Re-positioning customer loyalty in a fast moving consumer goods market

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ABSTRACT

In the fast moving consumer goods (FMCG) market much of the customer loyalty operations are carried out with a short-term perspective, which often result in weak customer loyalty. Besides this, the one-sided view of customer loyalty and how to work with customer relationships, further adds to the challenges and there is a need to promote new insights and practices into customer loyalty in FMCG markets. In an attempt to broaden the view of customer loyalty, the authors take an organizational human resource perspective and present a conceptual framework and model built on human resource literature. Many companies face the exact challenge with high employee turnover, as it is associated with costs of recruiting and training, suggesting that customer loyalty becomes a question of organizing the customer as an external human resource. A practical contribution with the conceptual model is the suggestion to learn from the experiences of successful employee recruitment, and employee motivation, when viewing and working with customer loyalty.

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1. Introduction

Research on customer loyalty within the field of business-to-consumer has a long tradition. In the battle between recruiting new customers and retaining the old ones, the idea that it is more cost effective to retain customers has gained consensus. But still, there is no clear definition on what customer loyalty is, even though most researchers agree upon the fact that customer loyalty in general means that the customer benefits one seller over competitors (Jones et al., 2008), and exhibits a willingness to pay a premium (Chaudhuri and Holbrook, 2001). The other thing that most researchers agree on is that customer loyalty can be described from two dimensions: an attitude dimension and a behavioral dimension, and that most attitudes are a mix of attitudes and behaviors (Dick and Basu, 1994). Because of its fuzziness, loyalty measurement comes with a broad variety of suggestions (e.g., McMullan and Gilmore, 2003; Jalali et al., 2016; Leva and Zilliani, 2018) providing no practical output, and often leaving market professionals with little interest in such theoretical constructions (Watson et al., 2015). In the study-specific characteristics of fast moving consumer goods (FMCG) much of the operations are carried out with a short-term perspective on customer relationship (Karilke et al., 2014; Menidjel et al., 2017) focusing on the exchange of goods (Vargo and Lusch, 2004) and

CHINESE ABSTRACT

在快速消费品市场中，很多顾客忠诚度的运作都是短期的，这往往导致顾客忠诚度较低。除此之外，客户忠诚度以及如何处理客户关系的片面观点，进一步增加了这方面的挑战。因此，有必要在快速消费品市场中推广关于客户忠诚度的新见解和实践。为了拓宽顾客忠诚度的视野，作者从组织人力资源的角度出发。提出了人力资源文献基础上的概念框架和模型。许多公司都面临着高员工流动率的挑战，因为这与招聘和培训的成本有关。从这一角度出发，这表明客户忠诚度问题也可以变成外部人力资源的问题。该概念模型的一个实际贡献是在观察和处理客户忠诚度时建议从成功的员工招聘和员工激励的经验中学习。

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awarding the customer with discounts (Nastassiou and Vandebosch, 2019). In contemporary consumer markets, the growing competition has made many firms focus even more on winning new customers (Breugelmans et al., 2015), and making them come back (i.e., Rust and Zahorik, 1993; Jain and Patel, 2016; Jaiswal et al., 2018). Metrics on customer behavior are almost exclusively focused on purchasing frequency, volume, conversion rate, and retention (Magatet and Tomalieh, 2015; Morgan and Rego, 2006; Kumar and Reinartz, 2016) and customer satisfaction is often measured with the question “likely to recommend” (Reichheld, 2003), the so-called net-promoter-score (NPS). Many firms add retention to customer satisfaction, and obtain a measure of customer loyalty, which indicates that the customers have become even more disloyal (Gupta and Sharma, 2013; Sansone and Colamatteo, 2017; Zineldin et al., 2014). This way of measuring customer loyalty is often too unilaterally, and lacks the information of how loyalty actually occurs. It seems that the FMCG market is facing serious challenges with weak customer loyalty and in need of practical output broadening the view on customer loyalty and how to build strong customer relationships.

