Function Analysis Of Customer Loyalty And Application To Marketing Strategy

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Biography

Noriko Murakami is the president of Legend Consulting Company Limited, a management consultancy firm for companies and human resources development consultation, focusing on organizational and leadership development. She has also been involved in entrepreneurial development and support at an administrative agency in Japan since 2015. She consults by substantially utilizing VE/VM and her value and career experience from a printing company, a trading company, an advertising agency, and a general trading company. She has been learning VE/VM since 2013 at the Functional Approach Institute Company Limited in Japan, has been qualified as a Functional Approach Consultant, and has been utilizing VE/VM for company consultations in various industries and business entities.

Abstract

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large   (revised by the American Marketing Association, 2007). Although the purpose of marketing remains to be the creation of value-added deliverables, continuous acquisition and retention of customers, and achievement of management outcomes, the marketing strategy continues to change with time and technological innovation, becoming diversified regardless of the type of industry, goods, and services.

Marketing was originally restricted to the process of mainly investigating, analyzing, and verifying primary factors and requirements by providers, but since then, it has transformed to an activity process mainly focusing on the relationship between customers and the society instead, and in recent years, customer behavior has been regarded as an important factor greatly affecting the market. One of the important indicators in marketing is customer loyalty and the customer behavior of trust and commitment to certain brands, goods, or services, which serves as a source of consumer buying behavior.

In this paper, the author focuses on customer loyalty and discusses the effectiveness of applying VM to marketing strategy, through the presentation of FAST diagrams and an evaluation index system.

Keywords: Marketing, Marketing strategy, Customer loyalty, Customer loyalty evaluation index items

Introduction

Recent changes in economic and social environments influence the continuous changes in consumer buying behavior. With the diversification of the consumers' sense of values, which complicates facts on customer acquisition and customer retention, marketing strategies are positioned as predominant management strategies for providers.

The creation of high-value offerings does not necessarily guarantee customer acquisition and retention. In many cases, high-value products and services do not create an impact to consumers or fail to obtain a customer base, and are thus, eventually excluded from the market. It is important for providers to efficiently

communicate their product value to consumers leading to buying behavior and to establish a mechanism to continue to acquire new customers as well as retain existing customers. Unless these goals materialize, continuous management outcomes will be difficult to achieve.

Customer behavior is greatly related to the customers' trust and commitment to providers and their goods and services. Customer loyalty exists as its indicator.

In this paper, the author focuses on customer loyalty by describing its importance through FAST diagrams and demonstrates the effectiveness of VM application to marketing strategy through case examples.

Current Issues and Customer Loyalty in Marketing Strategy

With random access to digital technology such as IoT, AI, and big data, consumers choose from an enormous amount of gathered information, active or passive, and make changes to their choices until they realize information dissemination, information exchange, value sharing, and community creation.

In the modern society, with circumstances where customers and society have subjectivities and are guided by their own values, it is an inevitable task for the providers to focus, deeply engage, listen, and observe decision making regarding customer buying behavior, and reflect it in the marketing strategy. The current issues of marketing strategy and customer loyalty, as its substantial indicator, are described in the subsequent section.

Current Issues

In marketing, customer value represents the value customers deem appropriate for goods, services, human resources, images, etc., delivered to them by providers. Only those goods and services in which customer value is recognized or expected create an impact to customers, who shift to a buying behavior. Goods and services with low customer value and do not meet customer expectations reduce the probability of purchasing.

It is said that customer-centric marketing is inevitable, and there is an actual circumstance wherein providers continue to seek substantial strategies on how to create customer value for diversified consumers.

Various customer-centric methods such as Net Promoter Score (reserved by Frederick F. Reichheld/Bain & Company) and Japanese Customer Satisfaction Index (by Japan Productivity Center) have emerged and are utilized as indicators of customer satisfaction. However, since these are overall indicators, providers only make efforts to acquire high scores to gain credit and, in many cases, are not led to develop practical strategies.

