

Investigating Customer Club as a Marketing Activities (Case Study: Asia Insurance)

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Abstract

Customer clubs are assumed to create loyalty from the company perspective (Reichheld and Sasser, 1990). However, they seem to have attained a position of their own in many companies, and to have an institution-like function (Butscher, 2002). Such a position supports the alienation between the customer club and other parts of the business. As a consequence, many club programs still offer their customers the same kinds of benefits as they did when the club was launched, even if the competitive situation has changed considerably and having a customer club has become almost a standard feature. The fact that many customers are members of several clubs, even in the same industry, is seen as a sign of diffuse customer perceptions of the loyalty concept. The changing competitive situation for most companies, in turn, means that the reasons for joining a club have changed considerably: we thus define the customer club as it was perceived by most customers in Gustafsson et al. (2004): "A membership related to the specific company including benefits that are mostly apparent in customers' relationships as repayment formed in different ways and initiated by the company". So, in this article we investigate the customer club concept and represent a model for it.

Keywords: customer club, customer satisfaction

Introduction

Customer clubs have been established by many organizations. A customer club can be defined as follows: A customer club is a company-run membership organization that offers a range of value-adding benefits exclusively to members. The initial costs of establishing a club can be quite high, but thereafter most clubs are expected to cover their operating expenses and, preferably, return a profit. Research suggests that customer clubs are successful at promoting customer retention, commonly referred to as loyalty of affinity programs. Customer loyalty clubs are a German invention. Currently, German law is extremely restrictive and makes it almost impossible to give different customers or customer groups different prices and discounts simply because they are members of a customer club. In most other countries, customer clubs are nearly entirely price based and offer their members special discounts and prices. German marketers, in contrast, are forced to develop customer clubs built primarily on non-financial benefits. The result was customer clubs. Several hundred clubs in Germany and now in other countries around the globe have proved that emotional benefits, services and value added discount programs are the key to customer loyalty.

To become a member and obtain benefits, clubs require customers to register. With these personal details, the company is able to begin and services for them. Clubs can only succeed if members experience benefits they value. Club managers can assemble and offer a range of value-adding services and products that, given the availability of customer data, can be personalized to segment or individual level. Among the more common benefits of club membership are access to products and services, alerts about upcoming new and improved products, discounts, magazines and special offers.

There are over a million paid-up members of the Harley Owners' Group, which was established in 1983. They choose from two levels of membership, full and associate, and a variable membership length, from one year to lifetime. Among the many benefits are roadside assistance, a membership manual, a touring handbook, a dedicated website, magazines, a mileage program, a selection of pins and patches, membership in over 1000 chapters, invitations to events and rallies, and a lot more

1-customer club

customer club is defined as a communicative union of people or organizations, initiated and operated by an organization in order to contact these members directly on a regular basis and offer them a benefit package with a high-perceived value. The goal is activating them and increasing their loyalty by creating an emotional relationship. A customer loyalty club is also an expression of your company's culture - of being close to your

customer in a personal and caring way. It brings the hospitality of your business into the customer's home or office. Offering a loyalty program tells your customers or membership they are special and that you care. Customer clubs are a synonym for value-oriented customer loyalty programs. Customer clubs have some special characteristics that make them particularly effective and differentiate them from frequency programs. The most important are as follows:

- Customer clubs are initiated, planned and managed by an organization and not by the customers themselves
- Customer clubs offer real and perceived value to their members by optimizing the combination of financial (hard) -and non-financial (soft) benefits
- Customer clubs provide opportunities for members and the sponsoring company to talk to each other
- Customer clubs can collect data that will help other departments of the sponsoring company improve their performance
- Customer clubs aim to activate customers by encouraging them to buy or recommend a product, take a certain action, communicate with the club and so on

There is a difference between loyalty and frequency programs. According to Webster:

1. *Loyalty*: 1. Faithful to one's country, friends, ideals and more. 2. Showing such faithfulness.
2. *Frequency*: 1. Frequent occurrences. 2. The number of times an event recurs in a given period.