In this paper, the authors suggest re-thinking customer loyalty by claiming that (1) the customer is not exchangeable, (2) customers want to be in a satisfying relationship rather than a passing transaction (Wolter et al., 2017), and (3) customers need to feel passion, conviction and customer–company-identification (Wolter et al., 2017), in order to be loyal. These claims are very much in line with how human resource management (HRM) views their employees, and the positive link between having loyal employees and high performance and profit in the organization (Drizin and Schneider, 2004; Boudreau, 1991; Jones and Wright, 1992; Kleiner, 1990; Sels et al., 2006). Research within different fields of study shows that organizations that adopt HRM practices more easily keep their employees, turning them into loyal employees (Reda and Dyer, 2010; Hassan et al., 2013; Akunda et al., 2018). An organizational human resource perspective could promote new insights and practices into customer loyalty in FMCG markets. Therefore, this paper is an effort to endorse the thoughts on customer loyalty, and broadening conceptual thinking on how to view customer loyalty, and build strong customer relationship in the FMCG-market.

2. Method

In order to broaden conceptual thinking on customer loyalty the authors sought path of guidance from HRM literature and empirical studies from the field. The arguments for introducing a framework on this basis were the similarities between the contexts of being a customer and/or being an employee. Both parties engage in exchanges where the individual has fewer resources than the organization/commercial actor, and the exchanges could often be described as transactions (money vs. goods/ salary vs. work). Also, the boundaries between being an employee and being a customer are blurring, because the employee can also be a customer. In many cases employees are entitled to buy goods favorably from their employer. Another similarity between the contexts is the importance of a sustainable relationship. As underlined before, retaining customers is less expensive than recruiting new ones. Many retailers face the exact challenge with high employee turnover, as it is associated with costs of recruiting and training (Esbjerg et al., 2010).

The literature was chosen with the objective to find key ideas for HRM and the creation of loyal employees; what makes them satisfied, why do they enjoy their work, and why do they choose to stay? The literature search was not systematically, and the authors excluded articles from non-established journals, and favored publications with peer review. Different search engines have been used with keywords such as: loyalty, retention, employee satisfaction, employee types, human resource management, and HRM. The literature search resulted in a number of empirical studies, where we particularly focused on the ones from the field of retailing, but also on the ones that indicated the same claims as expressed in the introduction: (1) the customer is not exchangeable, (2) customers want to be in a satisfying relationship rather than a passing transaction, and (3) customers need to feel passion/commitment, conviction and customer-company-identification, in order to be loyal.

After the literature search the authors analyzed the articles and searched for concepts and ideas that could support the challenges of customer loyalty, and identified a pattern presented in the conceptual framework. Finally, the conceptual framework presents a conceptual model for viewing and using customer loyalty.

3. Conceptual framework and model

Based on a recent literature review on customer loyalty studies between 1980 and 2014, we know that commitment, and trust have differential effects on attitudinal and behavioral loyalties (Watson et al., 2015). Another grounded idea comes from Wolter et al. (2017) who investigates the customer loyalty concept and presents the idea of conviction and the need for customer-company-identification. Overall, there are strong indications that fundamentals of value are changing, leaving retention behind and focusing on how to view loyal customers. In such a context, there is research indicating the importance to consider the customer as a participator instead of a receiver (Manolis et al., 2001). The customer thus becomes part of the organization, a sort of volunteer, and as such contributes in an important way to the implementation of maybe an offering or a product. By considering the customer to be a resource within the firm, the customer can be seen as valuable not only as a source of income, but also as a source of competence, human knowledge and skills (Vargo and Lusch, 2004). This postmodern view of the concept of partial employee and partial customer within the service literature is based on the idea that the boarders between the firm and the customer are blurring, and both employees and customers engage in the production (Bowers et al., 1990; Manolis et al., 2001; Prahalad and Ramaswamy, 2002, 2004a, 2004b). The contemporary digital customer already perform activities that historically used to be carried out by employees, i.e., self-scanning in grocery stores, self-check-in at airports and hotels, taxi bookings and other self-service-technologies. Other activities performed by customers are developed as we speak and proof of concepts are i.e., the role as influencers, referred to as individuals who have built a sizeable social network of other customers following them, making them seen as a trustworthy customer or highly credible electronic word-of-mouth (Abidin, 2016; De Veirman et al., 2017).

