

Impact of Customer Loyalty on Organizational Performance

Obafemi, Olumuyiwa Olugbenga

Department of Management
Ajayi Crowther University Oyo
Oyo State

Obiekwe Onyebuchi PhD

Department of Management
Ajayi Crowther University Oyo
Oyo State

Oiku Peter Omoyebagbe

Department of Management
Ajayi Crowther University Oyo
Oyo State

D.O.I: 10.56201/ijebm.v8.no5.2022.pg56.62

Abstract

This paper utilized a theoretical approach to examine the impact of customer loyalty on organizational performance. The paper identified some benefits of customer loyalty as increase profitability, business growth, enhanced firm effectiveness and reduced cost of operations. Some drivers of customers loyalty identified are: improved product quality, extended warranties, reduction in marketing and service cost, honest and quality feedback, improve brand image. The paper concluded that that customer loyalty is vital for improved organizational performance as sales volume accrued from repeated purchases helps to increase market share and improves profitability of the organization. In addition, customer loyalty intention serves as firm growth strategy and competitive advantage over rivals in the market arena. It is recommended among others that managements should make customer intention a key part of their strategy to achieve organizational growth. Besides, since attraction and retention of customers contributes significantly to overall organization's performance, managements should ensure that they preset and offer high quality products, and quality service delivery to their customers as these will ensure reduced risks of the customers witching brands to competitions product. In addition, organizations should put in place effective customer's intention programs such as longer warranties, new ands, and recognitions to enhance their chances of retaining their valuable customers.

Keywords: Customer loyalty, retention, product quality, organizational performance, competitiveness.

Introduction

The high level of severe competition in today's market arena has made the issue of customer intention and loyalty a key business strategy for every forward looking organization that desires to survive and operate successfully in today's highly changing business environment. Due to rising changes in customers tastes and preferences, high powered information communication technologic innovations, hyper competitions from both domestic and international rivals, the ability to attract and retain valuable customers has become a serious plus to organizations, and customer loyalty has thus become a serious yardstick to check and measure organizations chances of survival and productivity in the market arena.

According to Arawabdeh (2014) due to today's dynamic competitive market and globalization, several organizations are actively seeking to make additional value to their customers and improve the quality of their service in order to satisfy their customers. It is when a customer is satisfied that the chance of retaining him can arise. Kotler et al, (2008) not that customer loyalty has become a key measure of a firm's competitiveness in business. A firm that cannot stand today's harsh competitive environment has a very low chance of survival, as loyalty of customers to a firm brand or products accounts for an organizations competitive capacity which is essential for improved performance and productivity. Omodafe and Akparobi (2013) pointed out that affirm competitive capacity and the acceptability of its product by the general public affects it overall performance and productivity. As a result of these, adequate consideration and attention on customer's loyalty have assumed a challenge to business organizations so as to ensure that their customers are fully satisfied (Kotler et al 2008: Kotler, 2000).

In the global business arena, the importance of customer's loyalty has made many organizations to embark on several customer loyalty programs. Al Madi and Al Zawahreh (2012) sees customer loyalty program as " key relational marketing approach whose primary purpose is to secure the interest pf already existing customers to retain them in the face of industry cut throat competition. It also represent the aggregate of different measuresput in place by abusiness to retain already existing buying party (Magatetand Tomalieh , 2015).Organization are been in utilizing several approach to ensure that their customers remain loyal to the firms product offerings, in order to maintain sales, market shows and competitiveness which drives an organizations performance (Maisiba and Jeremiah 2019).

The importance of having a strong footing and improving performance in the market place can never be overlooked by any focused and forward looking management. This is so as management are always on the lookout for opportunities to meet the rising expectations placed on it by business owners, and the organizations internal stakeholders.

Organizational performance in the main involves analyzing a frim output against its objectives and goals. That is to say organizational performance comprises real results or outputs compared with intended output (Ogunyemi, 2019; Obiekwe et al, 2019). Firm performance thus focuses on shareholders' value performance (Ogunyemi, 2019). Since aggregate organizational performance is of great importance to both managements and business owners, realizing ways of achieving this become an important part of every management task. One major way that has been utilized as a powerful strategy to achieve the uncommon goal is the use of customer retention, which has contributed massively to gaining stable competitive advantage for organization. The importance of

customer intention in today's highly competitive business environment can therefore never be overstated if organizations are to improve on their overall business performance.

This paper utilized a theoretical approach to examine the impact of customer retention on organizational performance. Indicators of customer's retention are discussed and recommendations were performed.

LITERATURE REVIEW

Concept of Customer Loyalty

Customers are the essence or organizations existence without customers no organization will survive even on the short-run. A firm with large number of customers stand very high chance of success in the market place, and that account for the reason why many organizations and putting serious effort in attracting new customers and in keeping already existing ones. A customer is one that purchases a firm's product for use or for resale. A company's success thus lies on long-term the brand loyalty of customers which results into profitability that helps to derive the organizations operation, expansion and ultimate survival.

