BACHELOR'S THESIS

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Customer Loyalty

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Preface

The research presented in this thesis was carried out at the Division of Industrial Marketing at Luleå University of Technology.

Several people have contributed to this thesis, first and foremost we would like to thank our supervisor Tim Foster for his support and guidance throughout writing this thesis.

We would also like to thank Anita Lundberg, Head of Åhléns department store in Luleå for taking the time to participate in our interview, and provide us with additional material.

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Abstract

This thesis focus on how companies strategically maintain their customers loyal and how the benefits generated from customer loyalty can be described. To be able to gain a deeper understanding of this research this study describes strategies for keeping customers loyal, explains how they are used and introduces specific activities for keeping customers loyal. Furthermore the study show on the benefits generated from maintaining customers loyal, this includes benefits both for the companies and for the customers. The research was conducted at a Swedish retailer company in Luleå and we conducted the interview with the company's head of department store. The result of this case study show that companies today are aware of the importance of customer loyalty by having introduced customer loyalty programs and for putting a lot of efforts on keeping customers loyal.

Sammanfattning

Den här uppsatsen fokuserar på hur företag strategiskt bibehåller kunder lojala och hur fördelar genererade från kund lojalitet kan beskrivas. För att kunna få en djupare förståelse för denna forskning beskriver denna studie strategier för att behålla kunder lojala, förklarar hur dessa används och introducerar specifika aktiviteter för att behålla kunder lojala. Fortsättningsvis visar studien på de fördelar genererade från bibehållandet av kund lojalitet, det inkluderar fördelar för både företag och kunder. Forskningen utfördes på ett svenskt detaljhandels företag i Luleå och vi utförde intervjun med företagets varuhuschef. Resultatet av den här fallstudien visar att företag idag är medvetna om vikten av kund lojalitet genom att ha introducerat kund lojalitets program samt lagt ner mycket resurser på att behålla kunder lojala.

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1. Introduction

In this first chapter the background to our problem area will be presented, followed by the problem discussion. From this the purpose and research questions have emerged.

1.1 Background

Organizations today are using branding as a strategic tool with increasing regularity in their business environment. Brands and branding are not new ideas, business historians agree that branding itself is over 100 years old and the role of branding is becoming more important. (Rooney, 1995)

One definition of branding offered by Professor Peter Doyle is *"A name, symbol, design, or some combination which identifies the product of a particular organization as having a substantial, differentiated advantage"* (Rooney, 1995, p.48). Another definition of a brand are provided by Professor David Aaker, *"A brand is a distinguished name and/or symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors"* (Marconi, 2000, p.33). Despite the formal definitions, the purpose of branding is essential to build a product's image. This image will influence the perceived value of the product and will increase the brand's value to the customer, leading to brand loyalty. (Rooney, 1995)

According to Rooney (1995) organizations use brands as a way to attract and keep customers by promoting value, image, prestige, or lifestyle. Furthermore, Rooney (1995) states that branding is a technique to build a sustainable, differential advantage by playing on the nature of human beings. This since only humans can attach meaning and feelings to inanimate objects (ibid).

The core of brand management is the manipulation of the four Ps (product, place, price and promotion) and the implementation of strategies that follows. The precise focus varies from one organization to the next, but in general the emphasis tends to be placed on promotion, and its core component advertising. Within brand management there is a development of the use of brand equity and brand value measures as a guide to corporate strategy development. (Logman, 2004)

Wood (2000) states that brand equity has multiple meanings and accountants often tend do define brand equity differently from marketers. The difference lies in the concept being defined both in the terms of the relationship between the customer and the brand or as something that accrues to the brand owner. To simplify these approaches a classification of the different meanings of brand equity has been provided:

- Brand value   the total value of a brand as a separable asset.
- Brand strength   a measure of the strength of consumers' attachments to a brand.
- Brand image   a description of the associations and beliefs the consumer has about the brand.

