Commitment, Loyalty And Customer Lifetime Value: Investigating The Relationships Among Key Determinants

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ABSTRACT

Using the theoretical underpinnings of relationship marketing, this study examined the relationships among various constructs relating to the management of a firm's customers. In particular, the study investigated the multidimensional constructs of commitment and loyalty and the effect of a loyalty program on these dimensions. The study explored the relative impacts of affective and continuance commitment on these two dimensions of loyalty in a business-to-business context for a pharmaceutical distribution company.Reseasrchers have argued that affective commitment, being predicated on free choice and emotional attachment, should result in more enduring relationships compared to continuance commitment, which is based on economic benefits and the lack of viable alternatives that raise the exit barriers. The value of continuance commitment remains unclear as it is argued that continuance commitment can both enhance, as well as undermine, marketing relationships. Researchers have also argued that loyalty programs are likely to be more successful if they include, in their design, a greater emphasis on building emotional ties than promoting economic benefits. A self-administered survey was employed among 151 customers of a pharmaceutical distribution company and the results analyzed using structural equation modeling (SEM) with Partial Least Square (PLS-Graph 3.0 Build 1130) for inferential analysis and SPSS version 16.0 for descriptive analyses. The results supported the theorized view that affective commitment has a greater impact on loyalty than does calculative commitment. The results, however, did not support the theorized positions of a significant impact of calculative commitment on loyalty, and there was also no empirical evidence that a loyalty program impacts commitment or customer lifetime value. The managerial and research implications of the study are also presented.

Keywords: loyalty, competence and customer lifetime value

INTRODUCTION

The purpose of this research is to further the understanding of customer asset management and to show the relationship between various constructs and firm characteristics on customer lifetime value (CLV). This is defined as the value the customer provides the firm and is the sum of the discounted net contribution margins over time of the customer, which is the revenue provided by the customer less the cost associated with maintaining a relationship with the customer (Berger and Nasr 1998). CLV is also a consequence of marketing actions that influence customer level behavior (Berger et al. 2006). Maintaining a relationship with the customer is a central tenet of CLV and is accomplished through various aspects of relationship marketing. Berry and Parasuraman (1991) propose that "relationship marketing concerns attracting, developing and retaining customer relationships". As customer-organization relationships develop, customers become increasingly entrenched due, in part, to relationship-specific investments (Jones, Mothersbaugh and Beatty 2002).Such investments may include marketing actions, such as the employment of loyalty programs and other activities aimed at increasing the probability of retention.

This research will investigate the relationship between marketing actions, such as loyalty programs, and the level of commitment and specifically the type of commitment, and the type of loyalty that may be influenced by such a program. Commitment is seen to be an important antecedent to customer retention (Evanschitzky, Iyer, Plassmann, Niessing and Meffert 2006). The research will be investigating the constituent dimensions of commitment and loyalty and how these have been impacted on by a loyalty program. Much of the research that exists provides conflicting or ambiguous empirical findings (Bolton et al.2000, Lewis 2004). In addition, some of the research is conducted in situations where the switching barrier is high and also where purchase intentions are used as a proxy for buying behavior (Taylor and Neslin 2005; Kivetz, Urminsky and Zheng 2006). This research will be conducted in a context of low switching barriers and where actual purchases are used to represent buying behavior.

Consumer loyalty is considered an important key to organizational success and profit (Oliver, 1997). A great deal of research attention has focused on the identification of effective methods of actively enhancing loyalty, including loyalty programs, such as points rewards schemes. Loyalty programs "create a reluctance to defect" by rewarding the customer for repurchasing from the organization (Duffy, 1998).The foregoing, therefore, leads one to the conclusion that Customer Lifetime Value is inextricably tied to efforts aimed at furthering customer retention, such as loyalty programs.

Marketing theory and practice have become increasingly customer centered and managers have increased emphases on long-term client relationships because the length of a customer's tenure is assumed to be related to long-run company revenues and profitability (Bolton, Lehmann and Stuart 2004). Total USA loyalty program membership grew 35.5% from 2000 to 2006 and now tops 1.3 billion individual memberships showing an average annual membership growth of 5.93% during this period (Ferguson and Hlavinke 2007).

The notion of commitment connotes an expected future behavior which may be relied upon. Commitment has been defined as "an implicit or explicit pledge of relational continuity between exchange partners" (Dwyer, Schurr and Oh 1987).It is believed to imply a willingness to make short-term sacrifices to realize longer-term benefits (Dwyer, Schurr, and Oh 1987).

Theoretical Underpinnings

One of the key theoretical underpinning of this research is relationship marketing. Relationship marketing is "attracting, maintaining and, in multi-service organizations, enhancing customer relationships" (Berry, 1983). Relationship marketing is viewed as implying that, increasingly, firms are competing through developing relatively long-term relationships with stakeholders, such as customers, suppliers, employees and competitors (Hunt 2002).