Customer satisfaction and behavioral psychology are complexly latent before and after buying behavior, and only their fragments surface as behavior or self-recognition. In order to create customer value and further develop the process of converting target customers to loyal customers, it is necessary for providers to understand how customer value fosters customer satisfaction and how targeted customers become loyal customers. Providers are required to grasp the stepwise customer behavioral psychology, extract the issues, and then plan and implement intensive strategies.

Customer Buying Behavior and Customer Loyalty

Whether based on their own desire or derived from others' recommendations, customers gather information on goods and services that interest them and then proceed to buying behavior through a stepwise process of various evaluations before and after.

Customer satisfaction is the satisfaction customers feel toward goods and services before and after buying and is one of the indicators that measure customer value. The higher the degree of customer satisfaction, the higher the probability customer will purchase and repurchase. Customer satisfaction is an important indicator for goods and services in meeting customer expectations and is also an essential concept to a marketing strategy against the background of strict customer acquisition competition in a modern market that continuously transforms.

As a greater concept to customer satisfaction, the effectiveness of customer loyalty, which represents stronger customer trust and commitment to goods, services, and providers, has been heavily attended to recently. The background factor is the change in the communication environment due to digital innovation and digital shift. Customer loyalty is greatly relevant in the evaluation and behavioral psychology of customers after purchase and use and can trigger chain purchases.

To clarify the relationship between customer buying behavior and customer loyalty, a FAST diagram for buying behavior is modeled in Figure 1.
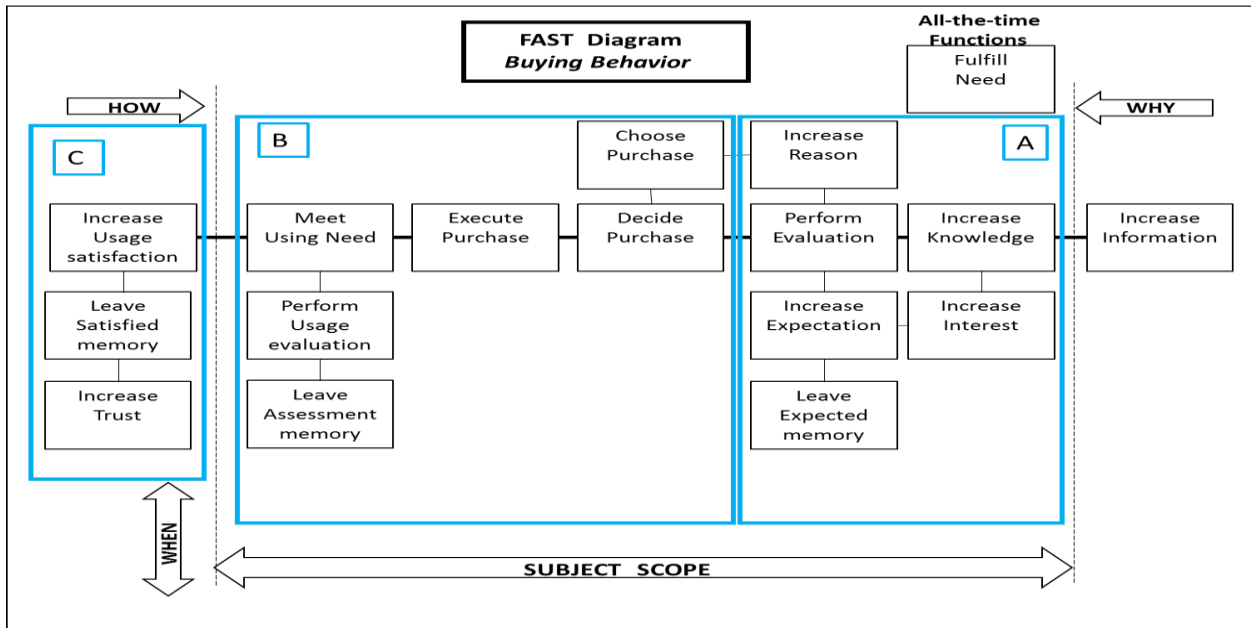
Figure 1: FAST Diagram for Buying Behavior

