Harvard University, 23-33.
- Beatty, S. E., M. Mayer, J. E. Coleman, K. E. Reynolds, and J. Lee (1996), "Customer-sales associate retail relationships," *Journal of Retailing*, 72 (3), 223-247.
- Bennett, R. and S. Rundle-Thiele (2000), "Attitudinal loyalty: personality trait or brand specific?" *Australia and New Zealand Marketing Academy Conference*, Gold Coast, Australia, 97-101.
- Berry, L. L. and L. G. Gresham (1995), "Relationship retailing: Transforming customers into clients," in *Relationship Marketing for Competitive Advantage. Winning and Keeping Customers*, A. Payne and M. Christopher and M. Clark and H. Peck, Eds. Oxford: Butterworth-Heinemann, 75-82.
- Blattberg, R. C. and J. Deighton (1996), "Manage marketing by the customer equity test," *Harvard Business Review*, 74 (4), 136-144.
- Biong, H. (1993), "Satisfaction and loyalty to suppliers within the grocery trade," *European Journal of Marketing*, 27 (7), 21-38.

- Bove, L. L. and L. W. Johnson (2000), " A customer-service worker relationship model," *International Journal of Service Industry Management*, 11 (5), 491-511.
- Bowen, J. T. and S. Shoemaker (1998), "Loyalty: A strategic commitment," *Cornell Hotel and Restaurant Administration Quarterly*, 39 (1), 12-25.
- Caldow, D. (1998), "The relational elements of service loyalty: an exploratory study," *Australia and New Zealand Marketing Academy Conference*, Dunedin, New Zealand.
- Cather, D. A. and E. J. Jr. Leverett (1989), "Masterful marketing," *Best's Review - Property-Casualty Insurance Edition*, 89 (11), 64-97.
- Chakravarty, S., R. Widdows, and R. A. Feinberg (1996), "How "moments of truth" define bank-customer relationships.," *Journal of Retail Banking Services*, 28 (1), 29-34.
- Chow, S. and R. Holden (1997), "Toward an understanding of loyalty: The moderating role of trust," *Journal of Managerial Issues*, 9 (3), 275-298.
- Clark, M. and A. Payne (1995), "Customer retention: Does employee retention hold a key to success?" in *Advances in Relationship Marketing*, A. Payne, Ed. London: Cranfield University School of Management, 41-52.
- Congram, C. A. (1991), "Building relationships that last," in *The AMA Handbook for Marketing for the Services Industries*, C. A. Congram and M. L. Friedman, Eds. New York: American Management Association, 263-279.
- Cowles, D. L. (1994), "Relationship marketing for transaction marketing firms: Viable strategy via "command performance", " *1994 Research Conference Proceedings. Relationship Marketing: Theory, Methods and Applications*, Emory University, Atlanta, USA. 1-9.
- Cunningham, R. M. (1956), "Brand loyalty - what where how much?" *Harvard Business Review*, 34, 116-128.
- Czepiel, J. A. and R. Gilmore (1987), "Exploring the concept of loyalty in services," in *The Services Challenge: Integrating for Competitive Advantage*, J. A. Czepiel and C. A. Congram and J. Shanahan, Eds. Chicago: American Marketing Association, 91-94.
- Dawkins, P. M. and F. F. Reichheld (1990), "Customer retention as a competitive weapon," *Directors & Boards*, 14 (4), 42-47.
- Day, G. S. (1969), "A two-dimensional concept of brand loyalty," *Journal of Advertising Research*, 9 (3), 29-35.
- Dick, A. S. and K. Basu (1994), "Customer loyalty: Toward an integrated conceptual framework.," *Journal of the Academy of Marketing Science*, 22 (2), 99-113.

- Dowling, G. R. (1986), "Perceived risk: the concept and its measurement," *Psychology & Marketing*, 3, 193-210.
- East, R. (1997), *Consumer Behaviour*. Sydney: Prentice Hall.
- East, R., K. Hammond, P. Harris, and W. Lomax (2000), "First-store loyalty and retention," *Journal of Marketing Management*, 16, 307-325.
- Ehrenberg, A. S. C. and M. Uncles (1997), *Dirichlet-type markets: a review (Parts I & II) Working Paper*: University of New South Wales, Australia.
- Ehrenberg, A. S. C., K. Hammond, and G. J. Goodhardt (1994), "The after effects of price-related consumer promotions," *Journal of Advertising Research*, 34 (4), 11-21.
- Ehrenberg, A. S. C. and G. J. Goodhardt (1970), "A model of multi-brand buying," *Journal of Marketing Research*, 7 (1), 77-84.
- Engel, J. F., D. T. Kollat, and R. D. Blackwell (1968), *Consumer Behaviour*. New York: Holt, Rinehart and Winston.
- Ennew, C. T. and M. R. Binks (1996), "The impact of service quality and service characteristics on customer retention: Small businesses and their banks in the UK," *British Journal of Management*, 7, 219-230.
- Foxall, G. R. (1987), "Radical behaviourism and consumer research: theoretical promise and empirical problems," *International Journal of Research in Marketing*, 4 (2), 111-129.
- Ganesh, J., M. J. Arnold and K. E. Reynolds (2000), "Understanding the customer base of service providers: An examination of the differences between switchers and stayers," *Journal of Marketing*, 64 (July), 65-87.
- Goodwin, C. and D. D. Gremler (1996), "Friendship over the counter: How social aspects of service encounters influence consumer service loyalty," in *Advances in Services Marketing and Management*, T. A. Swartz and D. E. Bowen and S. W. Brown, Eds. Vol. 5. London: JAI Press Inc, 247-282.
- Goodwin, C. and B. J. Verhage (1989), "Role perceptions of services: A cross-cultural comparison with behavioral implications," *Journal of Economic Psychology*, 10, 543-558.
- Gremler, D. D. and S. W. Brown (1997), "Towards a conceptual model of service loyalty," *Marketing Theory and Applications AMA Winter Educators' Conference*, Chicago, IL, 218-219.
- Gremler, D. D., K. Gwinner, and M. Bitner (1997), "An empirical examination of relational benefits in services industries: What so customers receive from the relationship?" *Marketing Theory and Applications AMA Winter Educators' Conference*, Chicago, IL, 241-242.

