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THE IMPACT OF CUSTOMER RETENTION STRATEGIES ON PROFITABILITY OF SMALL AND MEDIUM ENTERPRISES IN KATSINA STATE

Lawal Muhammad, PhD — Department of Business Education, School of Vocational & Technical Education, Federal University of Education, Zaria

Abdullahi Ibrahim Isah, PhD — Department of Business Education, School of Vocational & Technical Education, Federal University of Education, Zaria

Usman Ibrahim Kamuku — Department of Business Education, School of Vocational & Technical Education, Federal University of Education, Zaria

Abstract

The study examined the impact of customer retention strategies on profitability of small and medium enterprises in Katsina State. This study used a quantitative research design. Five hundred questionnaires were administered to the owners/managers of Small and Medium Enterprises in Katsina State. Out of which 406 were filled and returned by the respondents but twelve questionnaires were found unusable. This implies that the study attained 78.8% response rate. Eleven missing figures were found in the data of the study and mean substitution method was employed to replace the missing data. The data of the study was analysed using Smart PLS, where assessment and structural models were utilised. Based on the results of the assessment model of the study, items indicators, constructs reliability as well as discriminant validity are established in the study. The result of the also revealed that about 79% of changes in the profitability of SMEs in Katsina State are explained by customer relationship management, customer satisfaction and brand loyalty. In addition, the results of the structural model of the study revealed that customer relationship management, customer satisfaction and brand loyalty significantly affect the profitability of SMEs in Katsina State. The study recommends among other things that SMEs should put more efforts on establishing good customer relationship management in order to increase their profitability.

Keywords: Customer Relationship Management, Customer Satisfaction, Brand Loyalty, Profitability

1. Introduction

The world of business has shifted its attention from product orientation to customer orientation, with the belief that improved customer relationship leads to profitable and sustained revenue development (Soltani et al., 2018). Customers possess a competitive edge with the ability to bargain that allows them to meet their expectations and goals. Today, organizations are seeking to capture the minds of their consumers despite the more intense degree of competitiveness (Lalu et al., 2020). Efforts to capture the hearts of consumers are easily done through identifying and satisfying their demands swiftly and effectively (Biswamohan & Bidhubhusan, 2012).

Customer Relationship Management is a rapidly increasing business technique in the modern era. It is employed to manage an organization's relationships with both potential and existing consumers. It is aimed at assessing data about a company's customers' previous interactions. It focuses on customer retention, which aids revenue growth. This improves the company's commercial operations relationship with its customers (Soltani et al., 2018).

Customer relationship management can be described as an approach to management that allows businesses to figure out, attract, along with improving profitable customer retention by maintaining a positive management interaction with buyers as a base for creating products capabilities (Lalu et al., 2020). In addition, customer satisfaction is one of the key variables that increase the performance of business organisations

(Morris & Robert, 2022). The customer is viewed as king in the market and they contribute significantly to the company's prosperity.

Serving customers is crucial to the success of any business, as they are the first priority. Understanding and satisfying customers is crucial for driving business growth and success (Rao, 2024). Customers who are satisfied are inclined to make repeat purchases and frequently suggest others (Gogtay & Thatte, 2017). As a result, it serves as an indicator of increased sales and should be monitored on a continual basis. Customers will be satisfied with high-quality items, which will lead to more repeat purchases and increased revenue (Palmatier et al., 2006).

Furthermore, customer loyalty is critical for increased business performance since regular purchases boost revenue and profitability. Customer loyalty intention serves as a firm's growth strategy and competitive edge over competitors in the market arena (Oiku et al., 2022). Customer loyalty is built over time through many transactions (Khadka & Maharjan, 2017). Customer loyalty is critical to the survival of any organization in today's highly competitive market for two reasons. First, there is a favorable correlation between customer loyalty and profitability (Chi, 2005). Secondly, obtaining new brand loyalists is significantly more costly than retaining present customers (Kimura, 2021).

