Loyalty-generating products and the new marketing paradigm

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Abstract This paper aims to introduce the concept of the 'loyalty-generating product' as a transitional stage between marketing's transactional and relationship paradigms. In the context of simultaneous, multiproduct purchases, is it possible to isolate a product, or cluster of products, which facilitate cross-selling and direct exchanges that can lead towards a relational structure? Some examples and counter-examples are presented.

Customer loyalty/retention has become a fundamental issue, both for practitioners and for researchers.¹⁻⁷ This defensive orientation results not only from the dual necessity of reducing marketing costs and preserving market share but also from a radical change in the focus of marketers' attention.

The last decade of the 20th century witnessed an evolution, if not a revolution, in marketing thought and action. From a starting point focused on the product, where the marketing mix promotes and reinforces preferences, marketing's philosophical foundations are no longer centred on the potentially quite narrow concept of exchange. Without breaking away from the underlying economic theory, marketing has come to occupy a wider domain which, although it involves transactions, has more to do with relationships. Grounded in feelings of trust and commitment,^{8,9} the relational concept suggests a stronger psychosocial orientation to marketing activities. The

individual consumer is at the heart of this new way of thinking. The individual and the customised management of contacts has become standard practice.

While this transformed paradigm is already widely applied in certain contexts such as in business-to-business or financial services marketing, there remain, however, obstacles to its adoption in other sectors of the economy.

It is within this framework that this paper explores one of the possible precursors of conversion to the relationship model, which can be portrayed as the consumer's loyalty expressed through repeat purchase behaviour. Specifically, the concept of the loyalty-generating product (LGP) is introduced. Put simply, can an LGP convert a transactional orientation of customer-supplier exchanges to a more substantially 'relational' relationship? In other words, the hypothesis that the acquisition of certain products affects not only the duration of the relation but also

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its intensity supports, from a theoretical point of view, the approaches to clientele portfolio management which give particular importance to the techniques of cross-selling or to the development of additional products. Obviously, this issue is positioned at the meeting point between customer management and product policies.

THE EVOLUTION OF MARKETING

Four major evolutionary stages in marketing form the basis of the development of the concept of LGPs.

From customer acquisition to loyalty/retention

As operational elements of a defensive strategy, policies aimed at enhancing customer loyalty are of interest to a large number of companies.¹⁰ They are traditionally centred on communication,^{11–15} quality and satisfaction^{16–22} in a transactional approach or, more recently, on true loyalty programmes^{23–30} within the framework of a relational approach.

These programmes have given birth to retention policies aimed at preventing the loss of customers considered profitable to the company. This approach comprises a number of factors affecting the duration of the trade relationship: satisfaction;^{31–37} the relationship *per se*;^{38–41} switching barriers as (a) interpersonal relationships,^{42,43} (b) switching costs,^{44,45} (c) attractiveness of alternatives.⁴⁶

Note that loyalty belongs to the customer, it is an inner state that leads to an orientation toward the future, the willingness to continue the relationship, a commitment to the product, the brand or the supplier. To say that a customer is loyal is to confer an active role on the customer. Retention, however, depends on the company which tries to retain the

customer. So a retained customer is in a passive role. Another difference between the two concepts can be seen in the way they are measured. Loyalty is essentially appreciated through the duration of the relationship, retention through the churn rate. Unfortunately, these various elements only refer to the product in an implicit way and seem to overlook the potential importance of its role in retention strategy.

From a product orientation towards a customer orientation

‘Traditional’ marketing, which has always been interested in the competitive advantage of the product⁴⁷ or in its positioning,⁴⁸ relies essentially on the organisation and structuring of preferences as foundations of product or brand loyalty. This classic approach is gradually giving way to ‘customer marketing’ which emphasises the global nature of the relationship,⁴⁹ which itself has become the source and focal point of managerial and academic concerns. Customer orientation, included in market orientation, is endemic to organisational culture which seeks to generate, in the most efficient and effective way, the corporate and individual behaviours seen as necessary for the creation of superior value to be delivered to the customer.^{50–52} Alternatively, customer orientation is represented as a set of beliefs which places the customer’s interests first.⁵³

Within this framework, the operationalisation of customer-oriented policies requires a complete picture of the purchase behaviour of each customer, down to every product they buy. This approach is made possible by the improvement in customer management and information systems which no longer use the product as the single unit of analysis.

