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## **CUSTOMER ORIENTED STRATEGIES IN SLOVAK COMPANIES**

***Abstract:** The objective of our paper is to evaluate the relevance of customer oriented strategies used by Slovak companies. We put emphasis on loyalty development and loyalty strategies in the process of retaining customers. In recent years, academics as well as practitioners have increasingly directed their attention to the loyalty problem. Until now, academic research on loyalty has, however, been focused on measurement aspects and correlation between loyalty and customer characteristics.*

*Two types of loyalty strategies are presented in the paper: reward strategy and relationship strategy. Under the „reward strategy“ we understand offering discounts, rebates, or goods. On the contrary, the „relationship strategy“ means using information to tailor offerings to individual customer tastes, buying patterns or value to the company. Most authors believe that only the relationship strategy is able to stimulate customer loyalty. However, in practice we expect most companies to develop reward strategies, because these are much easier to implement. The aim of our research is to analyse the implementation and characteristics of both strategies and of their perceived contribution to customer loyalty.*

***Keywords:** Customer strategy, customer loyalty, relationship marketing, reward strategy.*

**JEL:** M 31

### **Introduction**

Maintaining and increasing customer loyalty is one of the greatest marketing challenges in today's turbulent, highly competitive and fragmented markets. In recent years, academics as well as practitioners have increasingly directed their attention to the loyalty problem. Until now, academic research on loyalty has, however, been focused on measurement aspects and correlation between loyalty and customer characteristics. Research on loyalty strategy is very scarce.

Under the „reward strategy“ we understand offering discounts, rebates, or goods. On the contrary, the „relationship strategy“ means using information to tailor

offerings to individual customer's tastes, buying patterns or value to the company. In today's business, most attempts to increase customer loyalty can be classified either as reward strategies or relationship strategies. Most authors believe that only the relationship strategy is able to stimulate customer loyalty. In practice however, we expect most companies to develop reward strategies, because these are much easier to implement. The aim of our research is to analyse the implementation and characteristics of both strategies and of their perceived contribution to customer loyalty. The paper is an outcome of the research project VEGA 1/4582/07 „Broadening the CRM Theory“<sup>1</sup>

### **Theoretical Background of Customer Loyalty**

Customer loyalty is defined in several ways. Dwyer (1997) defines customer loyalty as the virtual exclusion of other exchange partners that are able to provide the same benefits. As a consequence, he measures loyalty on the basis of the extent to which customers stay with a particular supplier. Other frequently used measures of customer loyalty are the number of repeat purchases and the customer's share of wallet (that part of the category budget that a customer spends in a particular company). Other authors express criticism of such description of customer loyalty, and argue that such definitions ignore the factors that explain customer loyalty.

We define customer loyalty as a customer behaviour that is characterised by a positive buying pattern during an extended period (measured by means of repeat purchase, frequency of purchase, share of wallet, or other indicators) and that is driven by a positive attitude towards the company and its products or services.

More and more research studies are focused to bring a proof that customer loyalty brings higher profits, company growth, customer satisfaction, etc. The reason why profits can be improved is the fact that customers show a lifecycle profit pattern: the longer the customer stays with the company, the more profitable he becomes thanks to growing revenues, cost savings, positive references and decreased price sensitivity. As a result, lifetime value is the business driver. Price Waterhouse studies show that two-thirds of the average company's business comes from its present, satisfied customers; it costs five times more to acquire a new customer than it costs to service an existing customer, and that ninety percent of unhappy customers will communicate their dissatisfaction to nine other people at least (Lesáková, 2002).

The studies above indicate that two dynamics determine profitability: improving retention rates or improving the contribution per customer. In our research we focus on two very popular loyalty strategies: the relationship strategy and the reward strategy.

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<sup>1</sup> VEGA 1/4582/07 “Broadening the CRM Theory: Customer Integration into Company Value Chain as a new method of developing competitive advantage“.

## **The Loyalty Strategies**

Most attempts to increase customer loyalty can be attached to either a relationship strategy or a reward strategy. Evidently, both strategies can be combined. In the following text we will briefly discuss the characteristics and usage of both strategies.

P. Kotler's (2002) statement that companies must move from a short-term transaction-oriented goal to a long-term relationship-oriented goal, explains the core of the relationship marketing concept. While in transaction marketing the relationship with the market is reduced to discrete transactions, the relational exchanges between the seller and the customer play a central role in relationship marketing. The main characteristic of a relational exchange is its position within a history of previous exchanges and an anticipated future of expected exchanges. A discrete transaction on the contrary occurs independent from previous or future transactions.