Customer loyalty is a key factor in determining a firm's performance in the industry, as loyal customers tend to only purchase items or services from that company and may not be interested in rival businesses (Mahabub et al., 2023). Loyalty refers to a customer's devotion to a firm, indicating that they will continue to use or repurchase goods or services from them rather than rival businesses (Wilson, 2018).

The majority of related studies were undertaken in corporate organisations. The study aims to address the lack of research on customer relationship management, customer satisfaction, brand loyalty and profitability in Nigeria's SMEs sector as they are the key players in Nigerian economy. And it is of paramount importance for SMEs owners to the role played by customer relationship management, customer satisfaction, brand loyalty for increasing their profitability. The study is set out to provide answers to the following questions:

i. To what extent does customer relationship management affect profitability of Small and Medium Enterprises in Katsina State

ii. To what extent does customer satisfaction affect profitability of Small and Medium Enterprises in Katsina State

iii. To what extent does brand loyalty affect profitability of Small and Medium Enterprises in Katsina State

The main objective of the study is to examine the effect of customer relationship strategies on the profitability of SMEs in Katsina State and the specific objectives are to:

i. Examine the effect of customer relationship management on profitability of Small and Medium Enterprises in Katsina State.

ii. Examine the effect of customer satisfaction on profitability of Small and Medium Enterprises in Katsina State.

iii. Examine the effect of brand loyalty on profitability of Small and Medium Enterprises in Katsina State.

In order to achieve the objectives of the study, the following hypotheses are stated in null form:

H_{01}: There is no significant relationship between customer relationship management and profitability of Small and Medium Enterprises in Katsina State

H_{02}: There is no significant relationship between customer satisfaction and profitability of Small and Medium Enterprises in Katsina State

H_{03}: There is no significant relationship between brand loyalty and profitability of Small and Medium Enterprises in Katsina State

2. Literature Review

2.1 Conceptual Issues

Profitability

Business profitability is an important part of every sector because it directly effects the viability and development of the business (Bocken et al., 2022). Profitability is the ability of businesses to earn money by delivering goods and services to its customers (Suszynski et al., 2022).

Customer Relationship Management

Customer Relationship Management is built on the principles of Relationship Marketing, a growing field in modern marketing (Rahimi & Kozak, 2017). This method, which creates the chance for customer relationship management, is founded on the need to build a new corporate environment (Soltani & Navimipour, 2016). The Internet has had a significant impact on society in the twenty-first century, resulting in a new revolution (Jafari & Zareie, 2015) and technology is regarded as a necessary and effective component of existence (Zareie & Navimipour, 2016). Companies can also use Internet technology to track their online activity and performance, tailor prices, messages, services, and products, and attract new customers. To serve clients with information, services, and products via the Internet, businesses must accurately grasp their demands (Jafari & Soltani, 2016).

Customer relationship management focuses on improving, sustaining, and building long-term relationships with customers (Josiassen et al., 2014). It is an extensive plan of action and procedure for acquiring, maintaining, and working with select customers to provide higher value for the firm and the client (Giannakis-Bompolis & Boutsouki, 2014). CRM will assist businesses to figure out what is wanted and desired by consumers in order to form a psychological connection and develop a tight and open commercial a connection, as well as two-way communication between them. As a result, consumer commitment continues to grow and they are less likely to migrate toward different brands or goods (Lalu et al., 2020).

Customer Satisfaction

Customer satisfaction is a metric that measures the number of customers or percentage of total customers who surpass particular satisfaction targets in terms of reported experience with a company, its products, or services (Panagopoulos, 2011). Customer satisfaction is also a measure of a company's ability to meet or exceed customer expectations with its products and services (Morris & Robert, 2022). Customer satisfaction is utilized to measure institutional growth because it's a major differentiator and component of corporate strategy (Akter, 2019).

Brand Loyalty

Customer loyalty is vital for a company's success in the market that lead to customer's willingness to return to a firm and purchase their products or services (Huang et al., 2020). Brand loyalty has benefits for both consumers and companies. Brand loyalty refers to a customer's willingness to switch to a different brand, particularly when the brand changes its price or product attributes (Obasan et al., 2015).