Customer loyalty refers to an ongoing emotional relationship between a firm and her customers is to engage with and repeatedly purchase from a firm as against the firm's competitors. It is a measure of customer's likeness to do repeat business with a company or brand (Send Pulse, 2022). It is usually the outcome of customer satisfaction, positive customer experience and the overall positive values received from a business transaction by a customer. It is the reason that drives repeat purchases and makes existing customers to continue to choose a firm over another firm offering similar products and benefits. Brown (2022) points out that customer loyalty occurs as a result of multiple positive interactions that build up a feeling of trust over time by the customer towards a firm. A customer that is loyal will tolerate few negatives from the firm, although too many negative experience may likely break down the strength of the connection (Brown, 2022). According to Schiavo (2022), customer loyalty refers to "a customer's willingness to return to a company in order to purchase its services or product".

Accordingly, this is made manifest when a customer makes repeat purchases, preferring a particular firm over its competitors. Customers who are loyal always develop a positive emotional relationship with the brand because of the experience they had with the offering firm. Robbins (2022) describe customer loyalty as "when a customer conducts transaction or interacts with a brand on a repetitive basis". For a customer to indulge in negative purchase mean that the customer identifies with the brand as a representation of themselves and also trust the offering firm's products to be able to continuously meet his/her needs and expectation. Thus loyalty tends to arise when customers see values that a firm provides and then decide to reward such firms with repeat purchase.

Carter (2020) pointed out that customer loyalty does not always manifest in repetitive purchases, but also in behaviour such as social advocacy for a firm and its products. According to Kumar and Advani (2012), customer loyalty is not just about offering favourable word of mouth about a firm publicly, but is also a process, program or group of programs put in place toward making customers happy so that they can provide more business. Iddrisu (2011) also note that customer loyalty results from trust which is developed over a period from consistent record of meeting, and sometimes even exceeding customer expectations. Generally, customer loyalty can be achieved by

offering quality products , low interest rates, high value trade –ins-rebates extended warranties and other customers rewards and incentives programs (Garfinkel, 2019).

These are aimed at developing customers who are happy and are satisfied and who in return, will not only purchase a firm a product again but will also persuade and convince others to try out the company's products. Other factors that drive customer loyalty are consistently great products, extra concern for customers, personalized customer service, listening to feed back and community (Garfinkel, 2019).

Benefits of Customer Loyalty

Customers loyalty is based on serious of activities or actions which are perceived by customers to positively affect their needs, preferences and experiences derived from a company' products they have purchased before or used. Customer loyalty offers several benefits to an organization. Some of these benefits are what gives the organizations competitive advantage over other in the market arena. Those benefits include higher profits higher growth of business, business effectiveness among others.

Higher profitability: Customer loyalty leads to firm high profit as it help organization get a higher return on investment, as well as more revenue then expenses. Bhasin (2020) note that as a loyal customer continue to peat purchase an organization make more profits. This would not be possible if the customer is a one-time trade visitor, who leaves after making a single or just two time purchase. A customers who is loyal purchases and he purchases a product of a brand, and this help a firms to increase its profit margin.

Second, customer loyalty lead to growth of business. When customers are loyal to a firm product, it is possible to extend their purchase to other brands of the company thereby helping them to business of the organization to grow. Brand extension is useful for these brand that have strong images in the market place, thus, consumers trust on brands help in accepting and purchasing other brands from same organization to grow (Rest 2015). Thus, customer loyalty is a growth strategy utilized by organizations when customers engage in purchase of extended products.

In addition, customer loyalty brings about organizational effectiveness. According to Bhasin (2020), this is possible as management can utilize customer loyalty to identify loyal customers to get in touch with, for feedback on products that the firm offers. This can help organizations in making relevant decisions that truly addresses the expectations, tastes and preferences of the customers. When customers noticed that their changing tasted are met in the way that truly satisfy them, the customers tends to become more loyal.

Reduction of cost of marketing operations is another benefit at customer loyalty. Patker and Mateen (2016) affirm that customer loyalty leads to reduction in marketing costs of a firm's product. In other words, has an influencing and positive impact of the performance at the product. This arises as loyalty customer encourages other none consumers to try out the products or extended products from the organization. As customers recommend products to others, the customer does marketing of the product and thus, saves the cost of reaching out to, and swaying of such new or potential customer to their product (Berger, Draganska and Simonson, 2007; Thompson and Sinha, 2008).

Additionally, Annex Cloud (2022) identifies other benefits of customer loyalty as increase in sales and revenue, increased customer intention, improvement of customer experience and improved customer engagement Techonestop (2022) also identified repeat business, reduction in marketing and service cost, honest and quality feedback, improve brand image Cross selling opportunities ad customer acquisition and retention.

Concept of Organizational Performance.

According to Richard et al (2009) organizational performance is an analysis that comprise the actual output or results of an organization as measured against its intended outputs (or goals and objectives), and it can be measured by using three main outcomes; financial performance (profits, return on costs, return on investment etc); product market performance (Sales, market share etc); and shareholder return (total shareholder return, economic value added, etc.) Organizational performance can also be defined as getting better results from the whole organization or terms or individuals within it, by understanding and managing performance within on agreed formwork of planned goals, standards and competence requirements (Armstrong, 2000 cited in Kagari et al, 2010).

