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Customer loyalty programs to sustain consumer fidelity in mobile telecommunication market

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ABSTRACT

Companies realized the importance of well-managing their relationships with their customers. Customer Relationship Management (CRM) allows companies to manage their marketing strategies and deliver specific services to clients with different values. The mobile telecommunication market is a very competitive market where the customers are tended to move from one company to another easily. Mobile telecommunication companies should carry on specific programs and services to their customers in order to keep them satisfied and thus ensure their fidelity with the company. In this article our objective is to provide companies a model that facilitates to decide what kind of customer loyalty programs they should address to their clients from different segments. In order to do that we present a fuzzy based Hungarian method that allow assigning different loyalty programs to customers with different characteristics.

1. Introduction

In mobile telecommunication market, the companies should invert remarkable effort to look for solutions to keep their customers satisfied and thus loyal with the company. Some specific services may be delivered to clients in order to keep them content. In practice there are many loyalty programs being conducted to customers but we believe that a precise type of a loyalty program cannot be applied to all clients as clients with different characteristics are going to be satisfied with different kind of loyalty programs. In this article our objective is to provide companies a model that facilitates to decide what kind of customer loyalty programs they should deliver to their clients who have different characteristics. A fuzzy based Hungarian method is being presented which allows us to assign different loyalty programs to customers with different characteristics whom belong to different segments.

2. Customer Relationship Management

Companies realized the importance of well-managing their relationships with their customers. Customer Relationship Management (CRM) allows companies to manage their marketing strategies and deliver specific services to clients with different values. Customers with higher values may deserve better service while less service should be delivered to customers with lower value for the company.

Customer Relationship Management (CRM) is a term that has been first proposed by Varadarajan (1986). According to Varadarajan, “CRM is a joint-transaction model, which is an alignment of product and donation through the partnership between company and non-profit organization, and ultimately gains interests for both parties.” Varadarajan and Menon (1988) supposed that CRM helps companies to achieve many of their substantial benefits, such as helping them to improve performance, strengthen corporate and brand image and expand the target market.

According to Peppers, Rogers, and Dorf (1999) CRM is the management of relationships between companies and individual customers with the aid of (customer) databases and interactive and mass customization technologies.

Swift (2001) defines CRM as “an enterprise approach to understanding and influencing customer behavior through meaningful communications in order to improve customer acquisition, customer retention, customer loyalty, and customer profitability.”

According to Kincaid (2003) CRM is “the strategic use of information, processes, technology, and people to manage the customer’s relationship with the company across the whole customer life cycle.” Ko, Lee, and Woo (2004) defines CRM as an integration of customer management strategy of firms that allows them to manage customers efficiently by supplying customized goods and services and maximizing the lifetime value of customers.

As Kincaid (2003) and other authors emphasize in their studies, CRM approach firstly started to take place in company’s agenda when they had discovered that all the customers did not have the same value and profitability. Then, companies realized that it would be more effective to deliver distinct services and develop

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specific strategies for customers who have different importance for the company instead of treating them all equally. The basic goal of Customer Relationship Management is to achieve a competitive advantage in customer management and as a result increase profit levels of the customers.

Today companies use CRM to obtain some useful information of current and prospective customers. Through this relevant information they can improve the service that they offer to their customers, give more attention to better customers, may abandon unprofitable customers and attract some new good potential clients.

CRM is known as the new basis of marketing strategies which companies should well-manage and maintain its sustainability. On the other hand, as Peppers et al. (1999) indicate, it is widely known as a software-based approach which allows companies to supply information about customers and manage this information to develop and improve their marketing processes. Among the most important goals of CRM are to offer better services to customers, increase profitability and use customer contact information to manage marketing processes more efficiently.

By using customer information contained in databases, companies can invest in the customers that are potentially valuable for the company, but also minimize their investments in non-valuable customers. Figures on the turnover of each customer or customer profitability are often used as segmentation variables to distinguish between valuable and non-valuable customers (Donkers, Verhoef, & Jong, 2007).