Loyalty to a brand might indicate satisfaction with its performance. Consumers are more likely to buy a brand if it delivers a positive signal and meets their expectations(Al-Msallam, 2015). This comfort stems primarily from the brand's trustworthiness based on previous encounters. Customer loyalty improves brand equity by reducing sensitivity to competition marketing and increasing revenue margins.

Holmes et al. (2020) argued that loyalty is a type of customer behavior that does not include switching brands. Brand loyalty is a key component of brand equity, a marketing concept that evaluates customer interactions with a company (Gong, 2020). Brand loyalty has two dimensions: behavioral and attitudinal. Behavioral brand loyalty refers to a strong commitment to repurchase a preferred service in the future, regardless of situational influences or marketing efforts. Attitudinal brand loyalty refers to the intention to repurchase, willingness to pay a premium price, and willingness to recommend the brand (Pandiangan et al., 2021).

2.2 Empirical Review

Studies related to the constructs of this study are empirically reviewed in order to know the strength and direction of the relationship between constructs under study.

Customer Relationship Management and Profitability

Gazi et al. (2024) examined the relationship between impact of customer relationship management, knowledge management, organization commitment on customer profitability and customer loyalty in telecommunication industry by utilizing structural equation modeling (SEM) and data gathered from 100 consumers of the Bangladeshi telecommunication sector, and a survey was performed through online and offline with a pre-structured questionnaire. The study found customer relationship management greatly affects customer profitability and loyalty,

Edeh (2022) examined the impact of customer relationship management capability and digital platform capability on business performance. A survey of 103 Nigerian small and medium-sized enterprises was conducted to find evidence of these relationships in an emerging market context. The results of structural equation modelling (SEM-PLS) analysis reveal that digital customer relationship management has significant effect on business performance.

Lalu et al. (2020) examined the impact of electronic customer relationship management on company performance. The design of this research was descriptive research design. The data collection employed survey method with questionnaires distributed to 150 respondents of owners and managers of SMEs in Indonesia. The questionnaires were then processed and analyzed with Structural Equation Modeling (SEM) with Amos 20.0 software. The results of the research revealed empirical evidence that customer relationship management plays a vital role in improving performance of businesses.

Customer Satisfaction and Profitability

Restrepo-Morales et al. (2024) examined the interplay between Customer Satisfaction, Innovation, and Product Quality and their collective effect on the operational success of MSMEs in the Iberoamerican region. An index derived from self-reported data was employed to gauge MSME performance, drawing upon a comprehensive survey of 9,300 Iberoamerican MSMEs. The findings of the study revealed that customer satisfaction has a significant impact on performance of MSMEs in Iberoamerican region.

Morris and Robert (2022) examined the effect of customer satisfaction on the profitability of Thamani SACCO in Tharaka Nithi County. The accessible population of the study are 45 selected employees of Thamani SACCO drawn from all the 5 branches in the County. Descriptive research design was adopted to conduct this study. Data collection was by means of a structured questionnaire utilizing both closed and open-ended questions. Quantitate data was analysed using descriptive statistics (frequency distribution table) Inferential statistics used included ANOVA techniques and correlation analysis to establish the relationship between research variables. The study findings revealed a significant positive relationship between customer satisfaction and Sacco profitability.

Zakari and Ibrahim (2021) investigated the effect of customer happiness on the business performance of SMEs in Nigeria. The survey research design was used in this study. The data for the study were gathered from primary sources. The primary data were acquired using a standardized questionnaire, and about one hundred (100) questionnaires were distributed to registered SMEs for responses. The study's findings demonstrated that customer satisfaction has a favorable and significant effect on business performance.

Brand Loyalty and Profitability

Olayinka et al. (2024) looked at how customer loyalty affects sales performance at Dangote Sugar Refinery in Nigeria. This study examined the impact of emotional loyalty and service quality on sales success. The study relied on survey research. The study employed 84 respondents as its sample. The study used data from a questionnaire distributed to respondents. The hypotheses were examined using SPSS version 20.0 and Pearson's Product Moment Correlation Coefficient at the 0.05 threshold of significance. The investigation revealed a significant correlation between emotional loyalty and sales performance at Dangote Sugar Refinery.