Relationship marketing can be defined as a customer oriented approach in which the seller wishes to build a long-term relationship with the buyer in such a way that both the objectives of the buyer and the seller could be met. Consequently the relationship strategy consists of creating and strengthening relationship between company and its customers through individual customer information and delivering „tailor made solutions“ based upon this information. In general, we can state that building long-term relationship can be supported by gathering information about customer characteristics and needs and by using this information to communicate with these customers in a more or less personalised manner.

The reward strategy consists of rewarding customers for their loyal behaviour with „hard benefits“ in order to keep or improve their current level of loyalty. Examples of hard benefits are gifts, prizes, trips, etc. Reward programmes exist in different forms depending upon the type of reward, which is used, the type of customers at which they are directed, or the conditions that need to be fulfilled for receiving rewards, and so on. Also the use of reward programmes is rather frequent, many authors point out that they are just cheap promotional tool with short-term impact. Recent studies see the reward programme mainly as a first step in the process of building a close relationship. Keeping customers solely on basis of hard benefits is not a sustainable strategy in the long-term.

## **Research Objectives and Methods**

In our research we follow two main objectives. The first objective is to explain the use and characteristics of the relationship and reward strategies in Slovak companies. Research questions relating to this objective are:

- Do the companies learn about their customers and act upon this knowledge in tailoring their offer?,
- Do they just limit themselves to rewarding their customers with hard (mostly financial) benefits?, or

– Do the companies ignore both relationship and rewards programmes in their marketing activities?

The second objective is to analyse how the companies perceive the influence of relationship and reward strategies on loyalty. We ask the following research questions:

- Is loyalty of strategic importance to the company?
- What are the purposes of using relationship and reward strategies used?

The relevant data were collected through a questionnaire, which was distributed in 300 randomly selected small and medium-sized enterprises (SME). As a result we received 92 positive answers, which is a response rate of 30.6 percent. The sample consisted of the companies active both in B2B sector (65%) and B2C sector (18%). 17% were active in both consumer and business markets. Of the respondents 45% were involved in commercial activities, 64% in production activities and 42% in service activities (some respondents had overlapping activities).

Table 1

Respondents by Sector

Sector	Percentage
Agriculture	3.2
Chemical Industry	8.0
Electronics Industry	4.32
Machinery Industry	48.6
Distribution and Trade	21.6
Hotels, Catering	7.56
Foodstuffs Industry	6.48
Banking and Insurance	7.56
Other Services	2.16

We asked the companies to indicate on a five-point scale the level in which they pursue the relationship strategy and reward strategy (1 – lowest level, 5 – highest level). As a measure of relationship strategy we used the scope of tailoring offer (communication, distribution, product, and price) to individual customer tastes, buying patterns, or value to the company. Respondents indicated on a five-point scale how deep they adapt their marketing activities to the specific characteristics of the particular customer or a customer segment. As an indicator of the level in which the relationship strategy is implemented in a company, an average value from the individual evaluations was calculated. In order to define the three intervals – categories to which the companies were allocated (below the average, average, above the average) – standard deviation of the average was calculated.

The reward strategy was analysed based on the intensity by which the reward system is used in marketing strategy (on a five-point scale). Average value was used as an indicator of the level to which a reward strategy is implemented.

### Attitudes towards Loyalty

Although most publications on customer loyalty write that the majority of companies are still involved in transaction marketing and short-term activities, our research indicates that keeping customers is the most important marketing objective. When assessing company attitudes towards loyalty and customer approach, we asked the respondents (92 companies) to identify on a 5-point scale the degree to which they pursue a particular strategy. The results are summarised in Table 2.

Table 2

Customer strategy	% of companies
Customer retention	81%
Customer development	46%
Regaining lost customers	38%
Turning prospects into customers	38%
Identifying prospect customers	31%

A substantially less attention is directed at the identification of potential new customers. The inflow of new or previously lost customers is considered to be of secondary importance. As a measure of customer loyalty, two indicators have been used: amount of purchase of a customer during a particular period and frequency by which products or services are bought.

The importance attributed to the above mentioned customer strategies differs significantly between companies who conduct loyalty analysis and companies who do not conduct any loyalty analysis.

Table 3

Customer strategy	% of companies	
	Loyalty analysis	No loyalty analysis
Customer retention	88%	71%
Customer development	55%	34%
Regaining lost customers	34%	22%
Turning prospects into customers	51%	38%
Identifying prospect customers	26%	15%

## Research Results

Our research results brought remarkable findings, which are presented in Table 4. The total sample was split into nine cells on basis of the following criteria: average strategy = average value plus/ minus standard deviation, below-average strategy (lower than average value minus standard deviation), above-average strategy (higher than average value plus standard deviation). For the reward strategy, average value was 3.4 (with standard deviation 0.96) and for the relationship strategy 3.1 (with standard deviation of 1.2).