Customer value is an important topic to consider within CRM as customers with different values for the company should not enjoy the same services. Neap and Celik (1999) define value concept as the owner's/buyer's desire to retain or obtain a product. Kelly and Male (1993) define the value concept as a measure expressed in currency, effort, exchange, or on a comparative scale which reflects the desire to obtain or retain an item, service or ideal. According to Dell'Isola (1982), value can be defined as the fair equivalent in service or commodities that an owner/buyer receives in exchange for money. Murphy, William, Paula, and Zigarmi (1997) define values in terms of environmental interactions, choices, and preferences that emphasize the person holding values.

Ravald and Grönroos (1996), point in their previous studies that marketing is facing a new concept, which is named relationship marketing and they underline the evolution from the activity of attracting customers to activities which concern of having customers and taking care of them in marketing. According to Ravald and Grönroos (1996), the main basis of relationship marketing are relations, maintenance of relations between the company and the customers, suppliers, market intermediaries, the public, etc. These authors define the value concept as an important element of relationship marketing which enables companies to provide superior services to its customers.

Customer satisfaction is one of the key objectives of marketing. To increase the satisfaction level of customers and maintain it, customer behavior should be well-known by the firm.

Customer behavior is related to customer loyalty issue. With that reason, Jackson (1985) divided industrial buyers into two major categories: lost-for-good and always-a-share. The lost-for-good category assumes that a customer is either totally committed to the company or totally lost and committed to some other company. The second category, always-a-share includes the buyers which can easily switch their vendor to another one. We can say that customers who are in the lost-for-good category are satisfied, loyal and will remain in the company. But the customers who are in always-a-share category would easily go to another company and would not retain its products for long terms. So customer behavior should be well-known in order to measure their retention correctly.

Marketing is seemed to be the art of attracting and keeping the profitable customers. Ultimately, companies tend to retain more profitable customers for them instead of trying to satisfy and retain all customers. According to Kotler and Armstrong (1996) a profitable customer is "a person, household, or company whose revenues over time exceed, by an acceptable amount, the company costs of attracting, selling and servicing that customer." In order to attract and keep these profitable customers companies give more importance to marketing processes, Customer Relationship Management, customer value and customer lifetime value (CLV).

Donkers et al. (2007) considered the prediction of customer lifetime value in multi-service industries, in particular in the insurance industry, where purchase behavior is complex. They assume that in multi-service industries, customer behavior is multi-dimensional: the most important components of customer behavior are related to customer retention, cross-buying and service usage. The authors consider both relationship-level and service-level models. The relationship-level models focus on customer retention and profits aggregated across services. The service-models take a disaggregated perspective, and can also account for cross-buying of services. For the service-models with explanatory variables, they use a Markov model to predict more than a single period ahead (Pfeifer & Carraway, 2000; Rust, Lemon, & Zeithaml, 2004).

3. Customer loyalty

Loyalty marketing is an approach to marketing, based on strategic management, in which a company focuses on growing and retaining existing customers through incentives. Branding, product marketing and loyalty marketing all form part of the customer proposition – the subjective assessment by the customer of whether to purchase a brand or not based on the integrated combination of the value they receive from each of these marketing disciplines (Evans, 2007). It is very important to keep customers satisfied for companies, especially in the focus sector of this study – the mobile telecommunication as the competition in this sector is very elevated and customers are inclined to move easily from one to another company when there is a better service or price in the competitor. The effort and money should be inverted to existing clients in many cases as it is done to capture new clients in order to have loyal customers as they are the important income generators for the company (Lam, Shankar, Erramilli, & Murthy, 2004).

4. Fuzzy logic

Zadeh (1965) has published first fuzzy set theory. Zimmermann (1991) explained fuzzy set theory as a strict mathematical framework in which vague conceptual phenomena was precisely and rigorously studied. The theory can also be thought as a modeling language which suited well for situations that were containing fuzzy relations, criteria and phenomena. Afterwards, Rowe and Boulgarides (1994) have proved the portfolio matrix and 3Cs model which were enabling companies to analyze their strategic business units and projects, and providing strategic directions in an efficient way. This has not worked very well. Certain values in the decisions making are not always correct. Because there are always vague processes and it is difficult to estimate decision making processes with an exact numerical value. Pap, Bosnjak, and Bosnjak (2000) defined the main problem of using the classical portfolio matrix as the precise determination of the numerical value for the criteria. As a result, it would be useful to use the linguistic assessments which have been introduced by Zadeh (1965) and Bellman and Zadeh (1970) instead of numerical indicators.