Co-creation as Ritzer (2009) underlined is not new, and we have for a long time realized that production and consumption are two sides of the same coin. If customers are regarded as participants or co-creators (Prahalad and Ramaswamy, 2002; 2004a; 2004b) they become part of the organization and can support the company, not only financially, but also on a practical level as they can contribute to the survival of the company by adding knowledge and showing concern. Already in the 1980’s Bowen (1986) suggested that human resource practices on selection, motivation and education could be used on consumers, where consumers should be educated to behave in an appreciated way and be rewarded accordingly. Nevertheless, the emergence of the Internet has moved the ideas of co-creation to the center of value creation (Ritzer and Jurgenson, 2010). In addition, several research streams have considered the active role that consumers play in the market, but still, the interaction view of value formation has remained unchallenged (Cova et al., 2011). Customer loyalty thus becomes a question of organizing the customer as a human resource,
something we address in the below sections, focusing on: recruiting, and motivation.

3.1. Targeted recruitment and rewarding

Within the literature of HRM, targeted recruitment is an important strategy, and sometimes referred to as talent management or workforce planning. Targeted recruitment comprises typical human resource department practices such as recruiting, selection, development and career and succession management, and implies a level of strategic integration (Christensen Hughes and Rog, 2008). The idea of recruiting employees that is aligned with internal company objectives, and also consider the mix of working staff (such as shared responsibility, supportive culture, and individual competence) has refined the role of HR from being transactional to one that is more strategic and long-term (Russel and Brannan, 2016). Targeted recruiting has also supported the challenge of keeping the employees (Ettoire, 1997; Hewlett, 2008; Choudhary, 2016; Dechawanapaisal, 2018). When recruiting employees it is also important to consider the possibilities of co-creation with respect to other employees, and the brand community (Ongsakornrungsil and Schroeder, 2011). Employees are demanding more than a descent salary and the rewarding of working with others sharing the same values and ideas cannot be underestimated. From an empirical study of employer branding the researchers indicate that successful recruitment also comprise the idea that the employee will become brand ambassadors in their interactions with customers, and views this role as a reward (Russel and Brannan, 2016). Recent research on employees becoming influencers on social media supports this idea (Sigala and Chalkiti, 2015). Influencers promote brands and products in their social media, and contribute to successful persuasive communication. When the adoption of the so-called social media started, the phenomena often was referred to as viral marketing (Phelps et al., 2004), but in today’s society, described as an inversion of influence lying in the hands of the mass population (Simpson, 2017). Influencers are often rewarded, and the importance of having a reward must not be neglected, a reward that displays that a loyal behavior is encouraged and appreciated.

Relating to customers as external employees could mean that companies regard them in a different manner, where they can be selected and rewarded in the same way as employees, and as such providing new forms of value for the organization (Bowen, 1986; Prahalad and Venkatram, 2000). Based on recruiting and rewarding employees, and in order to better understand and examine customer loyalty, the following foundational premise is recommended:

Foundational premise 1: the view and use of customer loyalty requires that management plan customer recruitment strategies similar to their employee recruitment, as well as identify rewarding programs among customer segments, similar to the ideas of recruitment.

3.2. Motivating employees

The idea that employees need to be satisfied and motivated in order to perform and be satisfied is thoroughly researched (Maslow, 1954; Hertzberg et al., 1959; McGregor, 1960; Zhao et al., 2016; Robson et al., 2016; Oerlemans and Bakker, 2018). But motivating employees is also considered to be complex since it is individually adapted, where different employees are motivated by different things such as social relationship (Lloyd and Mertens, 2018), authenticity (Taris and Van den Bosch, 2018), career opportunities (Van Vianen et al., 2018), salary (Shang et al., 2018) etc. From the HRM literature, we have learned that employees need meaning and motivation in their social life in order to be able to perform and contribute at their workplace (Maslow, 1954; Hertzberg et al., 1959; McGregor, 1960).

Lack of motivation among employees can lead to a high employee turnover, alienation and even depression among the employees (Zhu et al., 2014). To increase the sense of being motivated engagement, commitment and participation have been identified as important concepts. The democratic ideals are significant among the desires of the employees, where participation and influence are identified as key concepts (Zhu et al., 2014). The span of employee participation can vary in organizations, but despite the scope of participation it has been observed that employee participation increases employee satisfaction (Wall and Lischeron, 1977; Cox et al., 2006; Karatepe and Olugbade, 2009; Zhu et al., 2014). Employee participation can be referred to as engagement, involvement or empowerment and can be regarded as the employee voice in organizations (Wilkinson and Fay, 2011). Based on motivation as a middle-range theory, and in order to better understand and examine customer loyalty, the following foundational premise is recommended:

Foundational premise 2: the view and use of customer loyalty requires that management identify motives and meaning, such as engagement, commitment and participation/influence among customer segments.