Miao et al. (2024) investigated the relationship between young adults' behavioral brand loyalty and Japanese fashion firms' financial performance. A mixed methodology was used, combining qualitative and quantitative approaches to investigate the prediction of outcomes by multiple variables in a realistic setting. The study chose 14 publicly traded Japanese fashion businesses and polled 183 Japanese consumers (aged 18-25). The studies demonstrated a positive impact on financial performance.

Park (2024) studied the association between brand loyalty and Las Vegas hotel financial performance. The study used convenience sampling to obtain data from a total of 315 guests who were staying at the selected 12 hotels in Las Vegas throughout the survey period. The data was gathered on the Las Vegas Strip using a self-administered questionnaire and analyzed using multiple regression. The findings show that there is a considerable association between brand loyalty and financial performance in hotels.

2.3 Theoretical Review

Theory or theories are employed in study to explain the relationship between constructs of the study. In this study, customer Life-Time Theory is used explain the relationship between customer relationship management, customer satisfaction, brand loyalty and profitability of business organisations.

Customer Life-time Theory

The customer Lifetime Value (CLV) theory is a business concept that quantifies the overall revenue a firm may expect to generate from one customer across their entire relationship with the organization. Customer behavior is influenced by their perspective towards the company's products and services, as well as their interactions with competitors and channels (Paul et al., 2006).

Each consumer plays a crucial role in a successful organization. Customers are the source of earnings, but not all are ideal. Some may add more value to a corporation than others. Understanding which customers are most important to a company's success and nurturing those relationships can lead to long-term profitability and growth. Companies intend to launch a customer engagement program to generate income (Kumar, 2007).

Relationship marketing marks a significant shift in marketing philosophy and practice. It prioritizes the construction, development, and maintenance of long-term exchanges over single transactions (Morgan & Hunt, 1994). These connections are expected to be more profitable than short-term ties due to trade efficiencies. This is particularly true for customer interactions (Reichheld & Sasser, 1990).

3. Methodology

This study used a quantitative research design, with data obtained from employees of Small and Medium Enterprises in Katsina State. The population of the study is 2,403, SMEs registered with the National Association of Small and Medium Enterprises (NASME) Katsina State office. Using Krejcie and Morgan (1970), the sample size of the study is 331 SMEs in Katsina State. In order to address the issue of unreturned, 50% was added and this makes the sample size of the study to be 500 SMEs in Katsina State.