- Gremler, D. D. and S. W. Brown (1998), "Service loyalty: antecedents, components and outcomes," *American Marketing Association Winter Conference*, 165-166.
- Gremler, D. D. and S. W. Brown (1996), "Service loyalty: Its nature, importance, and implications," in *QUIS 5 Advancing Service Quality: A Global Perspective*, B. Edvardsson and S. W. Brown and R. Johnston and E. E. Scheuing, Eds. New York: International Service Quality Association Inc, 171-180.
- Griffin, J. (1995), *Customer Loyalty. How to Earn It, How to Keep It*. New York, USA: Lexington Books.
- Grönroos, C. (1990), "Marketing redefined," *Management Decision*, 28 (8), 5-9.
- Guest, L. (1955), "Brand loyalty - twelve years later," *The Journal of Applied Psychology*, 39 (6), 405-408.
- Guest, L. P. (1944), "A study of brand loyalty," *Journal of Applied Psychology*, 28, 16-27.
- Gwinner, K. P., D. D. Gremler, and M. Bitner (1998), "Relational benefits in services industries: The customer's perspective," *Journal of the Academy of Marketing Science*, 26 (2), 101-114.
- Ha, C.L. (1998), "The theory of reasoned action applied to brand loyalty," *Journal of Product and Brand Management*, 7 (1), 51-61
- Heskett, J. L., T. O. Jones, G. W. Loveman, W. E. Jr. Sasser, and L. A. Schlesinger (1994), "Putting the service -profit chain to work," *Harvard Business Review* (March-April), 164-174.
- Howard, J. A. (1974), "The Structure of Buyer Behaviour," in *Consumer Behaviour: Theory and Application*, U. Farley, Howard, J.A. and Ring L.W., Eds. Boston: Allyn & Bacon, 9-31.
- Hunt, S. H. (1991), *Modern Marketing Theory: Critical Issues in the Philosophy*. Cincinnati, Ohio: South-Western Publishing Co.
- Jacoby, J. (1971), "A model of multi-brand loyalty," *Journal of Advertising Research*, 11 (3), 25-61.
- Jain, A. K., C. Pinson, and N. K. Malhotra (1987), "Customer loyalty as a construct in the marketing of banking services," *International Journal of Bank Marketing*, 5 (3), 49-72.
- Jarvis, L. P. and J. B. Wilcox (1977), "True vendor loyalty or simply repeat purchase behavior?," *Industrial Marketing Management*, 6, 9-14.
- Javalgi, R.G. and C.R. Moberg (1997), "Service loyalty: implications for service providers," *The Journal of Services Marketing*, 11 (3), 165-79

Kandampully, J. (1998), "Service quality to service loyalty: A relationship which goes beyond customer services," *Total Quality Management*, 9 (6), 431-443.

Keller, K. L. (1993), "Conceptualising, measuring and managing customer based brand-equity," *Journal of Marketing*, 57 (1), 1-22.

Macintosh, G. and L. S. Lockshin (1997), "Retail relationships and store loyalty: A multi-level perspective," *International Journal of Research in Marketing*, 14, 487-497.

Mägi, A. (1999), *Store Loyalty? -An Empirical Study of Grocery Shopping*, Dissertation for the degree of Doctor of Philosophy, EFI, The Economic Research Institute.

Maister, D. (1995), "Marketing to existing clients," in *Relationship Marketing for Competitive Advantage. Winning and Keeping Customers*, A. Payne and M. Christopher and M. Clark and H. Peck, Eds. Oxford: Butterworth-Heinemann, 253-268.

Martin, C. L. and P. W. Goodell (1991), "Historical, descriptive and strategic perspectives on the construct of product commitment," *European Journal of Marketing*, 25 (1), 53-60.