3.3. A conceptual model for viewing and using customer loyalty

Based on the above foundational premises, the authors present a model that delineates the critical constituents and their relations in the process of re-positioning customer loyalty, how to view customer loyalty, and how to build strong customer relationships (Fig. 1).

4. Contributions and discussion

A theoretical contribution with the conceptual model is that it supports the idea of several research streams having considered the active role that consumers play in the market (Cova et al., 2011). It also contributes by broadening this idea, suggesting that customer loyalty becomes a question of organizing the customer as an external human resource. Thereby also suggesting that the boundaries of a retailer organization are widened to include customers. As such, the authors advocate a new path to understand customer loyalty and suggest companies to ask themselves if they act loyalty towards their customers? Strong loyalty is, as mentioned throughout this paper, a mutual relationship where both parties are loyal towards each other, and thereby create a relationship built on trust and mutual dependence.

The conceptual model also disputes the idea of finding disloyal customers (churn operations), as it would put loyalty and disloyalty in contrast and may even dispute the use of the word loyal. The idea of disloyal customers reveals the idea of a power struggle between customer’s independence and companies’ desire to control the behavior of its customers. Thereby it is not surprising that for some companies, customer loyalty can be difficult to gain. To gain customer loyalty customers must be supported with similar efforts that are invested in employees: customers’ needs should be addressed and instead of loyalty the retailers seek to motivate and satisfy their customers by inviting them to participate to feel that they contribute to the organization.

Marketing professionals within different sectors, and especially those within FMCG, are in need of practical advice regarding how to view and work with customer loyalty. One of the contributions with the conceptual model is to suggest FMCG companies to learn from the experiences of successful employee recruitment, and employee motivation. If organizations have a well-functioning HRM-strategy, they can identify specific operations that might be transferred into the customer relationship management (CRM), and develop these insights into actions. The authors strongly
suggest particular interest in concepts such as recruitment, participation, commitment and authenticity, as they are believed to be essential in achieving loyalty. From a stakeholder perspective, customers should be equally viewed as an essential group when companies create value and trade with each other. When using such a perspective, it becomes clear that customers are in need of motivations such as social relationship, authenticity, engagement, commitment, participation and voice. It also becomes clear that all these motivational efforts need to be measured, and might contribute to a re-design of traditional customer loyalty measurements.

Another advice is to consider customer loyalty as a coin with two sides, i.e., you can see similar challenges with employee loyalty as with customer loyalty, and carefully study and learn from HRM-experts. Additionally, organizations might find synergies in comparing metrics between employee loyalty and customer loyalty, as both measurements should reflect the status of two powerful actors; employees and customers.

4.1. Future research and limitations

To view the customer as a human resource, and part of the organization, might be a fruitful path to develop additional conceptual insights on customer loyalty. By highlighting the similarities between the modern customer and the modern worker in society as well as in organizations, and by considering that the concept of humans as resources could be used not only when regarding employees but also customers, there is a possibility to create a new way of discussing customer loyalty. Loyalty is a complex concept that can be regarded as devotion, trust, subservience, social relations and mutual dependence and thereby loyalty might not be an appropriate concept to use if the customer is to be seen as a partial employee. Or at the least, the concept of customer loyalty needs to be given a definition that can relate more to mutual dependence and social relations than to devotion and subservience.

This paper is not without limitations and further refinements of the idea are most welcome. It is suggested that a more complete integration of literature will contribute to promising further work. We also suggest empirical testing/illustration of the ideas brought forward in the conceptual model, and the ideas on customers as human resources and part of the organization. In a digital context the loosening of organizational boundaries, regarding customers as part of the organization, is already apparent. The amounts of information that can be collected as "digital footprints" of customers are vast, and finding the potentially important customers that can be regarded as external employees, is definitely in reach. However, these customers might not be the ones who purchase the most, but instead the ones who contribute to the organization in other ways. Contributions from customers such as feedback to highlight problems not yet identified in the organization are valuable to the organization and thereby the customers that deliver such information might be highly valuable (Hjelm-Lidholm, 2011). The internet has not only meant change for retailers concerning how customers actually can behave on the FMCG market, it has also meant that the boarders of private and public, company and customer has been blurred and the customers have gained more power in these relationships. This also mean companies need to loosen the boundaries and control of the organization, letting the customers in as employees.

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