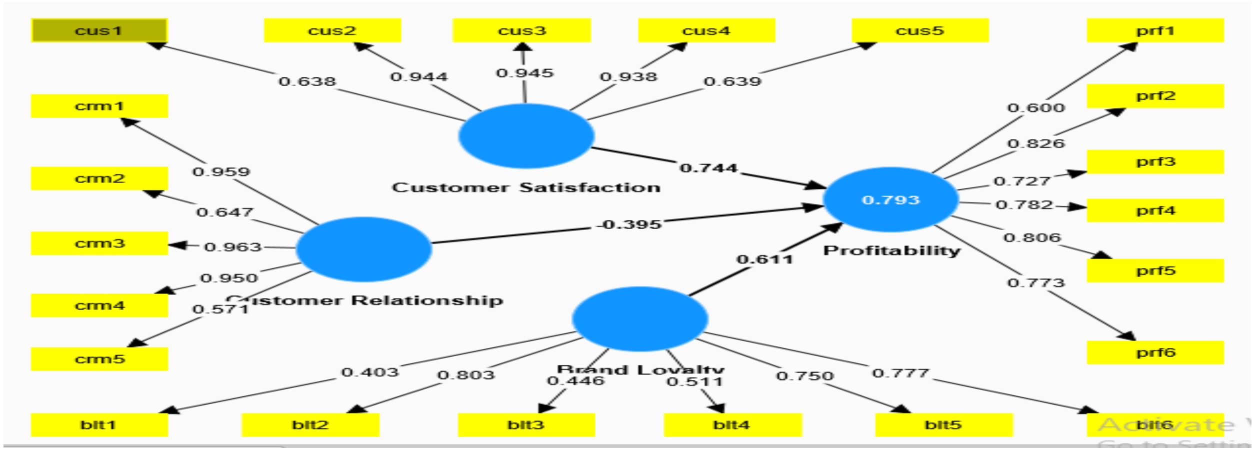
This study's sample technique was probability sampling, more so stratified random sampling. Stratified random sampling works well for this study since it assures that all strata of the population are represented. The survey used a structured questionnaire with a five-point Likert rating scale: Strongly Agree (5), Agree (4), Undecided (3), Disagree (2), and Strongly Disagree (1). The questionnaire was divided into two sections: section A for respondents' bio-data and section B for relationship issues. Business profitability items were adapted from (Reinartz & Kumar, 2016). items for customer relationship management were adapted from (Payne & Frow, 2013). Items related to customer satisfaction were adapted from (Nguyen & Mutum, 2019). Items for brand loyalty were adapted from the work of (Obasan et al., 2015). The data of the study was analysed using Smart PLS, where assessment and structural models were utilised. Based on the results of the assessment model of the study, items indicators, constructs reliability as well as discriminant validity are established in the study.

4. Results and Discussion

Five hundred questionnaires were administered to the owners/managers of Small and Medium Enterprises in Katsina State. Out of which 406 were filled and returned by the respondents but twelve questionnaires were found unusable. This implies that the study attained 78.8%

response rate. Eleven missing figures were found in the data of the study and mean substitution method was employed to replace the missing data. The data of the study was analysed using Smart PLS, where assessment and structural models were utilised. Figure 1 presents the result of assessment model of the study.

Figure I:**Assessment Model**



It can be seen from Figure I that all indicators of the constructs have loadings of 0.70 and above except item brt1, brt3, brt4, crm5, crm2, cus1, cus5 and prt1 that have 0.403, 0.446, 0.511, 0.571,0.647, 0.638, 0.639 and 0.600 respectively. Even though these items have a loading below 0.70, they were retained in the study because they are already above the critical level of 0.40, and their removal would not bring about any significant change to either Average Variance Extracted (AVE) or composite reliability (CR). Therefore, based on the criterion given by Hair et al. (2017), all the remaining items are reliable to measure their respective reflective latent constructs.

In addition, for a construct to be reliable, it must have at least 0.70 value of composite reliability (Bagozzi et al., 1991; Hair et al., 2014; Hair et al., 2011a). It can be seen in Table 1 that the composite reliability of all the reflective constructs in this study ranges from 0.7310 to 0.7412.

Table 1: Measurement Model: Reliability and Convergent Validity

Construct	Item	Loadings	AVE	CR
Profitability	prf1	0.600	0.654	0.734
	prf2	0.826		
	prf3	0.727		
	prf4	0.782		
	prf5	0.806		
	prf6	0.773		
Customer Relationship Management	crm1	0.959	0.557	0.712
	crm2	0.647		
	crm3	0.968		
	crm4	0.950		
	crm5	0.639		
Customer Satisfaction	cus1	0.638	0.543	0.807
	cus2	0.944		
	cus3	0.945		
	cus4	0.938		

	cus5	0.639		
Brand Loyalty	blt1	0.403	0.621	0.781
	blt2	0.803		
	blt3	0.446		
	blt4	0.511		
	blt5	0.750		
	blt6	0.777		

Specifically, profitability, customer relationship management, customer satisfaction and brand loyalty have composite reliability values of 0.734, 0.712, 0.807 and 0.781 respectively. Going by the aforementioned rule of thumb of 0.70 and above for the acceptable values of composite reliability, the researcher has concluded that all of these constructs are reliable as all their respective composite reliability's values are above the threshold.