The fundamental tenet of relationship marketing is that consumers like to reduce choices by engaging in an ongoing loyalty relationship with marketers. Thus, from a consumer's perspective, reduction of choice is the central tenet of their relationship marketing behavior (Sheth and Parvatiyar 1995). Earlier studies have established the purchase behavior and customer loyalty link (Dick and Basu 1994; Enis and Paul 1970; Howard and Sheth 1969).

The Influence of Commitment

A distinction is made between two types of commitment: affective and continuance commitment (calculative commitment). Affective commitment is the desire to maintain a relationship and is based on loyalty and affiliation (Gundlach et al.1995). Continuance commitment is based more on rational motives, focusing on termination, or switching costs (Kumar, 1996). Morgan and Hunt (1994) argued that commitment was important in understanding customer-company relationships.

Research suggests that there may be a positive relationship between commitment and relationship duration. Verhoef (2003) reported a positive effect of commitment on customer retention, and several studies found a positive relationship between commitment and customer loyalty. Cross-buying broadens the customer's relationship with the firm. If a customer is affectively committed to a supplier, they are likely to buy additional services from that supplier in preference to their competitors. However, since calculative commitment is based on economic considerations, a customer with calculative commitment will not necessarily purchase additional services. It is therefore proposed that an affective commitment will positively influence cross-buying, whereas calculative commitment will have no influence on cross-buying.

Influence of Loyalty

Consumer loyalty is considered an important key to organizational success and profit (Oliver, 1997). Loyalty has been defined as "a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same-brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver,1997).

Most analyses of loyalty have been from a behavioral perspective, excluding attitudinal type data and concentrating on a deterministic perspective (Tellis, 1988; Ehrenberg, 1988). Loyalty is much more than just repeat purchases as oftentimes repeat purchase may be the result of inertia, indifference or exit barriers (Reichheld 2003).

Focus of the study

This research will focus on the relative impacts of the two dimensions of commitment on the two dimensions of loyalty and how the different dimensions of loyalty may be related to customer lifetime value. The research will also determine if a loyalty program makes an impact in the dimensions of loyalty or CLV.

A logical antecedent to loyalty is the extent to which the customer desires to maintain a continuing relationship with the firm or brand; in other words, customer commitment (Morgan and Hunt, 1994; Uncles et al., 2003). Accordingly, the researcher will also investigate the levels and types of commitment exhibited by the customers in the sample.

Research Question

In this study, the researcher proposes to examine the relationship between commitment, loyalty and customer value as indicated by purchase behavior.

The following research questions will be addressed:

1. What is the relationship between affective commitment and attitudinal loyalty?
2. What is the relationship between affective commitment and behavioral loyalty?
3. What is the relationship between continuance commitment and attitudinal loyalty?
4. What is the relationship between continuance commitment and behavioral loyalty?
5. What is the relative impact of the different dimensions of commitment on loyalty?
6. Does a loyalty program affect attitudinal loyalty?
7. Does a loyalty program affect behavioral loyalty?
8. Does a loyalty program affect CLV

Contributions Expected From Study

This research is meant to contribute to the literature by way of helping to discern more precisely the value of loyalty and commitment, particularly in light of the varying conclusions that have been furnished so far in the literature. Most of the research on loyalty programs has been done on the retail and service industries and very few on the business-to-business (B2B) relationships. This research taking place in the B2B situation and, in this case where the switching barrier is low, will broaden the domain of research in loyalty and commitment, thereby complementing the body of research and the generalizability of conclusions drawn on the effect of loyalty programs on commitment and customer lifetime value.

Research on the influence of loyalty programs on customers' affective loyalty is scarce and shows contradictory results (Gomez, et.al. 2006).This research will show the influence of a loyalty program on affective loyalty in a B2B context, thereby enhancing the generalizability of the effect of loyalty programs on loyalty and therefore customer lifetime value.

LITERATURE REVIEW

Customer Lifetime Value

Customer lifetime value (CLV) is defined as the net present value of all earnings from an individual customer (Berger and Nasr 1998; Dwyer 1989; Gupta, Lehmann, and Stuart 2001; Rust, Zeithaml, and Lemon 2000). The long-term value of customers (CLV) is suggested to be a more stable and relevant metric of firm value than financial metrics, like market capitalization or price-earnings ratio. In view of this, it appears important to consider the concept of customer lifetime value as an appropriate metric to assess the overall value of a firm (Bauer and Hammerschmidt 2005).

Although the literature in CLV research has taken multiple directions, the main focus of most studies in CLV has been three-fold. The first is the development of models to calculate CLV for each customer. These articles focus on customer acquisition costs, customer retention costs, other marketing costs, and the revenue stream from the customer to calculate CLV.

The second stream can be described as Customer Base Analysis where researchers have proposed various methods to analyze information about the customer base and predict the probabilistic value of future customer transactions.

The third area has been devoted to analyzing CLV and its implications for managerially relevant decisions through analytical models. A particular focus in this area has been on investigating the effect of loyalty programs on CLV and firm profitability.