First, consumers collect information from various sources and increase their knowledge on goods and services of their interest to evaluate whether they are worth buying. After gathering information, consumers comprehensively evaluate the specifications, quality, price, brand, purchasing timing, purchasing method, etc., while raising their expectation value; then, they decide to purchase the goods or services that retain a high evaluation in their memory.

Consumers make comprehensive evaluation by prediction before purchasing to select purchasing targets and decide their buying behavior. Basically, consumers have the psychology of not wanting to regret after purchasing. This is also a stage where consumers are willing to expand the value of the goods worth buying, raise their expectations, impress themselves, and act as a backing for purchasing.

In the marketing strategy, activities such as promotional sales, increasing customer awareness, promoting customer expectations, and promoting customer willingness to buy are often focused on and implemented in Area A (in Figure1).

Customer loyalty is the focus in Area C (in Figure1) and is further discussed in the succeeding texts.

Customer Loyalty

After buying, a customer uses or experiences the goods or services and simultaneously conducts a comprehensive evaluation and leaves the post-use evaluation in memory. The customer experience value that arises through purchasing activities and the value based on the customer's real experience, leaves deep memories, characterized by surprise or excitement, on customers and greatly affects customer loyalty development and progress. Buying behavior is deeply attributable to customer value and is influenced by the customer behavioral psychology.

To clarify the relationship between customer loyalty acquisition and customer behavioral psychology, a FAST diagram for customer loyalty acquisition is provided below to model how customer loyalty develops and advances (Figure 2).
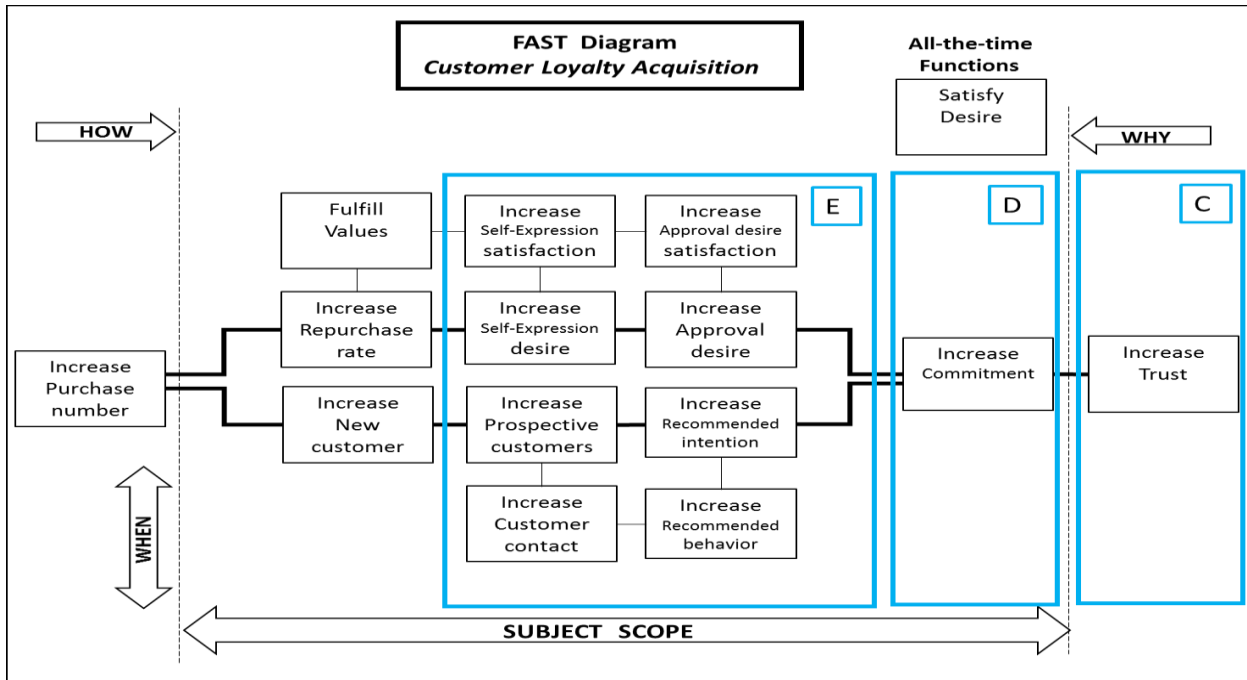
Figure 2: FAST Diagram for Customer Loyalty Acquisition