Loyalty is being faithful. Frequency is how often you use a product or service. The two do overlap. They overlap because frequency of use of a specific brand increases when there is a high degree of loyalty. When there is a benefit for frequent use of a product or service, such as the airline, hotel and rent-a-car bonus programs, loyalty builds. (Butscher, 1996)

1-1. Benefits of customer satisfaction

The ultimate objective for private sector companies is to deliver profits to shareholders but this objective is achieved by delivering results to customers. This is based on the fundamental psychological principle that people will want more experiences that are pleasurable and avoid experiences that are unpleasant. This explains why it is more profitable to retain old customers, than to try to acquire new ones. Customer satisfaction benefits private sector companies in multiple ways that include higher employee satisfaction, sales and profit, and shareholder value. (Hill & Alexander 2006, 19-21)

Another benefit of customer satisfaction is that when customers are satisfied they are less likely to talk about the company they are satisfied with in a negative way. According to Chakrapani, when a customer has a minor service problem, transaction is worth less than \$100, they will tell about it to 9-10 people. According to Hill & Alexander unhappy customers will

probably tell about their experiences to several others. Hill & Alexander also mention that it may require repeated positive encounters to create loyalty but two negative encounters can banish the customer permanently. (Chakrapani 1998, 13; Hill & Alexander 2006, 21)

An additional benefit of customer satisfaction is that it is linked with employee satisfaction. This link between customer satisfaction and employee satisfaction has been recognized widely. Typically employee satisfaction produces higher levels of customer satisfaction because satisfied employees are more motivated to serve customers better. However higher customer satisfaction also produces higher employee satisfaction because employees tend to prefer to work in companies that have low levels of problems and complaints due to high customer satisfaction levels. Satisfied employees are likely to stay longer and in doing so keep valuable expertise and customer relationships within the organization. High staff turnover has a negative effect on customer satisfaction. However, according to the research of Chun and Davies, happy workers do not necessarily result as happy customers. According to them, satisfied customers are important to a business and satisfying employees is a worthwhile objective for many reasons. They continue that customer satisfaction and employee satisfaction can be linked by engaging employees by giving them reasons and ways to please customers and then acknowledging this behaviour. (Chun & Davies 2009; Hill et al. 2007, 20)

2-1. Measuring customer satisfaction

Customer satisfaction measurement is an important tool that companies can use to prevent losing customers. It is essential to measure customer satisfaction because an average business loses between 10 and 30 per cent of its customers annually without even knowing the reasons why. The purpose of customer satisfaction is to provide

managers with the right information, so that they are able to make the right decisions to maximize customer satisfaction and as a result improve customer retention. Monitoring customer satisfaction is however useless if management is not committed to the process and willing to act on the results. (Cook 2008, 95; Hill & Alexander 2006, 5, 9)

Instead of concentrating on gaining as many new customers as possible companies should take good care of their existing customers. Unfortunately, many companies do the opposite and as a consequence lose more money. (Hill & Alexander 2006, 5)

Customer satisfaction measurement is also important because it can be said that organizations are defined by what they measure. "What a business measures shapes employee thinking, communicates company values and channels organizational learning." (Hill et al. 2007, 35) Issues that are not measured are on the contrary not taken seriously by the employees because it is impossible to base performance management and rewards on them. In addition whenever something is measured, it is performed, completed and generally improved upon. (Gerson, 1993, 6; Hill et al. 2007, 35)

3-1.Reasons for measuring customer satisfaction

According to Hill et al. (2007, 3) there are four different reasons why effective customer satisfaction monitoring provides essential information for organizations to optimize their benefits from their customer relationships.

The attitudes that a customer has about an organization determine how they are going to behave towards it in the future. Therefore measuring customer satisfaction is a leading indicator of future customer behaviors. The future customer behavior in turn determines company profitability. Customer satisfaction measurement focuses on measuring customers' attitudes about how satisfied they are with the organization. Customers' attitudes provide the most useful data for managing organizational performance as leading indicators. Customers' loyalty behaviors are also very important to companies but they have already happened. By the time an organization discovers that the customer has chosen a competing product or service, the opportunities have been missed. Measuring customer behavior is important but it reflects only what has already happened in the past and it does not reveal how to improve on that. The main purpose of customer satisfaction measurement is to provide information on how to improve in the future. (Hill et al. 2007, 3-4)

It is crucial that managers understand the difference and relationship between customers' attitudes and behaviors. It can be said that satisfied customers will be more loyal than dissatisfied customers, so as a result customer satisfaction must be important. However it can also be said that customer satisfaction cannot be important because some satisfied customers defect. In reality there are different levels of customer satisfaction. In most markets it is not enough that suppliers do not dissatisfy customers. In order to maximize the benefits of customer satisfaction they need to do much more. To retain their customers, suppliers need to deliver such good results that rational people will determine that it would be difficult to obtain better results from somewhere else. (Hill et al. 2007, 4-5)