Jain & Singh (2002) suggest that there are four basic models of CLV, with variations based on user and data availability, and propose a basic structural model:

$$\text{CLV} = \sum_{i=1}^{n} \frac{\left(R_i - C_i\right)}{\left(1+d\right)^{i-0.5}}$$

i = period of cash flow from customer transactions
R_i = revenue from customer in period i
C_i = total cost of generating the revenue R_i in period i
d = *the discount rate representing the cost of capital or the time value of money.*
n =total number of periods of projected life of the customer under consideration.

In this model, it is assumed that all cash flows take place at the end of the time period.

Relationship Marketing

Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges (Morgan & Hunt, 1994).

Sheth and Parvatiyar (1995) view relationship marketing as an attempt to involve and integrate customers, suppliers and other infrastructural partners into a firm's developmental and marketing activities.

The fundamental tenet of relationship marketing is that consumers like to reduce choices by engaging in an ongoing loyalty relationship with marketers. Thus, from a consumer perspective, reduction of choice is the central tenet of their relationship marketing behavior (Sheth and Parvatiyar 1995). A vast array of literature is built on repeat purchase behavior and customer loyalty (Dick and Basu 1994; Enis and Paul 1970; Howard and Sheth 1969).

Hunt (2006) summarizes that relationship marketing theory maintains that consumers enter into relational exchanges with firms when they believe that the benefits derived from such relational exchanges exceed the costs. Morgan and Hunt (1994) argue that the presence of relationship commitment and trust is central to successful relationship marketing. In their "commitment-trust" theory of relationship marketing, Morgan and Hunt (1994) identify relationship benefits as a key antecedent for the kind of relationship commitment that characterizes consumers who engage in relational exchange.

Commitment

Commitment has been defined as "an implicit or explicit pledge of relational continuity between exchange partners" (Dwyer, Schurr and Oh 1987).It is believed to imply a willingness to make short-term sacrifices to realize long-term benefits (Dwyer, Schurr, and Oh 1987). According to Anderson and Weitz (1992), committed partners are willing to invest in valuable assets specific to an exchange, demonstrating that they can be relied upon to perform essential functions in the future. Achrol (1991) posits that commitment is an essential ingredient for successful long-term relationships.

Dwyer, Schurr, and Oh (1987) propose that "the buyer's anticipation of high switching costs gives rise to the buyer's interest in maintaining a quality relationship. Commitment may be generated by the buyer's anticipation of high switching costs. Morgan and Hunt (1994) also posit that firms that receive superior benefits from their partnership, relative to other options, on such dimensions as product profitability, customer satisfaction, and product performance, will be committed to the relationship.

The Influence of Commitment

A distinction is made between two types of commitment: affective and calculative. Affective commitment is the desire to maintain a relationship and is based on loyalty and affiliation (Gundlach et al.1995). It has been described in terms of psychological attachment, identification, affiliation and value congruence (Allen and Meyer 1990; O'Reilly and Chatman 1986). Calculative commitment, by contrast, is based more on rational motives, focusing on termination or switching costs (Kumar, 1996) and is defined as the extent to which exchange partners perceive the need to maintain a relationship given the anticipated termination or switching costs associated with leaving (Geyskens et al. 1996).

Loyalty

Loyalty refers to a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing same-brand or same organization purchasing, despite influences and marketing efforts having the potential to cause switching (Oliver, 1997). Loyalty is therefore seen as a means of maintaining or increasing a customer's patronage over the long term, thereby increasing the value of the customer to the firm.

Much of the original work on loyalty defined it in behavioral terms (repurchase or purchase frequency) and then later admitted an attitudinal component (Jacoby and Chestnut, 1978). Behavioral loyalty reflects customer actions and involves the measurement of past purchases of the same brand or and/or the measurement of probabilities of future purchase given past purchase behaviors (Ehrenberg, 1988).

Attitudinal loyalty, on the other hand, is the consumers' psychological disposition toward the same brand or brand-set and involves the measurement of consumer attitudes (Fournier, 1998; Jacoby and Chestnut, 1978). Both behavioral and attitudinal loyalty are important concepts in understanding long-term customer relationships, especially when it is important to predict future patronage by the customer. One can certainly be a loyal customer yet be an infrequent shopper (Gentry and Kalliny, 2008), so frequency of consumption must not be confused with loyalty.

Obstacles to Loyalty

It has been suggested that true loyalty is, in some sense, irrational (Oliver, 1999). Competitors can (and do) take advantage of this position, engaging consumers through persuasive messages and incentives with the purpose of attempting to lure them away from the preferred offering. These enticements are the obstacles that brand and or service loyalists must overcome.

Oliver (1999) suggests that the easiest form of loyalty to break down is the cognitive variety and the most difficult the action states, and that each state is vulnerable to attack.