From an aggregated approach to an individual approach

While product orientation usually entails a mass market, or at the very most, a segmented approach, the total customisation of exchanges is the corollary of the alignment of the 'marketing telescope' on the customer. As a result, academic research increasingly seeks to integrate individual-level data. This has brought into favour the 'database paradigm' as it has been called (a systematic recourse to customer databases as a means of supporting marketing activity). This has led to a new way of thinking and has established a wide field of study, rich in potential for marketing theory. It is a short, and possibly hasty, step to associate this revolutionary development of information system-led customer relationship management (CRM) with relationship marketing itself. CRM has itself been, perhaps unrealistically, identified as a factor in retention.^{54,55} Database marketing, however, certainly provides a 'one-to-one' orientation while relationship marketing, taking good advantage of this new tool,⁵⁶ remains strongly directed towards exchanges between individuals and carries the inherent objective of long-term commitment,⁵⁷ as observed, for instance, in industrial marketing or in financial services networks.

From the transactional to the relational paradigm

The conjunction of the various shifts described above, carries the germ of a change of paradigm.^{58,59} From occasional commercial contacts with the customer, the company now seeks a continuous and long-lasting bond within the framework of relationship marketing.⁶⁰⁻⁶² In this situation, the goal is not only the intensity of the commercial relationship,

but also its duration.⁶³⁻⁶⁶ The product (or service) that had been the object of unwavering attention in a transactional context seems, however, to have been left by the wayside under the rules of the new doctrine. Notwithstanding, it stands unscathed even if 'contained' within an evidently dominant relational context; it constitutes the heart of the offer, the privileged object of the exchange, the foundation of any commercial relationship. This point of view leads quite naturally then, to the question of the role of the product in the structural conversion of a stream of exchanges into a lasting relationship.

MARKETING CONTEXTS

If it is clear that the multifaceted evolution of marketing redefines the customer as central to management, some aspects of the exchange (in Bagozzi's sense)^{67,68} have not been fully investigated. The literature seems, for example, to ignore the notion of 'product mix' within the framework of multiproduct purchases and neglects the study of likely contingencies between this type of purchase configuration and the degree of loyalty or involvement of the customer in the relationship. The traditional current of thought is centred on a single product offer, as is the general case of brand loyalty, while the relational current is fundamentally interested in loyalty to the supplier, the store, or the company, albeit in a generic way. Nevertheless, it seems that the current dominant trend of research activity is rather more directed toward multiproduct activities such as loyalty to banks or to retailers. In other words, single brand (or single store) but multiproduct: a relationship dyad where transactions involve several products. Paradoxically, the customer orientation and relationship orientation of marketing

		Brand versus supplier	
		Single product	Multiproduct
	Sequential purchases	Brand marketing	Client-supplier relationship: Bank, financial services....
	Simultaneous purchases	Brands or associated products	Retail, Business-to business

Figure 1 Definition of marketing context and conceptual framework

seem to obscure the product in general and multiproduct situations in particular. A more global approach to possible contexts clearly highlights four variants, not all of which have been studied to the same extent (Figure 1).

The framework in Figure 1 also reveals the dominant tendencies of marketing. For example, the first works on loyalty have essentially been interested in the sequential single product transaction (ie brand loyalty). The orientation of more recent works is towards the multiproduct approach in its sequential aspect and within the framework of a relationship. Other, less numerous, studies highlight a holistic vision of consumer behaviour⁶⁹ within the framework of simultaneous, albeit single product, purchases (association of different brands). Finally, the quadrant relating to 'simultaneous multiproduct purchases' seems to have been overlooked by researchers.⁷⁰

In a behavioural approach to loyalty, only the evolution of the recency, frequency, monetary (RFM) model (widely used in mail order industries) towards the FRAT model (frequency, recency, amount, type) which integrates

the categories of products bought, takes into account the 'product mix' dimension within the transactional stream. From this perspective, the identification of products contributing to loyalty to a company, such as the effects of the addition of product types within the range, is a neglected but promising field of research.