The FAST diagram above is a function analysis that stems out from the customer's high trust and expands to higher levels. Higher trust entails customer commitment, increases customer desire to recommend the goods or services or providers to others resulting to an increase in customer base, and raises customer desire for approval resulting to increased repurchase rate. Among these functions, the customer's desire for approval and self-expression are related in improving the degree of accomplishment that simultaneously leads to customer satisfaction.

From the FAST diagram above, it becomes clear that actualized recommending behavior and repurchase behavior are induced by behavioral psychology and desire latent in phases of the process of loyalty creation and retention among customers.

In the information-oriented society where various social media and information dissemination platforms are constructed, digital shift among customers accelerates. There are many cases where unique communities and networks categorized by various values are easily constructed and show phenomenal spreading ability. For better or worse, information technology network reaches a global audience with immense speed and diffusing power.

The acquisition of high reliability leads to increases in repurchase rate, purchase frequency, and profit acquisition. Moreover, the promotion of goods and services is effectively achieved in a cascading and diffusive manner through the recommending behavior of loyal customers. This results to a great contribution in accelerating the speed of customer acceptance of goods and services in the market and in stabilizing brands.

Of course, this aspect also triggers great risk on the part of the providers. When customer value is low, the goods or services spread with low evaluation and are immediately expelled from the market. Today is an era of collaborative value creation with customers where customer loyalty acquisition is a source of a trust chain while being a key strategy in marketing.

With reference to the FAST diagram, the relevance of the customers' actualized behavior and potential

behavioral psychology and buying behavior to customer loyalty acquisition is clearly shown in respective phases. It also clarified that strategic marketing is essential for customer value to create profit after goods and services are brought to the market. This should be realized not only through the pursuit of the usage benefits of customers but also through fulfillment of their potential desires such as the desire for approval, self-expression, and achievement of values.

Applying Function Analysis of Customer Loyalty to Marketing Strategy

The relationship of customer stepwise behavioral psychology and potential desire from buying behavior to customer loyalty acquisition has been discussed above. In the subsequent sections, customer behavioral psychology and satisfaction assessment targets in buying behavior and customer loyalty acquisition obtained by the function analysis are further systemized and introduced as stepwise evaluation index items in marketing strategy.

Utilizing the evaluation index items for customer behavioral psychology makes it possible to improve the effectiveness of evaluation and follow-up when applying VM to marketing strategy. In the next section, a customer loyalty evaluation index system is introduced along with utilization examples.

Customer Loyalty Evaluation Index Items

The functions obtained from Figures 1 and 2 were divided into evaluation target items and behavioral psychological indicators and then systemized as Customer Loyalty Evaluation Index Items (Figure 3).