The four-stage loyalty model has different vulnerabilities depending on the nature of the consumers' commitment. Cognitive loyalty, based on performance levels, whether functional, aesthetic or cost-based, is subject to failings on these dimensions. For example, in the area of services, it has been shown that deteriorating delivery is a strong inducement to switch (Keaveney, 1995). At the next level, affective loyalty can become susceptible to dissatisfaction at the cognitive level (Heide and Weiss, 1995; Keaveney, 1995; Morgan and Dev, 1995), thereby inducing attitudinal shifts. Thus, affective loyalty is first subject to the deterioration of the cognitive base, which causes deleterious effects on the strength of attitude toward a brand and hence on affective loyalty.

Although conative loyalty brings the consumer to a stronger level of loyalty, it has vulnerabilities. A consumer at this stage can weather some small number of dissatisfaction (Olivia, Oliver and Macmillan, 1992), but the motivation to remain committed can be worn down by barrages of competitive messages. Thus, the conatively loyal consumer has not developed the resolve to avoid consideration of competitive brands intentionally and hence has not reached the state of resistance and resilience to overcome obstacles necessary for ultimate loyalty to emerge. On reaching the active phase, the consumer has generated the focused desire to rebuy the brand, only that brand, and only insurmountable unavailability would cause such a consumer to try another brand.

Companies seek to influence customers across their lifecycles through acquisition and retention strategies. A loyalty program is a marketing action designed to increase loyalty (retention) and thereby lifetime duration, and thus CLV.It is intended to create switching barriers either by economic, psychological or relational barriers that enhance customers' commitments to the organization. Customers may appreciate rewards that make them feel like preferred customers and thus will identify more strongly with the organization (Oliver 1999).

Some researchers distinguish between two components of commitment - affective and calculative (Bansal et al, 2004; Fullerton, 2003; Pritchard et al, 1999). Affective commitment is more emotional in nature and involves the desire to maintain a relationship that the customer perceives to be of value. Affective commitment incorporates the underlying psychological state that reflects the affective nature of the relationship between the individual customer and the service provider (Gundlach et al,1995).The identification that the customer feels toward the firm often translates into positive feelings expressed to others about the firm (Harrison-Walker 2001). Given this emotional attachment that affective commitment entails, it is hypothesized that there should be a positive relationship between affective commitment and attitudinal loyalty.

The emotional attachment related to affective commitment contributes to a "partnership" relationship. The immediate resulting impacts of such feelings are on consumer patronage of the firm. Given the pledge of continuity that constitutes affective commitment and the forsaking of alternative options due to the emotional attachment, it is expected that there will be a relationship between affective commitment and purchase behavior .In addition, affective commitment is characterized by a desire-based attachment of the customer, meaning that the customer is loyal because he or she wants to be loyal (Evanschitzky et al, 2006).Therefore, it is hypothesized that affective commitment should have a positive relationship with behavioral loyalty.

Calculative commitment is the customer's desire to remain in the relationship when the switching costs are high or when the customer perceives that other viable alternatives are scarce (Evanschitzky et al, 2006). In such cases, the customer, out of habit or inertia, not only continues the long-term relationship, but may also develop an emotional attachment (Dowling and Uncles, 1997).Whether due to repeated past behaviors or high switching costs, the customer may develop an affective response to the firm and also rule out the possibility of alternative relationships. Therefore, it is expected that calculative commitment is positively related to attitudinal loyalty. There are cases where loyalty to a firm may exist despite low satisfaction level of the customer experience. Jones and Sasser (1995) find that the competitive environment affects the satisfaction-loyalty relationship, so customers remain with a firm due primarily to a lack of alternatives. In such cases where the consumer's desire to maintain a long-term relationship is due to the unavailability of viable alternatives, it may be expected that calculative commitment may be positively related to behavioral loyalty. Empirical data from Gustafsson et al. (2005) suggest that calculative commitment has a consistent reduction in churn rates. This is interesting as the calculative commitment reflects the viability of the company's offerings, thus demonstrating that consumers actively review the company's products and services against those of its competitors to make purchasing decisions. Such decisions reflect the assessment of the cost of the alternatives or the switching costs attendant to doing business with a competitor. This represents a rational approach, devoid of emotional considerations. There is recognition of commitment as a multidimensional construct that includes an affective and a calculative component (Fullerton, 2003). Understanding the relative impact of the two dimensions of commitment helps to clarify the inconsistencies in prior research results and provides strategic managerial guidance on customer loyalty programs.

In Figure 1, we see the different dimensions of commitment acting upon the different dimensions of loyalty and producing a purchasing effect (CLV).