TOWARDS A DEFINITION OF THE LGP

The previous developments clearly show that between the pure transactional paradigm of anonymous mass markets and the full relationship paradigm, such as that observed in industrial markets, lies a field of research that has not been investigated by the marketing literature.

LGP and levels of loyalty

Several degrees of manifestations of loyalty should be taken into consideration. A customer can be loyal to a product, a brand, a supplier, a group of stores or an individual store. For example, a consumer can be loyal to a manufacturer (Thomson for refrigerators), a category of product

(fridge-freezers), a brand (Brandt), a retailer or a format (Darty). These various levels of loyalty are interlocked, complex and sometimes contingent: 'I am loyal to Darty because they sell my favourite brand (Brandt) and feature, in their range of refrigerators, deep freezes which I know are made by a reputable company (Thomson)'. Although there is still relatively little development on the subject, marketing literature has begun to take interest in this notion of 'degree' or 'type' of loyalty.

The consideration of the various levels of loyalty prompts the question 'to what and/or to whom is the customer loyal?'. In a certain number of cases, in particular in the field of mass consumption, 'who and what' are confused (for example Coca-Cola). This perspective easily suggests other examples: is the customer loyal to McDonald's or to the McDonald's Double Cheeseburger? For the company, it is obviously more motivating to develop loyalty to McDonald's as a whole. It thus emerges that loyalty to the product and loyalty to the supplier are not directly interchangeable and have not, therefore, the same managerial meaning. This work draws attention to the entirety of the relationship with the supplier; something which is over and above the individual notions of product or brand. It is supposed that as soon as a consumer buys a product it is possible for him or her to enter into a relationship with the supplier, notwithstanding that a flow of interactions does not inevitably lead to a relationship in the conventional sense of the term, where it is implied that one party confers a special status on the other⁷¹ — that is, as outlined by Peppers and Rogers,⁷² for example the fact that not every customer necessarily wants to build relationships with the supplier or the brand. In reality a customer can

perfectly well dissociate the utility which he or she derives from the purchase, use, or ownership of the product, from the benefits generated by the starting of a relationship with the supplier. It is from this dissociation that arises at least partially, the heterogeneity of 'loyalties' noticed by, among others, Cunningham,⁷³ Day,⁷⁴ Brown,⁷⁵ Jacoby and Kyner,⁷⁶ Wernerfelt,⁷⁷ Bloemer and Kasper⁷⁸ and Jones and Sasser.⁷⁹

So, consumer loyalty can be built and structured either around the relationship with the supplier or simply around the product. For some authors, loyalty is an essentially relational phenomenon; Morgan and Hunt,⁸⁰ Sheth and Parvatiyar,⁸¹ Gummesson⁸³ and others also emphasise the psychosocial dimension of the relationship to the brand.⁸² These various levels of loyalty can be positioned quite naturally along a continuum reaching from absence of loyalty to 'exclusive loyalty' — following the example of Webster⁸⁴ (or Day⁸⁵) who underlined the existence of a similar continuum in the case of industrial relationships. The LGP can therefore be considered an element of transition between a transactional approach of exchange and a relational approach (Figure 2).

It is this conceptual framework which encompasses and delimits the notion of the LGP, notably in the effects which it can have on the nature of exchanges and its capacity for initiating, strengthening and prolonging their relational orientation.

Elements of definition of the LGP

The various elements of definition proposed below result from different theoretical elements which can be brought together within multiple studies and which allow its evaluation. An LGP can be defined according to two main

Figure 2 LGP and loyalty stages

Figure 3 Mechanisms of action of the LGP

points of view: in respect of other products or other families of products comprising the companies' product offer and in respect of the relationship *per se* (Figure 3).

The first set of characteristics sets out the elements of definition with regard to the entire product offer of the company.

Overall, the LGP favours the purchase or the use of other proposed products; the consumer attempts in this way to maximise the utility generated by his or her purchase and to extend this benefit to an array of other goods bought from the company. The LGP reduces uncertainty and risk pertaining to these

collateral purchases and diminishes transaction costs. It decreases the overall costs of substantial rationality (less searching for information about products) and those of procedural rationality (satisfaction engendered by less complex choice processes) and restricts the attractiveness of alternatives.