Group	NO.	Customer Loyalty Evaluation Index Items	Use Value	Esteem Value	Area in FAST Diagram	Phase
I	101	Achievement Usage benefit	○			1
II	201	Conveniense	○			
	202	Conveniense Payment	○			
	203	Conveniense Access	○		A	
	204	Conveniense Usage	○			
	205	Conveniense Disposal	○		B	2
III	301	Price Acceptablity		○		
	302	Acceptability Appropriateness		○		
	303	Acceptability Payment		○		
IV	401	Trust		○		
	402	Product Trust		○		
	403	Company Trust		○	C	
V	501	Achievement for Emotional Values		○		
	502	Product Design		○		
	503	Package Design		○		
	504	Space Design		○		3
	505	Impression for Enproyee		○		
	506	Impression for Company		○	D	
VI	601	Achievement for Social Values		○		
	602	Social Contribution		○		
	603	Environmental Morals		○		
VII	701	Recommendation intention		○		4
VIII	801	Repurchase intention		○		
					E	
IX	901	Achievement Values		○		5
	902	Achievement for Self-expression		○		

Figure 3: Customer Loyalty Evaluation Index Items

Keeping in mind the need to demonstrate clarity in the configuration factors of the index in a stepwise manner, the items are determined as a practical customer loyalty evaluation index.

The items were divided into nine groups, from I to IX, and organized in their respective groups. In Figure 3, the items are categorized into either use value or esteem value, indicating the corresponding areas in Figure 1 and Figure 2. It also indicates the phases in numbers until customer loyalty acquisition is reached.

Phases 1 and 2 (Groups I–III) consist of customer evaluation items and behavioral psychology occurring in Areas A–C in Figure 1. These are the items directly related to buying behavior such as usage benefits of goods and services, convenience when purchasing, and degree of price acceptance.

Phases 3 through 5 (Groups IV–IX) correspond to customer evaluation items and behavioral psychology occurring within Areas C–E in Figure 2. The phases start from trust based on high degree of satisfaction in Area C. In Phase 3, customers compare the value of goods and services to their own values and decide whether both are compatible. When the customer value set by the providers meets the customers' own sense of values, or when the difference between them is comparatively small, customers are expected to exert loyalty to the goods, services, and the providers.

The scope of these Customer Loyalty Evaluation Index Items can be extended toward a comprehensive index in function evaluation step and follow-up. It is also possible to select items to be adopted or to add or reduce items with respect to the stage of application (development period, introduction period, growth period, etc.) of the targeted theme, goods, or services.

Customer Loyalty Acquisition Phase

When considering the relevance of buying behavior area, customer loyalty acquisition area, and the phases described in Figures 1–3, it seems extremely difficult to obtain stable customer loyalty unless providers acquire satisfaction in each of the five phases by order and without dropping of any phase. In another way, except for cases of extreme commitment to brands, for example, if Phase 1 is not satisfied, then it is difficult to achieve Phase 3.

The relationship between Customer Loyalty Evaluation Index Items and customer loyalty acquisition phases 1 through 5 is shown in Figure 4. In Phase 3 and beyond, which develop into customer loyalty, the items belong to the esteem value category (shown in Figure 3) and can be said to stem from the emotional or sensitive values of the customers.
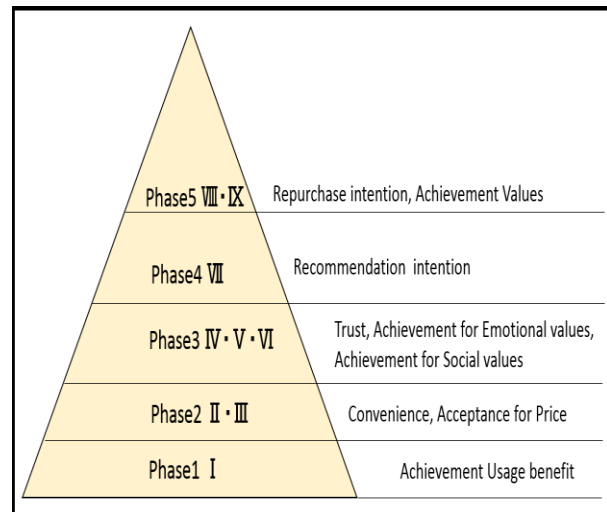
Figure 4: Customer Loyalty Acquisition Phases 1–5