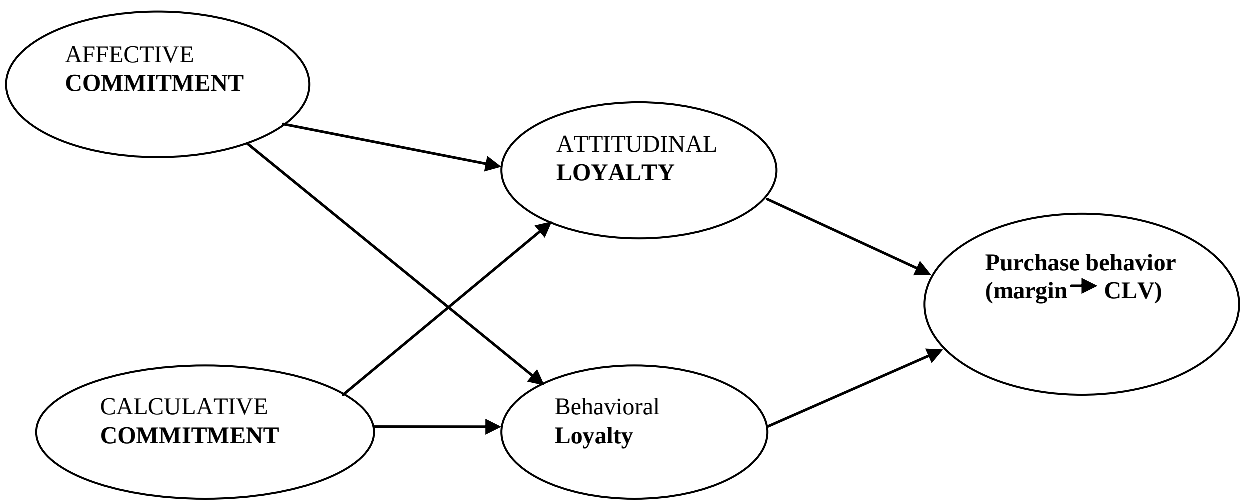

Figure 1: Research Model

RESEARCH QUESTIONS

The following research questions will be addressed:

1. What is the relationship between affective commitment and attitudinal loyalty?
2. What is the relationship between affective commitment and behavioral loyalty?
3. What is the relationship between calculative commitment and attitudinal loyalty?
4. What is the relationship between calculative commitment and behavioral loyalty?
5. Does attitudinal loyalty affect customer lifetime value?
6. Does behavioral loyalty affect customer lifetime value?
7. Does a loyalty program affect calculative commitment?
8. Does a loyalty program affect affective commitment?

Research Hypotheses

From the foregoing literature reviewed and the research questions, the researcher proposes the following hypotheses for investigation:

H1: There is a relationship between affective commitment and attitudinal loyalty.
H2: There is a relationship between affective commitment and behavioral loyalty.
H3: There is a relationship between continuance commitment and attitudinal loyalty
H4: There is a relationship between continuance commitment and behavioral loyalty
H5: There is a relationship between affective loyalty and customer lifetime value
H6: There is a relationship between behavioral loyalty and customer lifetime value
H7: There is a relationship between loyalty program participation and calculative commitment.
H8: There is a relationship between loyalty program participation and affective commitment.

Sampling Approach

The unit of analysis is the customer in light of the focus of the research on customers as assets from a firm's perspective. The sample frame will be the list of all active customers in the customer database of a distribution organization. The organization has implemented a loyalty program with a view of increasing the retention of their customers and to gain a greater share-of-wallet in the context of an environment characterized by intense competition from rival co-distributors.

Measurement

Commitment was measured using a modified version of the Meyer and Allen commitment questionnaire used by Morgan and Hunt (1994). Loyalty was measured using the Oliver (1999) Likert scale for both attitudinal and behavioral loyalty. Marketing actions were operationalized as the employment of a loyalty program. The purchase behavior was measured by the sales and margins generated in the last 12 months or since the inception of the loyalty program. The sales were taken from the company's sales records for the respective customers.

Data Collection and Analysis

Data was collected using a self-administered questionnaire previously described.

Structural equation modeling (SEM) using Partial Least Squares (PLS) Graph 3.0 Build 1130 and SPSS version 16.0 was for descriptive analysis. Using SEM provides the researcher with the ability to accommodate multiple interrelated dependence relationships in a single model. SEM also allows the researcher to assess the relative contributions of each scale item as well as incorporate how well the scale measures the concept and the relationship between the independent and dependent variables. A powerful feature of PLS path modeling is that it is suitable for prediction-oriented research and avoids small sample size problems (Henseler, Ringle, and Sinkovics, 2009).

Results from Measurement Model

The measurement model of this study was assessed to determine construct reliability and validity. PLS-Graph was used to assess the measurement model relating the factor loadings between each measurement item and related constructs. To assess the construct reliability, factor loadings and composite reliabilities were evaluated. Table 1 was used to evaluate the item loadings, composite reliabilities and average variance extracted.