According to Marconi (2000) brand equity is the value, or the perception of value, of the brand name. Aaker (1996) states that brand equity contain a set of assets that is linked to a brand's name and symbol.
The brand equity assets are:

1. Brand name awareness
2. Brand loyalty
3. Perceived quality
4. Brand associations
5. Other proprietary Brand Assets

Each brand equity asset creates value in a variety of different ways and creates value for both the company and their customers. If the brand's name or symbol would change, some or all the assets could be affected and even lost, although some might be shifted to the new name and symbol. (Aaker, 1996)

Apéria and Back (2004) states that the core of 'brand equity' is 'brand loyalty' and the assets of brand equity all impact on brand loyalty. According to Dowling & Uncles (1997) researchers in the 1970´s discovered that suppliers who form close working relationships with their customers tend to have "better" customers. These close relationships make the customer more loyal to the suppliers and the customers often give the suppliers a greater share of their business.

Building customer loyalty through loyalty marketing is a business strategy not just a marketing program, all businesses should seek to increase and maximize the share of customers. The pursuit of customer loyalty is continuous and it is more of a journey than a destination. (Duffy, 1998) Aaker (1996) states that focus on loyalty segmentation provide strategic and tactical insights that will assist in building strong brands. The market is divided into several different segments that consist of groups of people with similar preferences within the groups rather than between the groups (Söderlund, 1997). If a company practice loyalty marketing, they must first know who their loyal customers are, which is a lot easier for many business-to-business marketers than for most consumer goods marketers (Dowling & Uncles, 1997).

When consumers choose between different products and services they begin by identifying and selecting a set of acceptable alternatives from what is available and limit their purchase to these alternatives. This set of possible choices is known as *evoked set* or *consideration set*. The limitation of alternatives to a manageable level enables consumers to make a rational choice. (Wirtz & Mattila, 2003)

1.2 Problem Discussion

It is hard to meet all customers' needs at once and therefore it is essential to prioritize certain customers and their needs. Competitive survival is achieved by meeting the most important needs of the most important customers. By accomplishing this and meeting the needs of customers whose needs are not being met by competitors, a company can achieve a competitive advantage. (Stone, Woodcock & Machtynger, 2000)

According to Söderlund (1997) a high degree of marketing orientation often generates good results if it is applied to certain segments. There are two main strategies when it comes to the companies relationship with their customers, offensive and defensive strategies. The offensive strategy applies to the companies' intent to attract new customers and the defensive strategy applies to the companies' intent to keep existing customers. (ibid)

According to Aaker, (1996) when placing value on a product, brand loyalty is the key consideration because a highly loyal customer base generates larger sales and profits. A brand without a loyal customer base is usually vulnerable and the brands only value is its potential to create loyal customers. Burgeson (1998) agrees with Aaker (1996) and states that keeping customers is easier and more profitable than finding new ones. Burgeson (1998) further states that companies often try to create product loyalty by keeping customers happy but the actual relationship between customer satisfaction and loyalty can be very difficult to determine. According to Schulz (1998) high customer satisfaction is often assumed to generate in brand loyalty. Findings show that it is often not the case, highly satisfied customers can easily desert their preferred brand and buy another and the customers that are not satisfied with the brand often purchase the brand on a regular basis (ibid).

False loyalty occurs when the customers have a limited choice of products. Customers appear to be loyal because they continue to buy from a single seller but their apparent loyalty is due to a lack of good substitutes and they are actually unhappy with the product. (Burgeson, 1998)

According to Riezebos (2003) consumers' brand loyalty has decreased over the past decade. About twenty to thirty years ago consumers would consistently buy the same product from a product class. Today people are switching from two to four different brands. According to Schriver (1997) this has arisen from the growing selection of services, products, styles and accessories. If the field of choices grows too large value can blur, distinctions can be lost and people can grow distracted. Due to the increasing availability of consumer publications, brochures, and the Internet, product information is made more available. The consumers can more easily gather information and this empowers the consumers' and raises their expectations. (ibid)