Case Example of Customer Loyalty Evaluation Index Items

A case example utilizing the Customer Loyalty Evaluation Index Items for function evaluation step is introduced as follows.
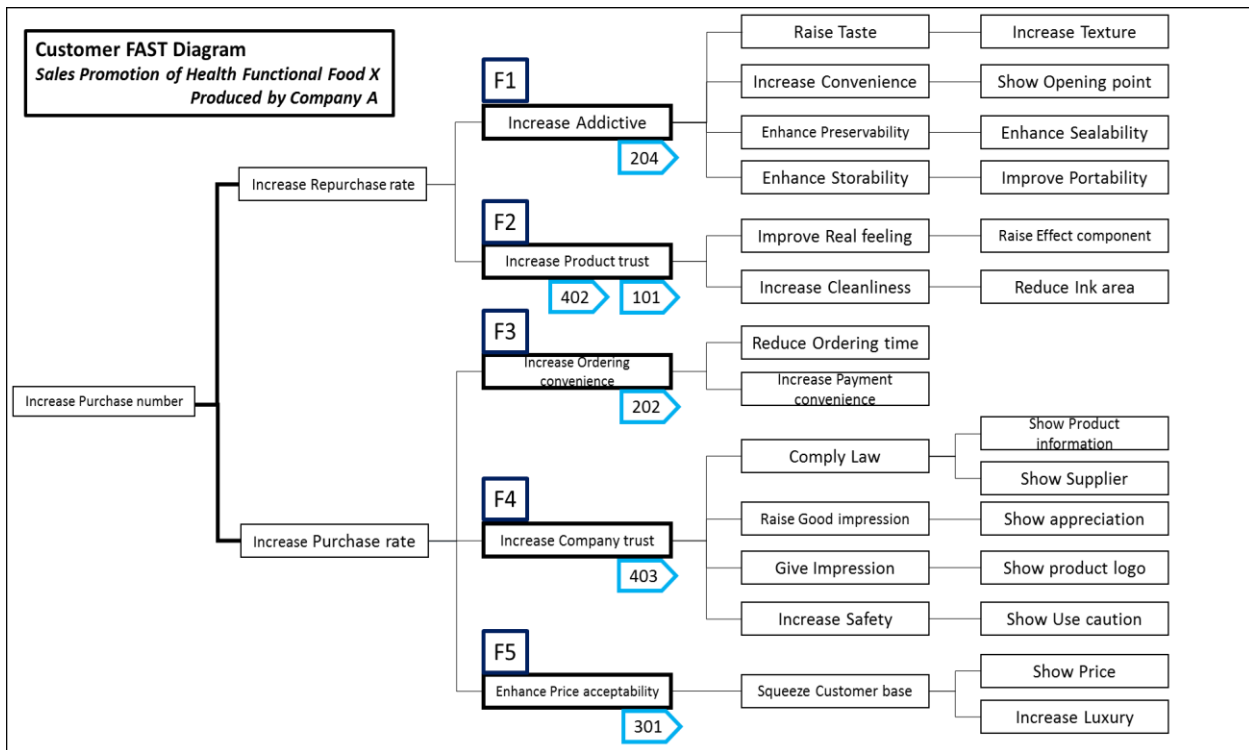
1) Subject theme: "Sales Promotion of Health Functional Food X Produced by Company A"

One year passed since the product was launched after development under OEM. The price setting was higher compared with similar products of competitors. The main customer targets were men and women who are beauty conscious and health-oriented, middle-aged and older, high-end, and in upper income bracket. Sales channel was limited to online shopping. A celebrity spokesperson was used in advertisements, and luxury was strongly emphasized in product packaging and in website.

2) Components

Product itself, product packaging (inner/outer), sales channel (internet shopping), and spokesperson.