Table 1: Item Loadings, Composite Reliabilities and Average Variance Extracted from First-Order Constructs

Latent Constructs (No. of items	Item Loadings	Composite Reliability (CR) / Average Variance Extracted (AVE)
Commitment		
Affective (AC)		
AC1	0.726	CR = 0.872
AC2	0.677	AVE = 0.500
AC3	0.507	
AC4	0.772	
AC5	0.732	
AC6	0.755	
AC7	0.734	
Continuance (CC)		
CC8	0.759	CR = 0.894
CC9	0.829	AVE = 0.550
CC10	0.828	
CC11	0.716	
CC13	0.550	
CC14	0.720	
Loyalty		
Attitudinal (AL)		
AL16	0.916	CR = 0.843
AL17	0.787	AVE = 0.729
Behavioral (BL)		
BL18	0.906	CR = 0.917
BL19	0.934	AVE = 0.846
CLV	1.00	CR = 1.00

In addressing the measurement model, the four first order constructs - Affective Commitment(AC), Calculative (Continuance) Commitment (CC), Affective Loyalty and Behavioral Loyalty were examined. Of the four latent constructs consisting of 19 items , all but two of the items were above the 0.60 threshold level proposed by Chin (1998).The two items - Ac-3 and CC-13 -returned marginally weak loadings of .51 and .55, respectively. However, in view of the fact that the overwhelming majority of items returned factor loadings greater than 0.707, they were thus considered to be reliable measures of the constructs. Composite reliability on each construct was above the recommended threshold value of 0.7 (Fornell and Bookstein, 1982), thus lending further support that the items were reliable measures of the construct. In assessing convergent validity, the average variance extracted (AVE) in each latent construct was examined. An AVE of at least 0.5 indicates sufficient convergent validity (e.g. Gotz, Liehr-Gobers, &Krafft, 2009), thus all the latent variables met this threshold and were deemed to have met the standard for convergent validity.

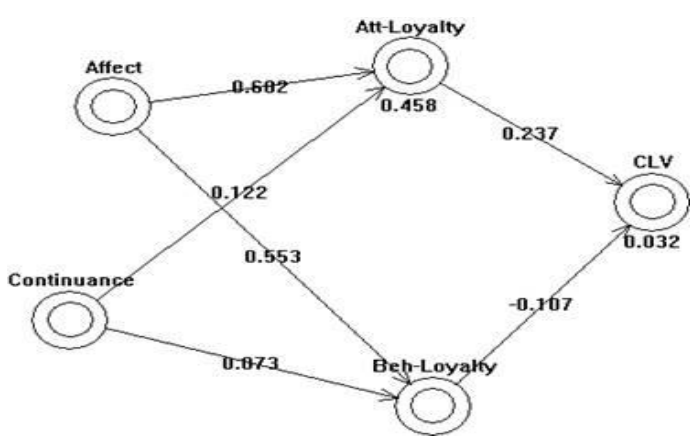

Figure 2: Loyalty-Competence Model

Results from the Structural Model

The structural model, represented by the research questions and related hypotheses, was assessed using PLS-Graph (see Figure 2).

Findings and Discussion

Examination of the results revealed that there is a significant positive relationship between affective commitment and attitudinal loyalty ($t = 7.3468$, $p< 0.001$, path coefficient = .602); therefore research hypothesis 1 was supported. The results also suggest that affective commitment is positively related to behavioral loyalty ($t = 5.2289$, $p< 0.001$, path coefficient = 0.553) and that there is a significant relationship between affective commitment and behavioral loyalty; therefore research hypothesis 2 was supported. Taken together, it is concluded that affective commitment is significantly and positively related to loyalty. This is in keeping with the theoretically expected results. Commitment is conceptualized as a pledge of continuity and forsaking alternative options and making sacrifices is a logical antecedent to loyalty (Fullerton, 2003; Morgan and Hunt, 2004). Since affective commitment reflects the customer's emotional connection and a desire to maintain a long-term relationship that is valued (Morgan and Hunt, 1994), and attitudinal loyalty reflects a positive psychological disposition toward the brand or supplier (Dick and Basu, 1994), it may be reasonable to expect that affective commitment will be related to attitudinal loyalty because the source of loyalty is an emotional connection. Commitment can play a significant role in developing attitudinal loyalty because it is enhanced through the strength of the attitude toward the firm compared with other firms (Evanschitzy et.a., 2006). Affective commitment has been shown to make a positive impact on customer retention (Garbarino and Johnson, 1998).The emotional attachment that affective commitment entails translates into strong attitudinal loyalty.

The results showed no significant relationship between continuance commitment and attitudinal loyalty ($t= 1.3172$, $p< 0.2$, path coefficient = .1220). Continuance commitment represents the consumer's desire to remain in a relationship due to high switching costs or unavailability of viable alternatives. Some studies have shown that continuance commitment, at best, has a weaker effect than affective commitment on customer retention (Fullerton, 2003). The conceptual basis for this is that consumers will react against their relational partners if they feel trapped. They also exhibit negative customer citizenship behavior. Relationships built on continuance commitment tend to be transient because once the conditions that established the state of continuance commitment are removed, the customers have no reason to remain in the relationship.

The study also showed that there is no significant relationship between continuance commitment and behavioral loyalty ($t= 0.7378$, $p< 0.2$, path coefficient = 0.073). Due to the customers' desire to maintain the long-term relationship and the potential high level of behavioral loyalty that would stem from the lack of alternatives, it may be expected that continuance commitment should have a positive relationship with behavioral loyalty. The results of this study show a very weak relationship between continuance commitment and behavioral loyalty. This could stem from the reaction against the perception of entrapment that is characterized by continuance commitment.