Chi and Gursoy (2009) on their research about relationship between employee's satisfaction, customers' satisfaction, and financial performance, profitability, return on investment, and net profit had been used as indicators to measure financial performance for the institutions. On a guide to key performance indicators published by price water House coopers (PWC) on 2007, it was stated that the main keys that can be used on banking sector are; customer retention, customer penetration, asset quality, and Loan loss, and quality of serving customers.

Organizational performance can also be determined by measuring financial indicators such as productivity, profitability, turnover, demand, market share, sales, and customer's satisfaction (Nickell, 1995; Estern & Resevear, 1999 cited in Mohamed et al 2009). Enaniem and El-tabic (2014) used return on assets, return on equity and net interest marring as organizational performance indicators in their research about internal marketing adoption effect on the performance of the commercial banks in Egypt

Conclusion and recommendations.

This paper examines the impact of customer loyalty on organizational performance. It was noted that customer loyalty is vital for improved organizational performance due to increase sales volume accrued from repeated purchases helps to increase market share and improves profitability of the organization. In addition, factors that drives customers satisfaction includes such factors as quality of product, price of products, quality service delivery, among others. Customer loyalty also provides firm growth strategy and competitive advantage over rivals in the market arena. It is recommended that organizations should make customer loyalty a key part of their strategy to achieve organizational growth.

Since attraction and intention of customers contributes significantly to overall organization's performance, managements should ensure that they preset and offer high quality products, and quality service delivery to their customers as these will ensure reduced risks of the customers witching brands to competitions product. In addition, organizations should put in place effective customer's intention programs such as longer warranties, new ands, and recognitions to enhance

their chances of retaining their valuable customers. Moreover, marketers should ensure that they discover the needs and wants of their customers and make genuine effort to satisfy and meet customers' expectations.

REFERENCES

- Al-Madi, F. & Al-Zawahneh, A. (2012). The utility of equality theory in enhancing organizational effectiveness. *European Journal of Economics, Finance and Administrative Sciences* 46(1), 158.
- Assael, A. (1992). *Customer behavior and marketing action*. Cincinnati: South West College Publishing Company.
- Berger, J., Draganska, M. & Simonson, I. (2007). The influence of product variety on brand perceptions and choices. *Marketing Science*, 20, 460 – 472.
- Bhasin, H. (2020). Customer loyalty: definition, importance, elements & stages. Retrieved from: www.marketing91.com
- Brown, L. (2022). What is customer Loyalty? Retrieve from: www.qualtrics.com
- Carter, B. (2020). What is the definition of Customer Loyalty. Retrieved from: blog.accessdevelopment.com
- Garfinkel, J. (2019). 5 key factors that drive customer loyalty. Retrieved from: www.widewall.com
- Kotler, P. (2000). *Marketing Management*. Upper Saddle River, New Jersey: Prentice Hall.
- Kotler, P., Armstrong, G. Wong, V. & Saunders, J. (2008). Marketing defined, *Principles of Marketing*, (5thed) P.17.
- Kumar, L. & Advani, A. (2012). Satisfaction, loyalty and reputation as indicators of customer's orientation in the public sector. *International Journal of Public Sector Management*, 7 (2), 16 – 34.
- Magatet, S. G. & Tomaliet, E. F. (2015). The impact of customer loyalty programs on customer retention. *International Journal of Business and Social Sciences*, 8 (1), 78 – 93.
- Maisiba, C. P. & Jeremiah, S. N. (2019). Effect of customer loyalty programs on performance of Nakumatt supermarket in Western Region in Kenya. *The international Journal of Business and Management*, 7(6), 67-74.
- Obiekwe, O., Obibhunu L. and Omah, O. (2019). Impact of employee Job satisfaction on organizational performance, *Academy Journal of Current Research*, 6 (12), pp6-12.
- Ogunyemi, O. (2019). The impact of customer loyalty on organizational performance in Hotel industry. (A case study of selected hotels in Abeokuta, Ogun State). *FEPL – JOPAS*, (1), 134 – 153.
- Omodafe, U.P. & Akparobi, J. N. (2013). Effect of the impact of customer loyalty on marketing performance of Business organization. *European Journal of Business and Management*, 5(18), 150 – 152.
- Reast, J. D. (2005). Brand trust and brand extension acceptance: the relationship. *Journal of Product & Brand Management*, 14(1), 4 – 11.
- Robbins, T. (2022). What is customer Loyalty? Retrieved from: www.tonyrobbins.com
- Schiavo, G. S. (2022). What is customer Loyalty? Definition, Tips & Examples. Retrieved from: www.tidio.com
- Sendpulse (2022). Customer Loyalty. Retrieved From: Sendpulse.ng
- Technonestop (2022). Importance of Customer Loyalty -9 benefits that every business loves. Retrieved from: www.techonestop.com

Thompson, S. A. & Sinha, R. K. (2008). Brand Communities and new product adoption: The influence and limits of oppositional Loyalty. *Journal of Marketing*, 72 (6), 65-80.