Consequently, following the threshold level of 0.50 value for the AVE, all constructs of the study have convergent validity as each construct has an AVE level above 0.50. It can be seen from Table 1 that profitability, customer relationship management, customer satisfaction and brand loyalty have AVE of 0.654, 0.557, 0.543, 0.6512 and 0.621 respectively. Thus, these values indicate that all of the aforementioned constructs of the present study have convergent validity, and thus they all explained more than 50 percent of the variance of their respective indicators.

Cross loadings are employed in this study to establish discriminant validity. Hair et al., (2011a) opined that cross loading is liberal criterion in terms of establishing discriminant validity. Therefore, Table 2 presents the cross-loadings of the constructs of the study.

Table 2: Measurement Model: Discriminant Validity (Cross Loadings)

	prf	crm	Cus	blt
prf1	0.600	0.06	0.01	0.04
prf2	0.826	-0.24	0.41	-0.36
prf3	0.727	-0.25	0.43	-0.37
prf4	0.782	-0.26	0.43	-0.36
prf5	0.806	-0.15	0.33	-0.21
prf6	0.773	-0.26	0.42	-0.38
crm1	-0.31	0.959	-0.31	0.34
crm2	-0.31	0.647	-0.31	0.35
crm3	-0.31	0.968	-0.27	0.45
crm4	0.21	0.950	0.06	0.33
crm5	-0.09	0.639	-0.07	0.31
cus1	0.39	-0.22	0.638	0.25
cus2	0.17	0.09	0.944	0.21
cus3	0.16	0.21	0.945	0.22
cus4	0.18	0.09	0.938	0.21
cus5	0.16	0.09	0.639	0.21
blt1	-0.36	0.24	-0.26	0.403
blt2	-0.25	0.34	-0.09	0.803
blt3	-0.23	0.45	-0.04	0.446

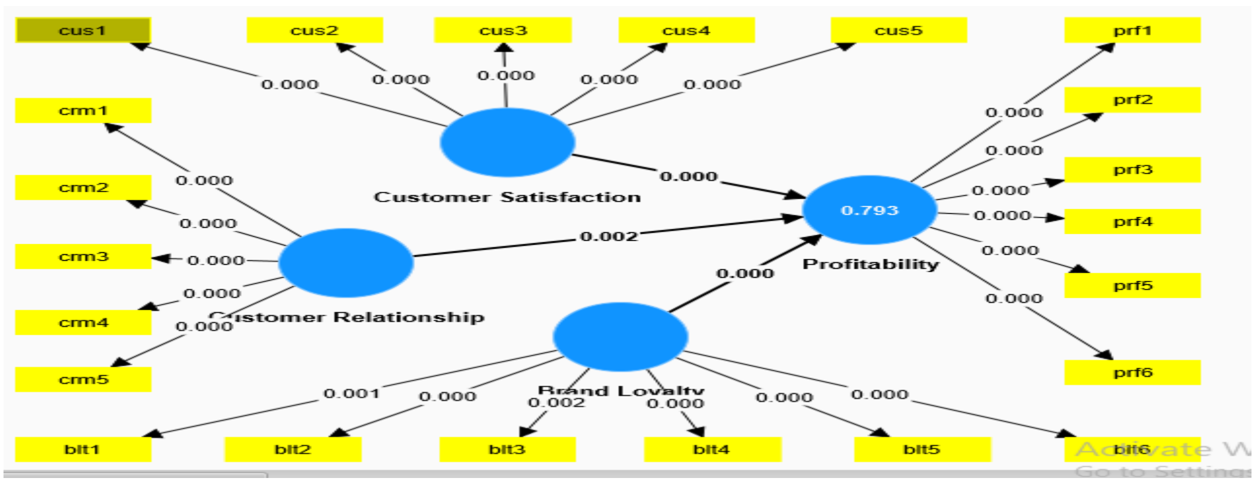
blt4	-0.25	0.12	-0.09	0.511
blt5	-0.26	0.32	-0.1	0.750
blt6	-0.33	0.53	-0.22	0.777

Table 2 shows that, the indicators loadings (Shaded loadings) of each construct of the present study are greater than their corresponding loadings diagonally. Therefore, it can be deduced that the constructs of the study have discriminant validity.