Schriver (1997) also presents another aspect of this matter, which is that people patronize certain merchants because it is convenient. The environment today is very stressful, people has too much to do and too little perceived time. Therefore it is easier for people

to choose the same brand that they are in habit of buying and this creates a form of brand loyalty, which would cease to exist if time was not an issue. (ibid)

Within consumer decision-making there are three stages according to Baker, Hutchinson, Burke and Nedungadi (1986), first *defining the alternatives*, then *reviewing relevant information in memory* and finally *applying a decision rule*. The different alternatives are referred to as an *evoked set* or *consideration set*. Most evidence suggests that while consumers have knowledge of a large number of brands in a product class they may only consider a few of these for purchase. The composition of an evoked set is important for the subsequent probabilities of a brand to be chosen because a brand that is not considered cannot be chosen. (ibid)

According to Butscher (2000) there are several different methods to create loyalty with the purpose of keeping customers and the most known is *relationship marketing*. The different methods have two things in common, first they describe the efforts to create loyalty with the customers towards the product, brand or company. Second, they gain a larger influence of the strategy and the development within the industry. (ibid)

To be close to the customer and manage successful investments to create customer loyalty is not only important, it is the key factor to success for many companies. The established companies' closeness to the customers becomes a high entrance barrier for new companies on the market. This because the new companies do not only have to meet the already established companies high standards, but also break into a system of strong personal relationships, trust and respect. (Butscher, 2000)

Butscher (2000) further states that on a market, which is distinguished by increasing competition, unpredictable and well informed customers, efforts to increase brand loyalty will get a greater significance. To create loyalty will become one of the most important strategic factors to succeed, neglecting these factors could lead to failure for the companies. (ibid)

According to Schriver (1997) consumers are becoming more tactical and many of them have tried to switch brands and found that the world did not end, in fact it improved. Each time a customer tries a new product they gain a broader experience, which inevitably will hasten the evolution of the new marketplaces. Furthermore the author believes that the future will involve customers who are faster and more eager to switch. Schriver (1997) states that, *"Tomorrows consumer might be too busy to focus, too worried to care, too skeptical to listen, too confused to connect and too savvy to be sold" (p.20)*. Meeting customers' needs, keeping them loyal and happy is very important for a company's survival, but being able to satisfy all customers is a challenge since they have different preferences (ibid).

1.3 Purpose

The purpose of this study is to provide a deeper understanding of how organizations maintain customer loyalty.

From the problem discussion we have formulated the following research questions:

- How can the strategies used in maintaining customer loyalty be described?

- How can the benefits of keeping customers loyal be described?

2 Literature Review

In this chapter relevant theories to the chosen research questions will be presented. We will start by presenting theories regarding strategies for keeping customers loyal, followed by theories regarding benefits of customer loyalty.

2.1 Strategies Used to Maintain Customer Loyalty

According to Fornell (1992) extensive literature suggests that both market share and customer satisfaction leads to profitability but it is not certain that market share and customer satisfaction have a positive connection. Fornell (1992) states that "*Loyal customers are not necessarily satisfied customers, but satisfied customers tend to be loyal customers*" (p.7).

2.1.1 Defensive Strategies

Companies' relationship to their customers can be divided into two separate business strategies, offensive and defensive. The offensive strategy deals with attracting new customers and the defensive with trying to keep already existing customers, this is shown in figure 1. (Fornell, 1992)