Fifty percent of the companies with above-average reward strategies also have above-average relationship strategies, compared with only 26.9% for companies with below-average reward strategies. 35.7% of companies with above-average relationship strategies also have above-average reward strategy, compared with only 11.7% for companies with below-average relationship strategy.

Table 4

**Classification of Companies Involved in Reward and Relationship Strategies**

Reward strategy	Relationship strategy			Total
	Average	Below-average	Above-average	
<b>Average</b>	25%	18%	11%	54%
<b>Below-average</b>	8%	11%	7%	26%
<b>Above-average</b>	6%	4%	10%	20%
<b>Total</b>	38%	34%	28%	100%

Since rewarding customers seems to be much easier to accomplish than building relationships with them, it is surprising to see that more companies are pursuing above-average relationship strategies (28%) than reward strategies (20%). However, the relationship strategy results should be interpreted with care. One third of the sample are below the average (34%), when it comes to relationship strategy. Furthermore, relationship strategies have various level of importance. There is for example a large difference between companies who only use geographical segmentation to determining target group for communication and companies who adapt their communication medium and communication message to the behavioural and psychographical characteristics of their target group.

In spite of the fact that companies agree that keeping customers solely on the basis of hard benefits is not a sustainable strategy in the long period, 74% of all companies implement average or above average reward strategy, which is more (+8 %) than share of companies pursuing relationship strategies. Nearly three quarters of the respondents use some type of reward programme.

We made a distinction between four types of reward programmes on the basis of two criteria: the nature of the reward (financial versus non-financial) and the process of receiving the reward (collection versus non-collection). Financial rewards are rewards such as money, vouchers, price reductions (or other monetary rewards). Non-financial rewards are gifts such as products, trips, prizes etc. Collection rewards are rewards for which the customer needs to collect points during a time in order to receive a reward. Non-collection rewards are rewards that the customer receives immediately.

Table 5

	<b>Collection rewards</b>	<b>Non-collection rewards</b>
<b>Financial rewards</b>	46%	19%
<b>Non-financial rewards</b>	21%	14%

The figures in the table show that collection rewards are more popular in the companies than non-collection rewards. Moreover, financial rewards are more frequently used than non-financial rewards.

Companies believe that relationship and reward strategies differ with respect to their competitive strength and future importance. We asked the respondents to express their agreement/ disagreement with various statements regarding the reward and relationship strategies. Table 6 shows clearly that respondents prefer the relationship strategy. Reward strategies are considered as non-differentiated and easy to copy from the competition.

This corresponds to the view of many authors that reward programmes should mainly be seen as a first step in the process of building a close relationship. The hard benefits are considered to be the first tool that brings customers into the programme. Since relationship strategies are much harder to build and less easy to copy, more than three quarters of respondents (81%) believe that these strategies will become more important in the future. Until now, satisfaction with both strategies is rather low. More than half of the companies under review (55%) claim that its relationship strategy needs improvement in order to be competitive in the near future.

Table 6

<b>Our relationship / reward strategy is:</b>	<b>Relationship strategy</b>	<b>Reward strategy</b>
<b>differentiated from competition</b>	58%	15%
<b>easy to copy</b>	30%	58%
<b>very important for the future</b>	81%	45%
<b>in need for an improvement</b>	55%	22%

The more sophisticated the relationships and/ or reward strategies are, the more respondents believe that their strategies are differentiated from those of their competitors: companies with above-average relationship strategies were convinced of the differentiation advantage of their relationship strategy from the competitors. The same is holds true for the reward strategy.

## Conclusion

The primary objective of our research was to analyse the implementation of relationship and reward strategies in Slovak SMEs. We focused on measuring the extent, in which companies are pursuing particular strategy. Relationship strategies were assessed on basis of the level, in which the customer data are used to adapt marketing activities to individual customer tastes, buying behaviour, or value to the company. Reward strategies were assessed on the intensity by which it is used in the marketing strategy.

Companies are well aware of the importance of building long-term relationships with their customers. When assessing the strategies for customer retention, companies show a preferred attitude towards the relationship strategy. Reward strategies are clearly viewed as non-differentiated from the competition and easy to copy. It was surprising to find that more companies are pursuing above-average relationship strategies than reward strategies.

With respect to reward strategies, non-collection reward programmes are more popular than collection rewards. Moreover, financial rewards are more frequently used than non-financial rewards.

Companies have discovered the road to retaining customers. Taking into account the importance that respondents attach to relationship marketing in the future, it could be expected that companies are going to invest more in customer retention and relationship strategies.

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