Structural Model

Figure 2: Assessment of Structural Model

In this section, the hypotheses are analysed with the help of bootstrap techniques of data analysis. Standard bootstrapping of 5000 bootstrap are employed to assess the path coefficient significance among the constructs of the study as recommended by (Hair et al., 2014; Hair et al., 2011; Reinartz et al., 2009).



Hypotheses Testing for Direct Relationships

Figure 2 presents the results of the study represented by three hypotheses stated in the introductory part of the study: H_{01}: Customer relationship management does not significantly affect profitability of SMEs in Katsina State; H_{02}: Customer satisfaction does not significantly affect profitability of SMEs in Katsina State; H_{03}: Brand loyalty does not significantly affect profitability of SMEs in Katsina State.

Table 3 depicts that the results of the relationships between the constructs of the study. Coefficients (Beta) of the path relationship and p-value of the constructs of the study are used in interpreting the results. The rejected or failed to reject the hypotheses of the study using significance level at 1% and 5%.

Table 3: Structural Model: Test of Significance

Hypotheses	**Relationship**	**Beta**	P.value	**Decision**
H_{01}	crm > pft	0.744	0.000	rejected
H_{02}	cus > pft	0.395	0.002	rejected
H_{03}	blt > pft	0.611	0.000	rejected

H_{01}: Customer relationship management does not significantly affect profitability of SMEs in Katsina State.

The results from Table 3 presents the coefficients and p-value of the constructs of the study from which the hypotheses are tested. From the analysis, the coefficient of customer relationship management is 0.744, with a p-value of 0.000 which is significant at 1%., meaning that, customer relationship management is one of the important constructs that improve the profitability of SMEs in Katsina State. The result implies that, for every one percent (1%) increase in customer relationship management, profitability of SMEs in Katsina State will be increase by 7.44%. Therefore, the study rejects the null hypothesis of the study which states that customer relationship management does not significantly affect profitability of SMEs in Katsina State.

The significant and positive relationship found between customer relationship management and profitability of SMEs in Katsina State is consistent with the findings of Gazi et al. (2024) and Edeh (2022) who established that profitability is significantly and positively affected by customer relationship management.

H_{02}: Customer satisfaction does not significantly affect profitability of SMEs in Katsina State.

From the hypothesis above, the study predicts that customer satisfaction does not significantly affect profitability of SMEs in Katsina State. From the analysis, the coefficient of customer satisfaction of 0.398, with a p-value of 0.002 which is significant at 5%, implying that, customer satisfaction significantly affects profitability of SMEs in Katsina State. Therefore, the study rejects the hypothesis that states customer satisfaction significantly affects profitability of SMEs in Katsina State.

The significant relationship found between customer satisfaction and profitability of SMEs in Katsina State is consistent with the findings of Restrepo-Morales et al. (2024) and Morris and Robert (2022) who established that profitability is significantly affected by customer satisfaction.

H_{03}: Brand loyalty does not significantly affect profitability of SMEs in Katsina State.

Conversely, the result of the study from Table 3 indicates that, rand loyalty has a significant and positive effect on profitability of SMEs in Katsina State. The coefficient of brand loyalty is 0.611, with a p-value of 0.000 which is significant at 1%. The result implies that for every one percent (1%) increase in brand loyalty, profitability will increase by 6.11%. Thus, based on the statistical evidence, this study rejects the null hypothesis which states that brand loyalty does not significantly affects profitability of SMEs in Katsina State. It therefore follows that brand loyalty plays a vital role in explaining profitability of SMEs in Katsina State.

The significant and positive relationship found between brand loyalty and profitability of SMEs in Katsina State is consistent with the findings of Olayinka et al. (2024) and Miao et al. (2024) who established that profitability is significantly and positively affected by brand loyalty.