The LGP possesses intrinsic high perceived quality (in Berry and Parasuraman's sense).⁸⁶ It is therefore an attractive product, differentiated from the competition, which leads to a high level of satisfaction and in turn generates an attachment to the product in the sense that this attachment constitutes an

element of psychological value of the used or possessed item. Finally, it engenders positive word-of-mouth, ie the buyer becomes an ambassador.

These properties with regard to the global offer can be split into two large segments: on the one hand a segment of utilitarian nature by reference notably to transaction cost theory,⁸⁷ on the other, a segment tied to the value chain delivered by the company (quality, satisfaction, attachment, loyalty) (Figure 4).

The second axis of definition of an LGP concerns the relationship itself. The LGP can bring about or facilitate the development of a relational loyalty type, representing a factor of duration and reflecting the relational substance of the exchanges. It is therefore a product which contributes to the construction of the relationship, generates trust and commitment (in the utilitarian sense of the word, in that the purchase of such a product strengthens or consolidates beliefs about the firm). It seals involvement and investment in the relationship particularly through its intrinsic powers of engendering commitment, and increases the number of interactions between the customer and the supplier. It leads to greater levels of contact activity and collaboration (as in the case, for instance, of products requiring maintenance or regular updates).

The LGP activates interpersonal relationships, feeds structural bonds and adds value to the relationship. The LGP increases the perception of switching costs or sunk costs, moderates or offsets dissatisfactions relative to other products bought from the same company. Finally, it reinforces a positive attitude towards the product itself which affects the overall attitude towards the relationship.

This second set of properties attributable to an LGP can also be split into two large components: the psychosocial aspect of the relationship

and the commitment aspect, expressed either economically through the mobilisation of specific assets⁸⁸ or implicitly through displayed pledges of long-term orientation.⁸⁹ In a mass consumer market these two aspects can be illustrated, for example, by the purchase of binders enabling consumers to collect issues of periodicals without having to subscribe.

Figure 4 summarises the two major dimensions of the definition of the LGP in its function of interdependence with the other products and in its impact on the overall relationship to the company. The Figure lays out the characteristics which such products possess in whole or in part.

With regard to the two main levels of loyalty which have been retained (towards the product, towards the supplier), the effects of an LGP can be seen, first towards other products comprising the global offer, secondly in circumscribing the structuring of the relationship itself which grows with time and thus has a longitudinal character. Moreover, the reduction of the attractiveness of alternatives and reduced transaction costs, in addition to increased switching costs, create barriers to exit.

Taking the point of view of the customer life cycle, an LGP enters into the construction of the relationship, intensifying the rate of transactions as the relationship matures. Finally it increases its duration, due to its retentional properties.

The LGP is, therefore, a product the purchase of which at a given time modifies behaviour and attitudes over time and has a direct and indirect impact on the relationship both in terms of intensity and duration (Table 1).

The direct effects of purchasing a LGP can be described as much at a behavioural level as at an attitudinal

Figure 4 Loyalty attributes of the LGP

level. Examples can be found in certain banking or insurance products such as savings plans or life insurance but also in computer hardware.

The indirect effects are the result of an increase in transactional intensity which can bring a budding relationship into bloom through the increasing contacts which it engenders. This type of effect can be illustrated, for example, by the book sales of Amazon.com bringing about opportunities to purchase products from other company ranges (CDs, DVDs, software, toys, etc).

What an LGP is not

First, it is important to distinguish between the concept of the leader product and that of the LGP; a product can be the leader in its market, within a range of products proposed by the company, without having loyalty generating properties. This consideration also applies to 'bounded or additional products', ie those for which the benefits derived from joint purchase exceed the sum of individual utilities, or deliver supplementary value to the buyer. In the same way, by-products are positioned