Impact of Loyalty and Customer Lifetime Value

The structural model indicated that there was no significant relationship between behavioral loyalty and customer lifetime value ($t = 0.8558$, $p < 0.05$, path coefficient = -0.1070). Therefore, hypothesis 6 was not supported by the empirical evidence. Behavioral loyalty is reflected in repeat purchase behavior and it would be expected that there is a positive relationship between behavioral loyalty and customer lifetime value. A customer may exhibit repeat purchase behavior on an inconsistent basis, so the resultant CLV may not reflect precisely the loyalty status. In addition, persons who exhibit polygamous loyalty may be purchasing regularly, but in small amounts, as they have a greater share of spending elsewhere. Cuningham (1956), in his behavioral based studies, found no correlation between loyalty and consumption (purchase). Low spending customers might be highly loyal but offer low prospect-for-profit growth and therefore have low CLV.

The results also showed that there is no significant relationship between attitudinal loyalty and customer lifetime value ($t = 1.8421$, $p < 0.1$, path coefficient = 0.2370). Attitudinal loyalty, reflecting a positive bond with the customer, is usually cultivated over a long period and represents a stronger bonding with the relational partners. It is expected that there should therefore be a positive relationship between attitudinal loyalty and CLV. The research by Ehrenberg et al (2006) indicates that in some markets, customer loyalty is divided among a number of brands or customers, as invariably, customers do not buy only one brand or only from one supplier. These customers may be described as having "polygamous loyalty" in reference to their actual purchase behavior. It has been suggested that consumers' unique behaviors may prove to be an obstacle to loyalty and that variety-seeking customers may not develop loyalty, even in the presence of frequent purchases (Oliver, 1999). These frequent purchases, which positively impact CLV, may be due to habit or inertia rather than loyalty, thereby eroding any direct relationship between loyalty and CLV. In addition, these habitual buying behaviors could be due to continuance commitment. This may manifest itself as increasing purchases and CLV but would not reflect the presence of loyalty.

Impact of a Loyalty Program on the Dimensions of Commitment

The results indicate that there was no significant difference in the calculative commitment between the groups (mean = 38.3, standard deviation = 8.32, $t = 1.207$, $df = 146$, $p = .668$ at the 95% level of significance) and similarly no significant difference in the affective commitment between those customers who were on the loyalty program and those who were not (mean = 36.4, standard deviation = 7.2, $t = 1.432$, $df = 146$, $p = .108$ at the 95% level of significance).Therefore, no evidence was found to suggest that a loyalty program has any impact on either continuance commitment or affective commitment. It has been suggested that loyalty programs that seek to evoke a sense of engagement and attachment are likely to have the best chance of engendering loyalty. The loyalty program employed in the study, being based on monetary incentives, was devoid of any emotional connection with the customers. Bearing in mind that affective commitment is based on the customer's emotional attachment, it is plausible that the affective dimension of commitment would not therefore be impacted in the absence of any attempt to engage the customer in an emotional sense. On the other hand, monetary incentives are more aligned to continuance commitment, which is built on cost-based calculations (Meyer and Allen, 1990).However, where the incentive is not aligned to the product or service's value proposition or perceived to be insufficient in relation to the purchase or where the benefits are delayed, they are unlikely to have the desired impact (Dowling and Uncles, 1997). The lack of impact on continuance commitment is therefore likely to be a manifestation of the inadequacy of the loyalty program on key dimensions for success.

One of the key findings of this research is that affective commitment drives attitudinal loyalty as well as behavioral loyalty. The indications are that attitudinal loyalty is influenced to a greater extent than behavioral loyalty. The study also shows that affective commitment, rather than continuance commitment, influences loyalty to a much higher degree. The relatively stronger impact of affective commitment is in consonance with theorized positions and in keeping with the results of other studies (e.g. Fullerton, 2003). In particular, the results of the study support the position that affective commitment is a very important element in the development and maintenance of effective marketing relationships.

Implications for Managers

The findings of this research have important management implications. Managers should understand that not all forms of customer commitment are equally beneficial to the organization as seen from the relative impact of affective and continuance commitment. The results of the study indicate that affective commitment has a greater impact on each loyalty dimension than does continuance commitment. Given these results, managers should be aware of the potential benefits to the seller when customers are committed through positive affect and identification with the firm rather than merely through economic incentives. Specifically, affective commitment has a more pronounced effect on customer retention than continuance commitment, even though both can improve customer loyalty. This suggests that customer relationship management programs that build identification and shared values are likely to be more effective at building customer retention than those programs emphasizing bondage and switching costs. In addition, managers must recognize that programs that build affective commitment have a stronger positive effect on the softer aspects of customer loyalty, such as advocacy and willingness to pay more.