Table 4 and Figure 1 present the result of the coefficient of determination (r^2) of the study.

Table 4: Coefficient of Determination (R- Square)

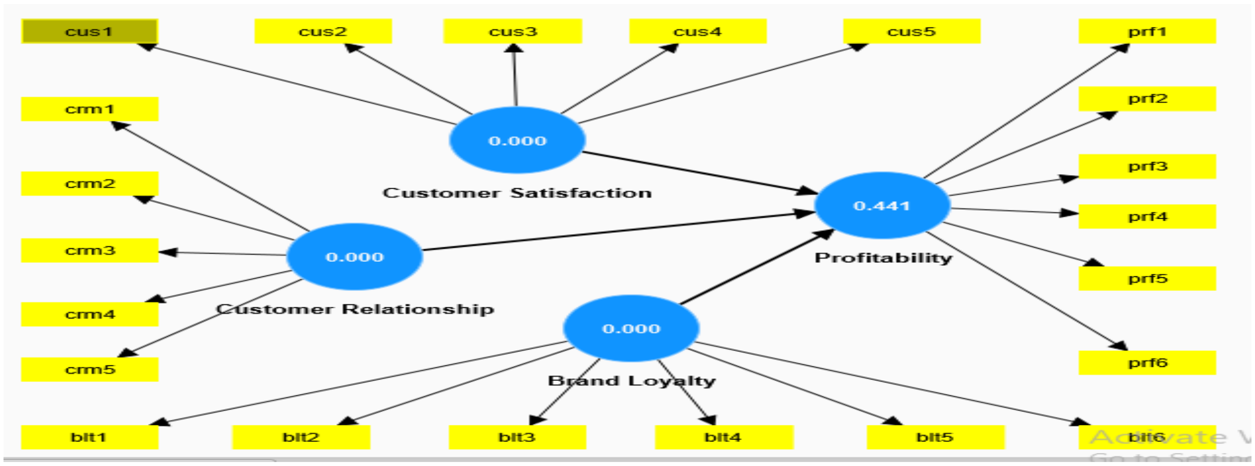
Construct	R^2-Square
Profitability	0.793

Table 4 and Figure 1 show that, the exogenous latent constructs of this study (customer relationship management, customer satisfaction and brand loyalty) explain about seventy-nine per cent (79.3%) of changes in endogenous construct (profitability of SMEs in Katsina State). Following Chin (1998) recommendation, the R^2 value of this research model has moderate predictive power to explain the relationship between the exogenous and endogenous constructs of this study.

Predictive relevance is an extra assessment of the fitness of the research model in the PLS-SEM analysis (Duarte

& Raposo, 2010; Stone, 1974). The results of the predictive relevance is presented in Table 5 and Figure 3.

Figure 3: *Blindfolding*



The value of Q^2 explains the wellness of the model as well as its parameter estimates (Chin, 1998). A model with a value of Q^2 greater than zero, is assumed to have predictive relevance (Reinartz et al., 2009). The closer the value of Q^2 to zero, the weakness of the predictive relevance of exogenous variable on endogenous constructs of the study and vice visa (Duarte & Raposo, 2010).

Table 5: Predictive Relevance

	SSO	SSE	1-SSE/SSO
Tax	2058	1150.50	0.441

Table 5 and Figure 3 show that, the endogenous construct of the study has a value of 0.441. As this cross-validated redundancy (Q^2) is greater than zero, it clearly indicates the presence of path model predictive relevance (Chin, 1998; Hair et al., 2014).

5. Conclusions and Recommendations

The study concludes that customer relationship management, customer satisfaction and brand loyalty play vital roles in increasing profitability of Small and Medium Enterprises in Katsina State. Based on the statistical results of the study, it is recommended that Small and Medium Enterprises should put more efforts on establishing good customer relationship management in order to increase their profitability. In addition, the business owners/managers should be innovative in designing their product in such a way that the customers will feel satisfied as the will increase the volumes of sales as well as the profitability of the businesses.

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