Table 1: Dimensions of loyalty and effects of the LGP

	Indirect effect (indirectly reinforces the relationship)	Direct effect (favours long-lasting relationship)
Behavioural aspect	Purchase intensity > (broader purchases diversity, amount of order > ...) Purchase frequency (inter-purchase span <)	Relational duration > Stronger structural bonds Economic commitment > (Switching costs, dependence on supplier ...)
Attitudinal aspect	Inertia, habit, product satisfaction ...	Relationship satisfaction Will to continue Trust, commitment

downstream of a product which can have certain loyalty generating powers, although these can also be related to bounded products. In addition, the notion of monopoly *per se* does not guarantee that a product will generate loyalty. If the product is constantly and repeatedly purchased because of its monopolistic situation, it does not necessarily imply either favourable attitudes towards the supplier or the purchase of other products offered by the company. On the other hand, if this concept of the LGP is positioned within the perimeter of defensive marketing, focusing on the relationship, it is possible to draw a parallel between this and a loss leader (the outcome of an offensive strategy of a clearly transactional nature). A loss leader, however, possesses only occasional and periodic powers of cross-selling stimulation; it does not engender long-lasting relationships.

Finally, some products make the customer a *de facto* captive, for example long-term loans in the banking sector or contracts in the telephone industry. These contexts of constraint cannot be assimilated to that of the LGP since, in the latter case, the concept of loyalty entails complete freedom of choice.

Examples and counter examples

Practitioners have become aware of the relevance of the LGP concept. The term,

absent on the French language web until the end of 2000, has begun to emerge. Some examples can be briefly developed here. The Auchan group (a hypermarket retailer) considers its payment/loyalty card 'Accord', which features discounted phone calls and an interest-bearing savings account, a strong LGP for the group. Cofinoga (a consumer credit business) has nominated a manager of LGPs, represented in this case by savings accounts and certain forms of insurance. In this company, high-performance CRM computer systems enable the identification and a more precise definition of these products, leading to the adoption of a customised 'push' strategy. LGPs can differ according to customer segments, within a product range. Different products can generate loyalty in different segments. Renault recently created a loyalty generating offer including servicing and a guarantee to buy back the vehicle at the end of the contract. (The frequency of vehicle services multiplies interactions with the customer with the aim of favouring the creation of interpersonal relationships.) AXA Insurance markets the 'privilege exemption' offer (no minimum charge to the customer in case of damage), which can be considered an LGP because it invites the customer to subscribe to other company products. In another market, Walt Disney films, released with unchanging ceremonial at well-defined

periods of the year, draw customers into a deeper relationship with the 'Walt Disney' universe through multiple offers of by-products. Marketing analysts from electronics firm Philips noticed that possession of their electric razor increased the tendency by customers to purchase other products from the firm. Along these lines, it can be proposed that mechanisms of exposure to the brand⁹⁰ favour the generation and development of a trusting relationship between the generic brand (supplier) and the customer.

Other mechanisms can be invoked, such as the utility dimension of the collateral product approach; for example, the mineral water or fresh food sections of hypermarkets which generate loyalty to the brand. But a logic of simplification of choice processes or of the saving of substantial and procedural rationality costs can also be at the source of such effects: the prescription of medicine from a given pharmaceutical laboratory often entails that of other products belonging to other ranges from the same firm, it results in a more frequent interaction with the 'supplier' and a structural strengthening of the relationship bond.

Each of these examples is characterised by the same idea: the consumer is free to leave the relationship at any point.

The mobile telephone sector also attempts to build product offers that have loyalty generating potential. Nevertheless, following the example of long-term loans in banking, there is an explicit or implicit constraint which tends to make the customer captive. In the case in point, the LGP should be defined in an environment without constraints. The term in this context frequently loses its meaning as it is too often likened to a product intended to tie down the customer or to prevent customer churn. From this point of view, loyalty (or,

more accurately, retention) is considered only with respect to the product offer under scrutiny, without giving due attention to its potential loyalty-generating capacities pertaining to other products of the company and to the relationship in a global sense. To subscribe to this narrow view does not explain the entire concept.

DISCUSSION

This paper shows that certain products can favour the shift from a transactional orientation of exchanges towards a more relational orientation through increased loyalty. The evolution of marketing doctrine accompanies real alterations in managerial practice, such as the allocation of resources towards the development of customer loyalty/retention, the change of the focal point of market vision and the use of complex, high-performance information systems. Nevertheless, it is indisputable that one of the cornerstones of these new business strategies remains the product (or core service).