Managers should take note that there are certain ingredients that are a necessary prerequisite for a successful loyalty program and, as such, must be taken into account in the design of the loyalty program. Managers should understand that loyalty programs designed to lock in a customer by increasing the switching costs may result in no more than short-term gains and not having any long-term behavioral after-effects. Managers should take into account that there are varying stages of loyalty and, as such, the same loyalty program will not be uniformly effective on all customers. Therefore, the program should be tailored to meet the needs of its various customers along the loyalty continuum. Another important aspect of the loyalty program design should be the level of customer involvement. Loyalty programs that are more engaging with the customers will have a greater chance of an emotional link with the customer and thus an increased probability of creating a stronger long-term relationship. Managers can use an understanding of the two loyalty dimensions to develop segmentation variables and design customized loyalty building strategies. The measurement of CLV encourages managers to focus on the long-term rather than the short term and shift the mindset from products to customers and from a transactional approach to a long-term relationship orientation. Customers are a critical asset of a firm and their value as well as the factors that influence those values should be measured and managed. The measurement of CLV can be used to set the ceiling for the customer acquisition costs.

Implications for Researchers

This study provided empirical evidence to indicate the relative strengths of affective and continuance commitment on the different dimensions of loyalty. Future studies should examine, in more detail, the drivers of affective commitment in particular, including the development of a more comprehensive measure of the construct. Researchers should investigate the different stages of the loyalty continuum as proposed by Oliver (1999) to understand the impact of commitment on the various loyalty stages. Future research could take a longitudinal approach to determine changes in levels of loyalty over time. The longitudinal data could also be used to investigate the time lag effects of loyalty programs in changing behavior. Future research could also explore the impact of continuance commitment on affective commitment. The relationship between commitment and loyalty could also be explored in other industries and cultural contexts and with groups based on socio-demographic characteristics. The model used in this research for the calculation of CLV was quite simplistic. Future research could incorporate more sophisticated models that may be more robust. Additionally, future research could investigate the impact of competitive activity on loyalty and customer lifetime value. More investigation should be done on CLV for different firm characteristics, such as size, and seek to segment customers of the same size in terms of sales because the value of the customer lifetime value is a function of purchase amount as indicated by the margins. More model exploration could be pursued to derive better fitting models for addressing the research questions on loyalty and customer lifetime value. These studies will help to contribute to an understanding of the boundaries for the generalization of the theory.

LIMITATIONS OF STUDY

As with most empirical studies, this study had several limitations that need to be highlighted. Firstly, the single industry focus could impede the generalizability of the findings. The responses excluded a significant proportion of the sample and this may introduce bias if the non-respondents are significantly different from those who responded. The cross-sectional survey data used would have neglected the potential time-lag effects. The loyalty program employed, for example, may have the potential for enhancing relationship benefits in the long term, but this could not be captured in the study. The model employed in the calculation of CLV has weaknesses that may impact on the results. The model assumes, for example, that the cash flows occur at the same time in each period. In cases where there is uncertainty in the cash flows the model may be inadequate. The model employed also did not take into account the acquisition costs which, by some definitions of CLV, ought to be considered in its measurement. The data for CLV could not discern when customers' purchases might have been impacted negatively through company policies, such as credit hold, credit limits or rationing effects in the case of shortage of goods - a situation that is not uncommon in the context of the research.

CONCLUSION

A number of conclusions on commitment, loyalty and customer lifetime value may be drawn from this research. Firstly, it should be recognized that commitment is a two-dimensional construct, the components of which have different impacts on loyalty. As such, marketing programs aimed at enhancing long-term relationships should be designed with reference to the differing impacts of affective commitment and continuance commitment. The programs should be skewed to ensure that they elicit affective responses to increase the probability of long-term relationship building outcomes. Contrastingly, management should recognize that programs that seek to "lock in" customers by raising the cost of exiting the relationship may, in fact, backfire as customers will build up resentments and leave at the earliest opportunity. In other words, long-term relationships are not built by increasing continuance commitment.

Similar to the commitment construct, loyalty is also two-dimensional and the recognition of these two constructs, in tandem with the two-dimensional construct of commitment, can be usefully combined for optimal effect. For example, by combining programs that build affective commitment with those that build attitudinal loyalty, the synergistic effect of this would result in a more impactful relationship-building program. It must also be recognized that loyalty programs that create greater customer involvement will have a higher probability of success. Loyalty programs should also be measured to establish their profitability. The lack of impact of the different dimensions of loyalty on customer lifetime value may be a function of the loyalty program itself. The costs of loyalty programs may not be taken fully into account and management should set up mechanisms for measuring the outcomes, particularly the long-term effects of the program.

AUTHOR INFORMATION

Mr. Norman W. Marshall is a proven academic and practitioner who has had a career that has spanned over 25 years in sales, marketing and management. He is currently the Managing Director of Sangster's Book Stores Ltd., for the second time. He is also a part-time lecturer in marketing, at the University of the West Indies where he enjoys teaching and lecturing skills. He is also a director of Nation Growth Micro Finance, Integrated Chemical Services, and Health Creation Industries Ltd.

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