It is true that „merely satisfied“ customers do defect but customer satisfaction is the main reason of customer loyalty. Satisfied customers defect because they are not satisfied enough. To ensure loyalty organizations need to make sure that their customers are highly satisfied, not „merely satisfied“. Customer satisfaction has a direct effect on profits since dissatisfied customers are more likely to complain, ask for help and cause other problems that consume organizational resources when they are taken care of. However according to Arantola signs of loyal customers are giving customer feedback and complaining. The complaints are made because the customer wishes that the company will improve its operations and as a result the customer can rationalize to them self why he or she will remain a customer of this company. A dissatisfied customer who does not want to remain a customer of the company would not take the time to make a complaint except if he or she wishes to receive monetary compensation. (Arantola 2003, 40; Cook 2008, 98; Hill et al. 2007, 6; Jones & Sasser 1995)

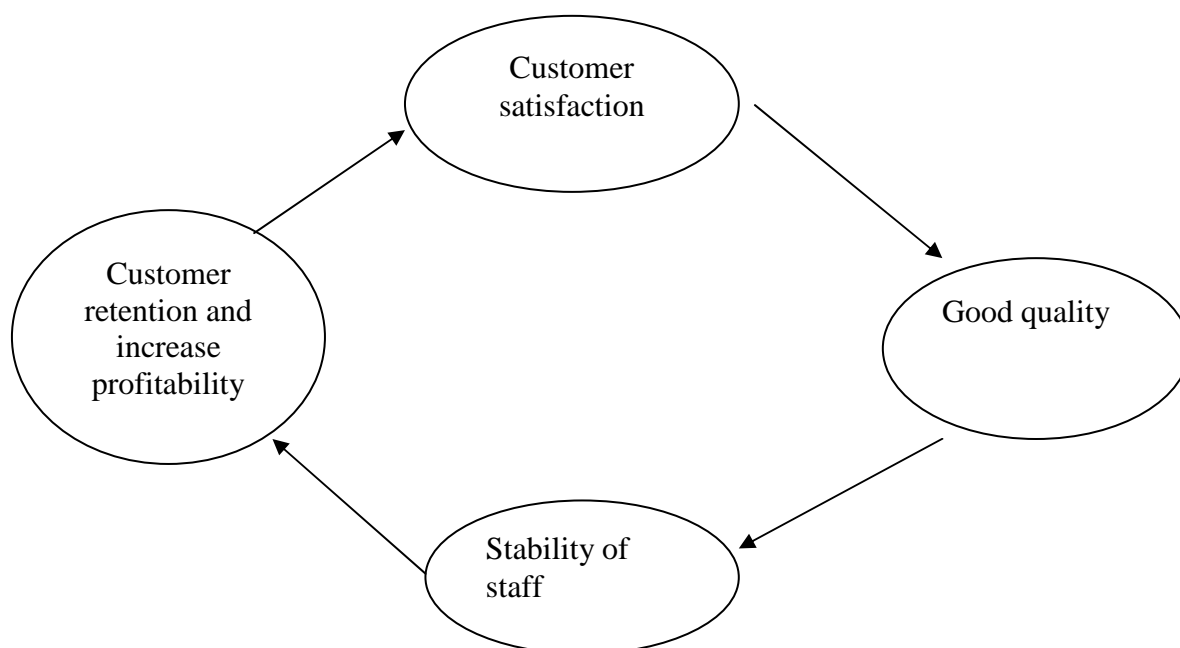


Figure 1: The benefits of customer retention in a company (Ylikoski 1999, 184)

As seen in Figure 2 customer loyalty can also be seen indirectly in the personnel of a company. Satisfied, long-term customers are more pleasant to serve and therefore the stability of the staff increases. Good quality creates customer satisfaction which increases customer loyalty and profits. The stability of staff improves the possibility to produce good quality repeatedly. In addition when a company is spending less to acquire new customers, it is able to pay higher salaries to employees. Higher salaries help to increase employee morale and commitment. When employees stay with an organization longer their productivity rises and training costs decrease. When employees are overall highly satisfied and experienced they are able to serve the customers better. Personal relationships between employees and customers are also developed when employees stay with an organization longer. Stability of staff is also important because long-term employees know their customers well, so they are able to deliver more value, which again increases both customer and employee loyalty. (Griffin 2002, 13; Reichheld 1996, 21; Ylikoski 1999, 183-184)

2.Objectives of customer loyalty programs

Loyalty programs are established because of different reasons and backgrounds but the commercial reason for them is a need to level the fluctuations in sales and to be able to predict better how the business operations develop in the future. In addition the objective is to increase the sum and frequency of purchases. Objectives regarding customers are related to acquisition of new customers and customer loyalty. Customer loyalty programs did not introduce discounts and bonus-points to markets but many companies use customer loyalty programs to replace the varied methods of offering customers different incentives in the form of discounts. In addition the objective has been to decrease the importance of discounts and to try to focus the marketing communications on service benefits instead of monetary benefits.