Figure 1: Offensive and Defensive Strategies.
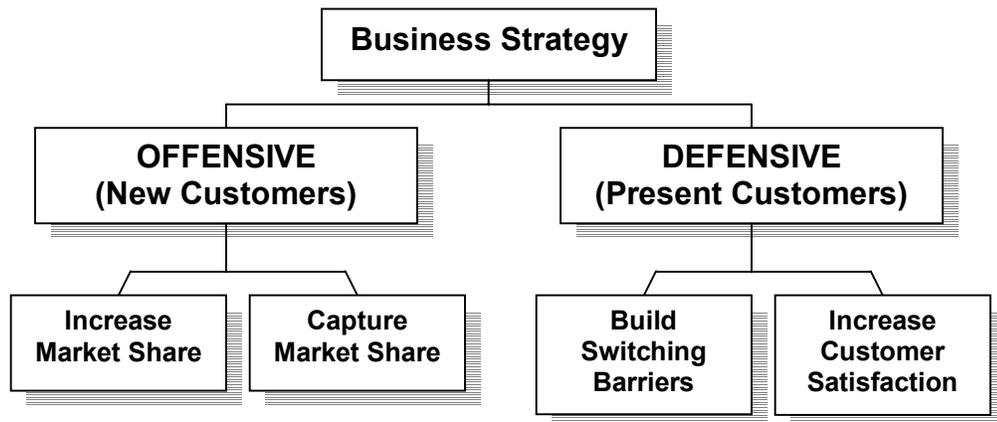
SOURCE: Adapted from Fornell, 1992, p.8

Traditionally companies have devoted more resources to acquiring new customers but today most companies apply a combination of both offensive and defensive strategies. The objective of the defensive strategy is to minimize customers switching and maximize customer retention by protecting the brand and its market from competitors and by having highly satisfied customers. (Fornell, 1992)

Fornell (1992) further states that switching barriers makes it costly for the customer to switch brand, vendor or store. To accomplish switching barriers companies' make it difficult, expensive and sometimes even illegal for customers to switch. Examples of switching barriers could be; search costs, transaction costs, loyal customer discounts, customer habit, emotional cost etc. Basically any pursuit from the company to limit the customers brand alternatives, to achieve repeated purchases can be equivalent to a strategy for building up switching barriers for customers. (ibid)

Customer satisfaction on the other hand makes it costly for the competitors to entice other companies' customers. A common example of satisfaction and switching barriers is the airline companies and their frequent flyers program, which are designed to enhance repeated purchases by providing economic incentives for the customers to remain loyal. A measurement for successful customer satisfaction is high customer retention leading to loyal customers. Benefits of high customer satisfaction are increased profits and that customer satisfaction can generate a favorable word of mouth. (Fornell, 1992)

2.1.2 Decision-Making Stages

According to Baker, Hutchinson, Burk & Nedungadi (1986) there are three stages within consumer decision-making process. The first stage is *defining brand alternatives*, then *reviewing the relevant information* concerning the brands and finally *applying a decision rule.* Although the customers have knowledge of a large number of brands in a product class, they only consider a few of these for purchase, this range of alternatives is referred to the evoked set or the consideration set. The composition of an evoked set is highly significant since a brand that is not considered cannot be chosen. There are two ways for brands to be included in the evoked set, *stimulus based* and *memory based* choice. Stimulus based choice is when a brand is recognized in the environment and memory based choice is when a brand is being recalled from memory. In both of these situations brand familiarity facilitates the identification of the brand and the probability of the brand being included in the evoked set. (ibid)

Kardes, Kalyanaram, Chandrashekaran and Dornoff (1993) claims that the consumer choices vary across purchase situations. This variability is due to the complexity of the decision process and the consumers' efforts to reduce this complexity. The authors suggest a two-stage decision model to reduce the complexity. The first stage is where the available alternatives are evaluated on a non-compensatory rule, in the second stage the remaining alternatives are analyzed more carefully by using a compensatory rule. (ibid)

Furthermore, the authors suggest that the consumers may use more than two decision-making stages if the purchase is extremely complex, this is shown in figure 2.