Except in the case of certain sectors where the normative, conventional nature of partnerships and cooperation can be considered a constraint, the majority of exchanges still follow a fundamentally transactional mode.⁹¹ In this context, loyalty functions as an element of conversion, independently of the organisation of relationships and the LGP is positioned as a vital resource.

Finally, the central question remains this: what causes a customer to evolve from a purely transactional series of exchanges towards a more relational orientation? In traditional mass market analysis, each party, whether buyer or salesperson, can do as he or she pleases without entailing high costs for the other party.⁹² In such consumer markets, it is not really possible to compare directly the attitudinal and behavioural

conception of loyalty (reflected in preferences, purchase intentions or repeat purchases) with the commitment found in industrial relationships. Moreover, although in rare cases conventional or even contractual, rules exist, giving substance to a relational-type loyalty, the greater part of consumer market exchanges operate in an intermediate mode, either due to the lack of real commitment on the part of the supplier or to the lack of consciousness of the possibility of a relational-oriented relationship on the part of the customer. The presence of a product with loyalty-generating properties can encourage the structuring of bonds around the transactional exchange and promote the engagement of both parties in a more reciprocal consideration of their interactions.

On the other hand, if 'relational-type loyalty' becomes the norm, in business-to-business transactions prolonging and completing a set of originally more conventional connections, there seems to be lacking a level, as well as a graduation, of intensity in the nature of the bond between a company and its customer.

The thesis defended in this work contributes an intermediate element between the transactional and relationship paradigms. The LGP behaves as a relational catalyst; it allows the initiation or the onset, the development and the prolonging of a transactional stream in which the importance, the variety and the duration reflect the one-sided commitment of the customer to his or her relationship with the supplier. This assertion, although it remains speculative despite the works of Grundlach *et al.*,⁹³ seems reasonable to the extent that commitment theory can be defined as the link which exists between the individual and his acts⁹⁴ and which, through cognitive congruence, binds the

individual into repeating those acts.

Finally, transactional and relationship paradigms are not naturally mutually exclusive; there is evidently a continuum between transactions and relationship,⁹⁵ a continuum which is moreover reflexive, since the relationship is a factor of transactions.⁹⁶ The LGP is one possible element structuring such a transition, which naturally leaves room for the notion of loyalty of a relational nature, set aside and apart from the stage of 'loyalty to the product or to the brand' in the strict sense of the term.

CONCLUSION

One of the main contributions of this work resides in the proposal of a definition of the LGP and in its positioning in an existing theoretical frame. This concept, new to marketing, is situated between the issues of client management and product management, and at the junction of the transactional and relationship paradigms. It throws light on the understanding of existing interactions between the qualitative composition of purchases and the quality of the implicit relationship developing around the stream of exchanges.

The LGP contributes to the integration of the transactional paradigm within the relationship paradigm. This new approach to one of the underlying factors of loyalty answers one of the less frequently envisaged situations in marketing literature — that of simultaneous multiproduct purchases within a chronological transaction set in a more or less relational context, according to the sector or to the market under consideration.

The concept of LGPs should unquestionably arouse strong managerial interest. It increases the intensity of the exchanges and allows a more lasting relationship. The detection of the

existence of such a product (or of a cluster of such products) becomes, in this light, a major strategic issue: this type of product behaves simultaneously as a barrier to switching and as an early warning signal of a relationship at risk of ending if the customer stops buying it. The appropriate response will then rest on product strategy with the aim of provoking customer response.

Finally, the notion of the LGP, coupled with the use of a customer database, enables managers to use product behaviour data (product type and probability of repeat purchase) to pilot relationship marketing. Although an LGP can differ according to customer segment, it is advisable to draw on this concept not only for competitive advantage but also for increased profitability due to improvement of the quality of market share (in the sense of Reichheld and Teal)⁹⁷ which it can generate.

In conclusion, a company should ask itself three questions:

- 1 what is the loyalty generating capacity of a product (leading to the discovery of 'loyalty generating products')?
- 2 what benefits do customers derive from the use of such products and from the ensuing relationship which they develop with the supplier?
- 3 what is the impact of time on behavioural loyalty (learning process, inertia, repeat purchase behaviour, desertion)?

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