3.Demographic Characteristics of Consumers

Table 1 gives information on the demographic characteristics of consumers. Majority of the respondents were females constituting 50%, and males constituted 50%. The table also shows that majority of the consumers were within the ages of 21 - 30 years (65%), while 25% representing 102 consumers were within the ages of 31-40, and 8% under 20 years, and also just 2% between 41 to 50. Information on the education of consumers depicts

that 49% had bachelor education, 6% had primary school education, 37 % had post-primary education, and 8% had Phd education, while 6.8 had postgraduate qualifications.

Table1: Demographic Characteristics of Consumers

Demographic	category	percentage	Count(n)
Gender	Male	50%	60
	Female	50%	60
AGE	Under 20	8%	2
	21-30	65%	100
	31-40	25%	10
	41-50	2%	2
	Upper50	0%	0
Education	Bachelor	49%	90
	Primary school education	6%	4
	Post-primary education	37%	20
	phd	8%	6

the result of testing hypotheses

hypotheses	INDEPENDENT VARIABLE	DEPENDENT VARIABLES	R	R ²	F	Sig	result
H1	Customer retention and increase profitability	Customer satisfaction	0.732	0.535	81.394	0.000	Accepted
H2	Customer satisfaction	Good quality	0.744	0.553	152.092	0.000	Accepted
H3	Good quality	Stability of staff	0.444	0.197	28.804	0.000	Accepted
H4	Good quality	Customer retention and increase profitability	0.529	0.280	47.800	0.000	Accepted

As mentioned before, based on a comprehensive survey of the literature, four hypotheses were developed in this study. According to the statistical analysis of hypotheses examined the correlation between the variables in all of the hypotheses were confirmed., With the difference that the dependent variable intensity and the effect of independent variables on them, varied. However the of a look at the re to test this hypothesis, we note hypotheses and results.

Result

According to finding of this research the primary objectives of any loyalty-marketing program are these:

- To create measurable increases in sales & profits!

- To increase frequency of visits or use by your baby boomer and senior members/customers
- To improve customer retention to discourage defection to the competition by offering an incentive for loyalty. In addition, many companies use loyalty programs for at least two more reasons:
- To decrease reliance on mass marketing media tools, by doing these things:
 - Targeting specific offers or messages based on real, live usage history, and
 - Use the acquired database knowledge to target prime prospects. In these two instances, the database is being used to both keep what you have ... and to look for new.

In a market environment characterized by increasing competition, unpredictable and well-informed consumers and lack of growth, customer loyalty efforts are gaining in importance and might come to be one of the most important strategic success factors. It is essential for a baby boomer and senior customers club to function smoothly to achieve its goal of customer retention. When companies are gradually moving towards one-on-one marketing, overlooking the significance of customer clubs that help develop strong relationships with individual customers can become an organization's downfall. Benefits of long-term customer relationships and customer loyalty.

Long term customer relationships and customer loyalty are beneficial for both companies and customers. According to studies, loyal customers are an important asset to companies because loyalty decreases customer turnover and increases customer profitability. Loyal customers buy more than regular customers and from multiple product categories. Loyal customers are not as willing to seek other alternatives and receive offers from competitors as other customers. In addition they recommend the products and services of the company they are loyal to, to others. (Paavola 2006, 263-264; Ylikoski 1999, 180-184)

Customer loyalty is beneficial to companies because loyal customers are predictable. Customer predictability reduces operational costs as managing staffing, inventory, growth and hours of operation are easier to manage when a company is able to predict its customers' buying behaviors. Another benefit of loyal customers is that the company is already doing business with them so they do not need to be attracted. Loyal customers are also easier to do business with since the company knows their buying habits and preferences. Doing business with a loyal customer also takes less time. (Lawfer 2004, 43-44)

Long-term customer relationships are the source of financial gain for companies. Customer loyalty significantly affects the profitability of the company. According to a survey by the Harvard Business Review, the improvement of customer permanence by five percent units increased the profit per average customer by 25-100%. (Reichheld 1996, 33; Ylikoski 1999, 180)

A loyal customer is not necessarily a profitable customer immediately. It might take several years until the profits that a customer brings in become bigger than the costs of the customer. The length of a customer relationship together with the part that a company has of the total purchases of a customer determines how profitable the customer can become. Over time a customer becomes more profitable also because the efficiency of marketing investments grow, when the level of loyalty increases. (Griffin 2002, 12; Ylikoski 1999, 181)

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