Figure 2: The Sequential Multistage Process Model.

| Universal set 1. | → | Retrieval set 2. | → | Consideration set 3. | → | Choice | → | Chosen brand |
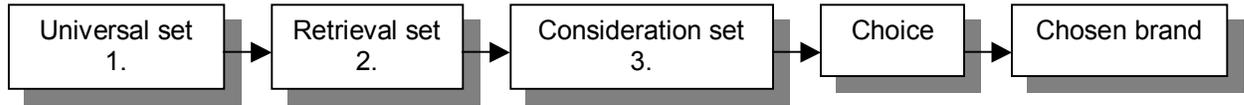
SOURCE: Adapted from Kardes, Kalyanaram, Chandrashekaran and Dornoff, 1993, p 64.

The consumers develop a series of hierarchical set of brand alternatives; the first is the *universal set* which referrers to all brands available on the market. The next is the *retrieval set*, which consists of a subset of brands, which customers can recall from memory and is emerged from the universal set. The retrieval set is considerable smaller then the universal sets since consumers are neither exposed nor susceptible to all brands. The last set is *the evoked set* or *the consideration set*, which consists of a subset of brand from the retrieval set, which are carefully evaluated by the consumers before finally selecting one specific brand for purchase. (Kardes et al., 1993)

2.1.3 Building and Sustaining Profitable Customer Loyalty.

According to Kumar and Shah (2004) the main goal of every company is profitability and one method to achieve this for a company is to gain and maintain loyal customers. If a company invests resources to build customer loyalty without focusing on profitability it may lead to failure in the long run. Kumar and Shah (2004) further states that there are two types of loyalty; *behavioral* and *attitudinal* loyalty. Customer loyalty becomes important to a company when it results in purchase behavior. This generates for a company in direct and tangible returns which attitudinal loyalty does not. Behavioral loyalty is important for a company in order to generate profitability, attitudinal loyalty on the other hand is important for a company, because it helps the company to build up an exit barrier for their customers. This is especially true in non-contractual situations where there are low switching costs. Attitudinal loyalty can be a commitment or trust to a company, which do not have to result in any purchase. This because, even though the customer has a positive attitude towards a company or a brand, they might have an even more positive attitude towards another company or another brand. The attitudes that customers have are best measured through surveys, other types of methods to obtain data are focus groups and feedback from the customers. (ibid)

In figure 3, Kumar and Shah (2004) show how customers' attitudes towards a brand transact through buying behavior.

Figure 3: Building and sustaining customer loyalty.
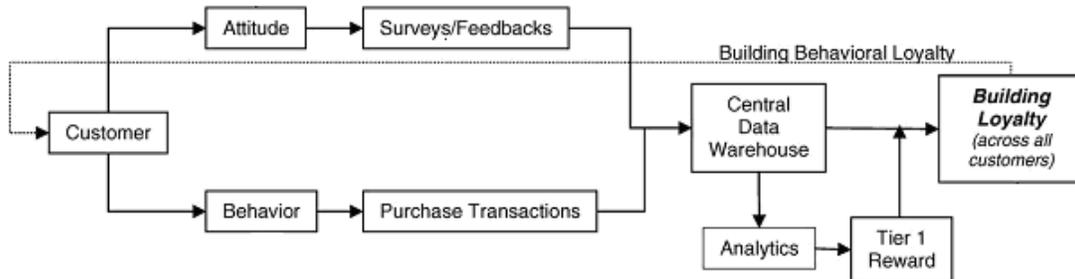
SOURCE: Adapted from Kumar & Shah, 2004, p.320.

