

## Introduction

Amazon is threaten with the possibility of losing market share amongst a global network. The company needs to take steps to limit the threat as Amazon continues to expand in other countries around the world. Before Amazon makes any moves forward it should look into the behavior and patterns of customers in order to move the company in the right direction.

It is important in marketing to evaluate consumer behavior; which is the process of a segments' actions related to selecting, securing, and disposing of a product or service. A marketing major can use a handful of theories that explain customer behaviors. There are many theories such as ELM, attitudes, and motives, but this research paper will only be focusing on the behavioral theory of loyalty. Loyalty is a person's "perception [of a product, brand and, or, company] as being the superior [competitor]" (Grimsley, 2003) and an earned sense of "trust... that will [obtain customers who] will want to do all their business with [that one company.]" (Reichheld; Scheffer, 2000).

Loyalty between a customer and a business is very important for the success of a company. Companies today should be interested in a person's loyalty since it can result in profitable outcomes. Looking at things in the long run, loyal "customers generate more revenue for more years, [and] the cost of existing customers... [are] lower than the cost to acquire new customers." (Berry, 1995). Loyalty also "significantly influences customer satisfaction," (Zakaria, 2013) and also increase customer referrals and repurchase rates.

A company should also be interested in loyalty because of the increase involvement of globalization. As globalization continues to "expand... the U.S. faces increasing competition" (Northern Illinois University , 2006) with worldwide competitors. Now that domestic companies are facing an emerging threat, it needs to rely on new strategies, one being loyalty, in order to ensure that consumers will be faithful to the company's brand and, or, product.

One of Amazon's largest competitors is Alibaba which is a Chinese company that is "similar to Amazon." (Loeb, 2014). Alibaba has already obtained "300 million customers" (Loeb, 2014) and offers Nike Shoes and even "tobacco products." (Loeb, 2014). Alibaba is also expanding as it competes for market share against Amazon. Alibaba also has just even been previously offered as an IPO and "U.S. retailers should be paying attention to Alibaba's IPO as it may be a harbinger of an even more competitive environment." (Loeb, 2014).

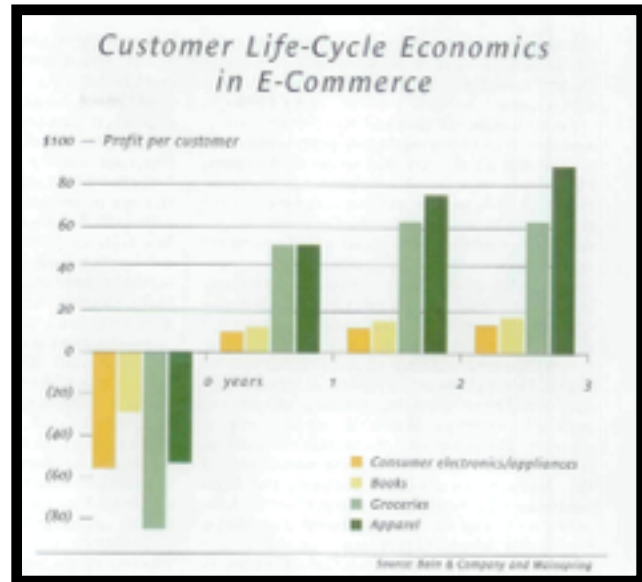
The relationship between a customer and a business, in terms of loyalty, is relevant for the company Amazon. Amazon is an online marketplace, structured to be a business-to-consumer company that has grown exponentially into a well known brand since its opening in 1994. According to Scheffer, "price does not rule the web; trust does" (Reichheld; Scheffer, 2000) and if that is true Amazon must depend on the loyalty of its customers. In addition to that, competition such as Ebay, Walmart Online and Alibaba, are gaining more market share which means that Amazon needs to look into the behavioral theory of loyalty.

## **Past Research**

The launch of the internet has changed, or has eliminated, old marketing strategies that have been used for years. Frederick Reichheld's and Phil Scheffer's research paper, "E-Loyalty: Your Secret Weapon on the Web," explains that the so-called professionals that "claim that the internet has overturned the old rules of [loyalty]" (Reichheld; Scheffer, 2000) are wrong but in reality the old concepts of loyalty are still true today and that loyalty offers more opportunities.

According to the research, traditional loyalty methods such as "increasing customer retention rates by 5% increases profits by 25% to 95%." (Reichheld; Scheffer, 2000). When those same loyalty methods were applied to online retail stores it resulted similarly to brick and mortar companies; which is having "early losses, followed by rising profits" (Reichheld; Scheffer,

2000). However, E-loyalty strategies were shown to be more affective than traditional loyalty strategies. The research shows that when a loyal relationship is present between a company and its customer, that customer will “spend more than twice as much in months 24-30... than they do in the first six months.” (Reichheld; Scheffer, 2000). The increase in profits reflects the fact that a customer is re-purchasing the company’s product or increasing their quantity.