Functions were defined from the components, a FAST diagram was modeled, and the key functions of F1 through F5 were sought (Figure 5). Customer Loyalty Evaluation Index Items were sorted for each key function, and the numbers were added.

Figure 5: Customer FAST Diagram

"Sales Promotion of Health Functional Food X Produced by Company A"

The Customer Loyalty Evaluation Index Items was adopted to evaluation of function. In addition to a potential for cost reduction and a potential for function, Customer Loyalty Evaluation Index Items and phases corresponding to each key function were described in Figure 6. Considering that the achievement degree of a function greatly affects its evaluation, the Performance Rating Evaluation Method (developed by Mr. Hisaya Yokota) was adopted as the evaluation technique, as it is effective and highly applicable in numericalization and evaluation of indicators.

KF	Current Cost	Target Cost	Potential for Cost	C	Current Function	Target Function	Potential for Function	F	V	Customer Loyalty Evaluation Index Items No.	Phase	Priority
	Cn	Ct	Cn-Ct	Cn/Ct	Fn	Ft	Ft-Fn	Fn/Ft	F/C			
F1 Increase Addictive	4,600	3,600	1,000	1.28	210	240	30	0.88	0.69	II204	2	3
F2 Increase Product trust	5,100	2,400	2,700	2.13	100	180	80	0.56	0.26	I01/IV402	1・3	2
F3 Increase Ordering convenience	400	2,400	−2,000	0.17	40	160	120	0.25	1.47	II202	2	1
F4 Increase Company trust	3,300	2,400	900	1.38	100	180	80	0.56	0.4	IV403	3	
F5 Enhance Price trust	1,600	1,200	400	1.33	60	80	20	0.75	0.56	III301	2	
Amount	15,000	12,000										

Figure 6: Function Evaluation and Selecting Targeting Areas

When selecting of the function area, the Customer Loyalty Evaluation Index Items and phases were set as the determination factors, as well as the potential for cost reduction and the potential for function and the value index. Considering that the function area should be within Phases 1 and 2 and that the potential for function is large, the highest priority was set for the improvement of the key functions F2 and F3. This way,

setting selection criteria directly related to customer loyalty acquisition enabled the case example to do selection of the function area with higher accuracy and in a more strategic perspective.

Simultaneously, realizing that the functions of Phases 4 and 5 were missed in the then sales promotion strategy, with follow-up in mind, and by incorporating the customer loyalty evaluation items as well as the evaluation indicator for each key function, the case example successfully developed unique base evaluation items for this project and enhanced her strategy on loyalty acquisition.

Effectiveness of VM Application to Marketing Strategy

The function analysis performed in the preceding sections made it possible to grasp the limited and stepwise factors in fostering customer value and achieving customer loyalty, which largely contributed to the planning of a practical strategy. With the use of the evaluation index system emanating from the FAST diagrams for the VM job plan, the case example was able perform follow-up activities aside from the enhanced strategy plan.

While formulating a marketing strategy, many cases arose where extracting concrete issues could be challenging with only the existing analytical methods and indicators at hand. This is because the tremendous amount of information was just fragmented information actualized by customers, and most of the data were comprehensive indicators.

By replacing the functions obtained through the FAST diagrams with the customer evaluation objectives and behavioral psychology, it was possible to comprehend the various general concepts of marketing and comprehensive indicators for each specific and limited factor, hence, leading to an effective and efficient strategic planning and practice.

Conclusion

In this paper, the author demonstrated the importance of customer loyalty in marketing along with FAST diagrams. The author systemized and presented Customer Loyalty Evaluation Index Items obtained from the results of a function analysis and discussed the effectiveness of VM in marketing strategy.

Marketing is an essential aspect of management strategy. As it is greatly affected by the market, it can also move the market.

Although the versatility of VM is expected to expand in the marketing field characterized by continued complexity and changeability, solutions to problems and creation of new values through VM are inestimable. The author is to further advance the research in the future by hoping that VM will be widely used in this field and lead to high achievements.

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