Mellens, M., M. G. Dekimpe, and J. B. E. M. Steenkampe (1996), "A review of brand-loyalty measures in marketing," *Tijdschrift voor Economie en Management*, 41 (4), 507-533.

Mitchell, A. A. and J. C. Olson (1981), "Are product attribute beliefs the only mediator of advertising effects on brand attitude?" *Journal of Marketing Research*, 18 (August), 318-332.

Moriarty, R. T., R. C. Kimball, and J. H. Gay (1983), "The management of corporate banking relationships," *Sloan Management Review*, (Spring), 3-15.

Mummalaneni, V. (1987), *The influence of a close personal relationship between the buyer and the seller on the continued stability of their role relationship*, Doctor of Philosophy, The Pennsylvania State University.

Oliver, R. L. (1999), "Whence consumer loyalty?" *Journal of Marketing*, 63 (Special issue), 33-44.

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

Oliver, R. L. (1980), "A cognitive model of the antecedents and consequences of satisfaction decisions," *Journal of Marketing Research*, 17 (4), 460-469.

Olshavsky, R.W. and D. H. Granbois (1979), "Consumer Decision-Making - Fact or Fiction?" *Journal of Consumer Research*, 6 (September), 93-100.

- Parasuraman, A., L. L. Berry, and V. A. Zeithaml (1991), "Understanding customer expectations of service," *Sloan Management Review* (Spring), 39-48.
- Patterson, P. G., L. W. Johnson, and R. A. Spreng (1997), "Modeling the determinants of customer satisfaction for business-to-business professional services," *Journal of the Academy of Marketing Science*, 25 (1), 4 - 17.
- Payne, A., M. Christopher, M. Clark, and H. Peck (1995), *Relationship Marketing for Competitive Advantage. Winning and Keeping Customers*. Oxford: Butterworth-Heinemann.
- Pellemans, P. A. (1974), "Investigations on attitude and purchase intention towards the brand," in *Consumer Behaviour: Theory and Applications*, U. Farley, Ed. Boston: Allyn & Bacon, 115-129.
- Pritchard, M. P., M. E. Havitz, and D. R. Howard (1999), "Analyzing the commitment-loyalty link in service contexts," *Journal of the Academy of Marketing Science*, 27 (3), 333-348.
- Pritchard, M. P. and D. R. Howard (1997), "The loyal traveler: Examining a typology of service patronage," *Journal of Travel Research* (Spring), 2-10.
- Raju, P. (1980), "Optimum Stimulation Level: Its relationship to Personality, Demographics and Exploratory Behaviour," *Journal of Consumer Research*, 7 (3), 272-282.
- Reichers, A. E. and B. Schneider (1990), "Climate and culture: An evolution of constructs," in *Organizational Climate and Culture*, B. Schneider, Ed. California: Jossey-Bass Inc, 5-39.
- Reichheld, F. F. (1993), "Loyalty-based management," *Harvard Business Review* (March-April), 64-73.
- Reynolds, K. E. and S. E. Beatty (1999), "A relationship customer typology," *Journal of Retailing*, 75 (4), 509-523.
- Rothschild, M. L. and W. C. Gaidis (1981), "Behavioural learning theory: Its relevance to marketing and promotions," *Journal of Marketing*, 45 (2), 70-78.
- Sherden, W. A. (1992), "Hold that policyholder!" *Best's Review - Life Health Insurance Edition*, 92 (9), 23-26.
- Sheth, J. N. and R. S. Sisodia (1995), "Feeling the heat," *Marketing Management*, 4 (2), 8-23.
- Sheth, Jagdish N. and Atul Parvatiyar (1995), "Relationship marketing in consumer markets: Antecedents and consequences," *Journal of the Academy of Marketing Science*, 23 (4), 255-271.

Shetty, Y. K. (1993), "The quest for quality excellence: Lessons from the Malcolm Baldrige quality award," *SAM Advanced Management Journal*, 58 (2), 34-40.

Shimp, T. A. and R. F. Dyer (1981), "Factors influencing lawyers satisfaction with advertising and intentions to continue advertising," in *Marketing of Services*, J A and Donnelly and W R George, Eds. Chicago: American Marketing Association, 104-107.

Snyder, D. R. (1986), "Services loyalty and its measurement: A preliminary investigation," in *Creativity in Services Marketing: What's New, What Works, What's Developing*, M. Venkatesan and D. M. Schmalensee and C. Marshall, Eds. Chicago: American Marketing Association, 44-48.

Traylor, M. B. (1981), "Product involvement and brand commitment," *Journal of Advertising Research*, 21 (6), 51-56.

Westbrook, R. A. and R. L. Oliver (1981), "Developing better measures of consumer satisfaction," *Advances in Consumer Research*, 94-99.

Ziethaml, V. A. (1981), "How consumer evaluation processes differ between goods and services," in *Marketing of Services*, J. H. Dannelly and W. R. George, Eds. Chicago: American Marketing Association, 186-190.

Ziethaml, V. A., L. L. Berry, and A. Parasuraman (1996), "The behavioral consequences of service quality," *Journal of Marketing*, 60 (April), 31-46.