Customers that are loyal to a company and, or, product have a larger repurchase rate compared to customers who are not as loyal to the brand. This increase in behavior is because “customers tend to consolidate their purchases with one primary supplier, to the extent that purchasing from the supplier... becomes part of their daily routine.” (Reichheld; Scheffer, 2000). Bo Edvardsson’s research is consistent with Reichheld’s research as he adds on by explaining that “loyal customers are more likely to be in a habitual... mode of behavior as opposed to a... problem-solving mode.” (Edvardsson, 2000). Customers who are not loyal will continue to compare brands instead of completely trusting one brand and this can be a result of not being completely satisfied with a brand.

Another customer behavior that results from customer loyalty is a higher level of customer satisfaction. Ibbrahim Zakaria’s research proves that “the relationships among loyalty programs, customer satisfaction and customer loyalty” (Zakaria, 2013) all depends on each other; and that when loyalty programs, such as “gift redemptions, insurance coverages, and special prices” (Zakaria, 2013) are offered, customer loyalty increases therefore customer

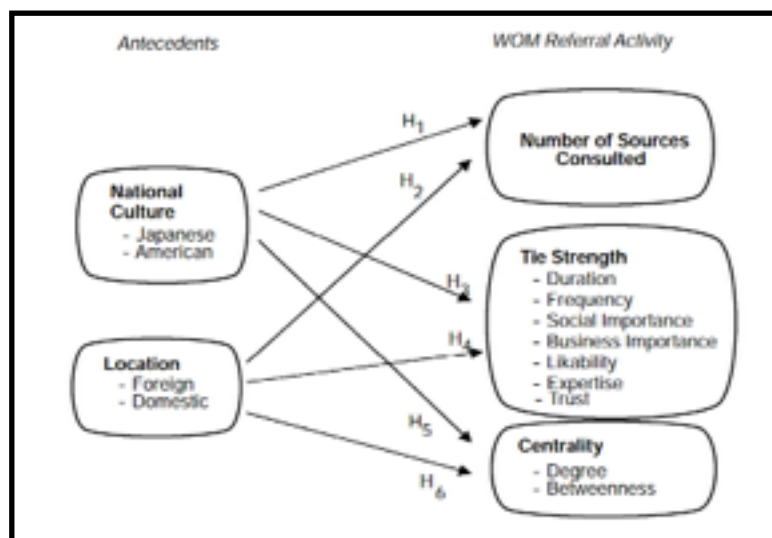
satisfaction also increases. The more the customer participates in a loyalty program the higher the customer satisfaction is and according to Zakaria's data, the combination of loyalty programs offered results in "93.4%" of satisfied customers.

Section	Scale	Cronbach's Alpha
B	<u>Loyalty Program</u>	
	Shopping Partner Program	.837
	Gift Redemption	.830
	Insurance Coverage	.832
	Member's Day	.863
	Magazine	.724
	Rebate Gift Voucher	.911
	Special Price	.885
C	Customer Satisfaction	.934
D	Customer Loyalty	.977

Critics have argued that satisfaction is unrelated to customer loyalty because some customers stay loyal to a company or organization since they are unable to leave due to reasons such as "government regulations... high switching cost... limited alternatives; and strong loyalty programs." (Jones; Sasser, 1995). This type of loyalty is called "false loyalty." (Jones; Sasser, 1995). Jones and Sasser explain that some loyalty programs, offered by companies, such as frequent flier miles and points, can be false signs of loyal behaviors; even if the customer is not satisfied with the company.

However, when customers have "choices, they [will] act like customers in markets with high competition. They will only stay rock-solid when they are completely satisfied." (Jones; Sasser, 1995). Jay Kandampully supports Zakaria's and Jone's research by explaining, in his own research, that when "hotel room[s] [were clean] and the ability and willingness of housekeeping staff offer[ed] superior service... customer loyalty" (Kandampully, 2000) was much higher and unsatisfied customers found new hotels. The customers that are loyal to the hotel are the customers who are satisfied with the cleanliness of their hotel room.

Companies that “generate [the same] outstanding levels of satisfaction and loyalty [also] generate customer referrals and positive word-of-mouth, in turn, generating additional sales revenues from friends and family.” (Edvardsson, 2010). Word-of-mouth is when people share information among each other, eventually reaching a point where a majority of the population knows the information. Word of mouth is a powerful tool for companies and the research found in “The relationship between customer loyalty and customer satisfaction,” demonstrates that customer loyalty is linear with word-of-mouth since “loyal customers frequently refer new customers to a supplier.” (Reichheld; Scheffer, 2000). Word of mouth is important in current society, especially since social networks are available to everyone and customers are more likely to trust their friends over businesses. According to Bowen, “96.9 percent [of loyal customers] had spread positive word-of-mouth... [and] the average number of people to whom they had told positive things to... was an average of 8.29 people.” (Bowen, 2001). On the other hand, customers who were not fully loyal to the company resulted in “87.7 percent of [them telling] people positive things about the [company] and [telling] on average... 6.29 people.” (Bowen, 2001). The data confirms that a loyal customer increases word-of-mouth and positive feed back.



