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Using Factor Analysis in Relationship Marketing

Luigi Dumitrescu^a, Mihai Țichindelean^b, Simona Vinerean^{b*}

^a*Faculty of Economic Sciences, "Lucian Blaga" University of Sibiu, Sibiu, Romania*

^b*Faculty of Marketing, The Bucharest University of Economic Studies, Bucharest, Romania*

Abstract

The purpose of the paper is to present a detailed application of the factor analysis technique within the domain of relationship marketing. A comprehensive literature review is undertaken regarding the concept of customer loyalty – an important variable of relationship marketing. Loyalty is defined by its two dimensions – behavioral and attitudinal; the second dimension is understood through the three components of the human psyche: affective, cognitive and conative. Conative Loyalty is measured through four items which are statistically and semantically reduced to two items without a heavy loss of information.

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1. Literature review

Relationship marketing is considered the new marketing paradigm, a statement not unanimously embraced by the research community, but, as but, as Harker and Egan (2007) asserted: relationship marketing is here to stay, whether as dominant logic or not. Groonroos (1990) considers that relationship marketing is concerned with the establishment, maintenance and enhancement of relationships with clients and other stakeholders at profit so that the objectives of all parties involved are met. This is done by a mutual exchange and a fulfillment of promises. Customer loyalty is one of the most important elements of relationship marketing (Bruhn, 2010); its enhancement represents a main marketing objective for every company which embraces relationship marketing as a business orientation. Strictly related to customer loyalty is customer satisfaction.

*Corresponding author.

E-mail address: dumitresculuigi@yahoo.com

Consumer satisfaction has been defined as “an overall evaluation based on the total purchase and consumption experience with a good or service over time” (Anderson et al., 1994). Moreover, customer satisfaction is considered to have a strong relationship with the theory of disconfirmation (D), which is defined as the difference between a consumer’s pre-purchase expectations (E) and the post-purchase performance (P) of a product or service (formulated as $D = P - E$) (Oliver, 1996), or more specifically his/her perception regarding the performance of a product, service, brand, company or any other marketing object. Accordingly, customer satisfaction refers to “the summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer’s prior feelings about the consumption experience” (Oliver, 1999).

Marketing literature defines loyalty ever since 1968 (Brody, Robert Cunningham, Scott) as the act of re-buying a product or service within a given time period. In this sense, the frequency of purchasing of a particular brand and the probability of purchasing are considered to be two relevant indicators used to measure the degree of customer loyalty for a particular brand. In general, researchers measured five dimensions of behavior within a predetermined period of time in order to establish loyalty: the percentage of customers who buy a particular brand, the number of purchases per customer (purchase frequency), the percentage of customers purchasing the brand, the percentage of customers who are 100% loyal, and the percentage of customers who buy other brands - double buyers (Ehrenberg, 1988).

Jacoby and Chestnut (1978) investigated the psychological sense of loyalty, considering the three elements of the human psyche (affective, conative and cognitive) as factors with direct influence, but with different degrees of intensity of customer loyalty to a particular brand. In this regard, Oliver (1999) defines as a deep commitment to repurchase a preferred product or service in the future, despite situational influences and the marketing efforts of competitors which might have the potential to cause a switching behavior in favor of a competing brand. Thus, Oliver (1999), through its definition, introduced a second dimension of loyalty (besides the behavioral dimension) the attitudinal dimension of loyalty. Based on these two dimensions, a classification of loyalty determines four areas, namely loyalty, apparent loyalty, latent loyalty, and lack of loyalty.

Oliver (1996, 1999) argues there are four sequential stages customers pursue and companies should monitor in order to achieve customer loyalty, namely cognitive–affective–intention–behavior. In the first stage, the customer is cognitively loyal and only after repeated purchases she/he experiences affective loyalty. Afterwards, affective loyalty involves a desire to maintain the behavior based on a generalized sense of a higher positive regard for, a liking of, and an enjoyment of the product or service experience. As time passes by and more repeated purchases are made, customer loyalty becomes conative, whereby the customer has strong intentions of future exchanges based on a favorable evaluation of the current experience and on a willingness to make an effort to maintain the relationship that he perceives to be positive for him/her. Finally, referring to ‘action control’ theory, Oliver identifies the most intense stage of customer loyalty as action loyalty. In this stage, the customer has strong motivations and is driven by a ‘desire to overcome’ every possible obstacle that might be in the way of the decision to buy the brand to which that person is loyal to.

Consistent with Oliver (1999), Shankar et al (2002) define satisfaction as the perception of pleasurable fulfillment of a service, and loyalty as deep commitment to the service provider. Kumar and Shab (2004) developed a comprehensive paper that contains an explicit presentation of the two dimensions of loyalty (behavioral and attitudinal) and the connections that can be established between customer loyalty and company profitability. A behaviorally loyal customer may be spuriously loyal, that is, stay with an organization or service provider until he/she can find some better alternative in the marketplace (Dick and Basu, 1994). However, an attitudinally loyal customer has a certain level of attachment or commitment to the organization and is not easily pursued to switch by a slightly more attractive alternative (Shankar et al, 2002).

The authors believe that customer loyalty, and more precisely the behavioral dimension is directly related to the benefits obtained by the customers by virtue of their membership in a loyalty program developed by the company and not the brand itself. Behavioral loyalty can be measured by means of two specific variables: purchasing behavior and the profitability of a company, as a result of buying behavior. However, a problem highlighted by important papers concerns the weak correlation between behavioral loyalty and profitability (Reinartz, Werner, Kumar, 2002).

Nonetheless, there are certain advantages obtained by companies through customer loyalty, as Lovelock and Witz (2010) note that customers become more profitable the longer they remain with a firm, through:

- Increased purchases and/or account balances, as customers tend to purchase in greater quantities as they grow their relationships with the companies they usually buy from;

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