The increase amount of word-of mouth has also increased the amount of referrals and those two increased behaviors has decreased the cost for companies since companies are “spending less... to acquire each new customer.” (Whitman, 2000). Referrals are recommendation, from friends and family, encouraging others to share the same satisfying experience that they had. Loyal customers serve as a “fantastic marketing force” (Ramen, 1999) because they offer recommendations and positive word-of-mouth for free, compared to companies who have to obtain customers from paid promotions and advertisements.

Customers that both share positive word of mouth and referrals are the customers that are “satisfied with the [product or] service” (Kandampully, 2000). According to “ 92% of business owners” (DeMers, 2014) this theme of loyalty is most important because of the use of social networking technology. Social media, such as Facebook, Twitter and Youtube has opened “this two-way dialogue..., with barriers such as lack of staff and time, and opportunities to improve... [loyalty]” (Briones; Kuch; Fisher, 2010) due to the amount of time spent on these sites.

Some critics believe that loyalty amongst a company is nothing but harmful. Dowling’s and Uncles’ argue that introducing loyalty programs are “a mistake for a company” (Dowling; Uncles, 1997) because “competitors are sure to counter [with their own loyalty program] of equal perceived value;” which in turn, will create a competitive market and not a loyal market. If a market is competitive, consumers will continue to behave in a problem solving mode instead a loyal mode; which will decrease revenues because money will continued to be spent on these loyalty programs and if customers are willing to leave when the opportunity arises than the money is being wasted.

Although Dowling’s and Uncles’ make a valuable argument, their conclusion was gathered from both customers with false loyalty behaviors and customers with true loyalty behaviors. Trying to make everyone loyal towards a brand cost way more money than it would

to invest in the percentage of people who are already loyal to the brand or soon to be loyal to a brand.

## **Conclusion**

Some companies believe that price controls revenues and sales but Scheffer states that “price does not rule [revenues and sales]; trust does” (Reichheld; Scheffer, 2000) and since Amazon is an online retailer its primary goal must be to achieve loyalty amongst its customers. According to the data gathered within this essay, some might argue that loyalty is harmful to a business but a majority of the researchers still agree that loyalty benefits both the customer and the business because it will increase customer satisfaction, increase the amount of referrals, and increase repurchase rates. In addition to that, loyal customers will spread positive word of mouth that will result in cheaper ways of obtaining new customers; unlike other methods, such as promotions and advertisements that cost a lot more than positive word of mouth.

However, those pessimistic professionals claim that “false loyalty,” is the cause of some of the beneficial outcomes and that money is being wasted on customers who will abandon ship when ever they have the opportunity. In order to clear up all this misunderstanding, research on “false loyalty” must be done. Unlike this research essay, that focuses on the benefits of loyalty, another research project must collect data on the comparison of false loyalty and pure loyalty. The data should also include the longevity of false loyalty and the cost to obtain false loyalty.

Americans perceive Amazon already as a huge loyal company, however when Amazon is looked through on a global scale, it falls behind its competitors, especially Alibaba. The world is a competitive place and as both companies fight for new customers Amazon needs to have a strategy for obtaining these new customers. That is why loyalty is very important and should be

embedded in the DNA of Amazon and also embedded in the minds of its customers and its potential customers.

One thing that Amazon can take away from the increase of repurchase rates is that loyal customers only increase the amount of purchases with companies that they are comfortable with and trust. If customers feel mistrusted then customers will be reluctant in shopping at Amazon. That is why Amazon has to make sure that merchandise from its warehouses are shipped on time without any damages to the product.

Another thing that Amazon can take away from the research is that customer satisfaction and its relationship with loyalty go hand and hand. Amazon should introduce more loyalty programs so that customer satisfaction will increase which will result in a higher number of loyal customers. Which, in turn, will result in positive revenues. In addition to that, if customer are not satisfied, but they are falsely loyal, then Amazon can still collect profits from customers who are not satisfied.

If Amazon obtains satisfied, loyal customers then it will get positive word of mouth and referrals. This is the most important aspect of customer loyalty and that is because the end game of any business is to make the most profit. What Amazon should take away from word of mouth and referrals is that it decreases the need for advertisements and promotions. Although Amazon is going to need advertisements and promotions when it first enters a new market , it eventually is going to want to spend that money later on in a different market. Like the research explains, loyal customers will constantly share their opinion and if Amazon makes an attempt to obtain opinion leaders it will reach out to more customers on a more personal level.



## **Citation**

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