Through surveys and transaction data the behavior and attitudes of customers is captured through the company's central database. How much information that is gathered in the central database will determine the efficiency of the framework. The model can be explained through three fundamental objectives:

1. Building (and enhancing) behavioral loyalty
2. Cultivating attitudinal loyalty
3. Linking loyalty to profitability

Tier 1 rewards in this model are those rewards directed to meet specific strategic objectives. The first objective is that it rewards all customers that do or has been doing business with the company. The second objective is that companies can reward their customers in different ways, either on how much the customers are spending or the profitability of the customers. It can also help companies to capture customer transaction data. (Kumar, & Shah, 2004)

2.1.4 Customer Loyalty Programs

The adaptation of customer loyalty programs among companies has increased over the last couple of years, and the customers have become the focus of attention. Customer loyalty programs offer financial and relationship rewards to customers with the purpose of making the customers' brand loyal. (Uncles Dowling & Hammond, 2003) The authors further states two aims of customer loyalty programs, the first is *increased sales* of revenues through increasing purchases. The second aim is to *build bonds between the brand and the existing customers* to maintain the existing customer base. According to O´Malley (1998) loyalty programs are developed to reward loyal customers, generate information about the customers and manipulate their behavior. Yi and Jeon (2003) states that loyalty programs are usually introduced to build customer loyalty through a reward scheme. The goal of loyalty programs is to establish a high level of customer retention by providing satisfaction and value to certain customers. These programs can also increase

brand loyalty by creating switching costs and profits by avoiding price competition. The customers' value perception is a necessary condition for the developing of brand loyalty through loyalty programs. The loyalty program has to be perceived as valuable for the customer, as well as convenient and generate in cash value to be able to entice the customers into the program. (ibid)

Dowling and Uncles (1997) describes a psychological benefit of belonging to a program and the accumulation of points. The authors found that the accumulated points and being qualified for a reward could be regarded as psychological rewards in loyalty programs. Yi and Jeon (2003) states that this value perception might also be related to the different type of rewards, customers prefer luxuries as rewards and value them more than necessity rewards.

According to Butscher (2002) the primary aim of loyalty programs is to build up emotional relationships that generate benefits. The benefits need to be valuable and capable of creating an emotional connection between the customers and the company. Liang and Wang (2004) states that the concept of benefits relies on the idea that the customers select brand on the basis of their desire.

Butscher (2002) further states that before customers consider to join a loyalty program they weight their input such as membership fees and obligation against the output they will receive from the program such as benefits, image and special customer status. The balance between the input and the output has to be favorable for the loyalty program to be able to establish relationships with the customers. This balance deals with selecting the right benefits for the customers. (ibid) Table 1 below shows the loyalty programs input and output for the loyal customers.

Table 1: Importance of Loyalty program benefits

Input	Output
Membership fee	Benefits
Data release	Financial advantages
Obligations	Preferred customer treatment
Cost for benefits etc.	Status/ image etc.

SOURCE: Butscher, 2002, p.52.

Butscher (2002) states that the right benefits are those who from the customers' point of view have high perceived value. The author further suggest three key elements in the creation of benefits, the first is *high value,* which is necessary to be able to attract customers to join the loyalty program. To create this high value the benefits must meet the customers' expectations and be unique by standing out among other loyalty programs. The second aspect is *perceived value,* which must not only be good from the companies' perspective, but also from the customers. If the customers perceive the benefits differently the value of the benefits will be reduced. The third key element is that *the selection of the benefits must be made from the customers' point of view.* It is the

customers' opinion that matters, and the only way a loyalty program can work is if the companies offer customers what they like rather than what the companies wants the customers to like. (Butscher, 2002)

2.1.5 Brand Loyalty

According to Aaker (1996) the key consideration when placing value on a brand is brand loyalty, this because a highly loyal customer base can generate a very predictable sales and profit stream. The impact of brand loyalty on marketing costs is often substantial because it is much less costly to retain customers than to attract new ones. Many companies make the mistake of seeking growth by enticing new customers to the brand and neglecting already existing ones. (ibid)

According to Aaker (1996) a market can be divided into five different groups shown below in table 2.

Tabel 2: Five customer groups

Groups:	Customers who:
Non-customers	- buy competitors brands or are not a product class
Price switchers	- are price-sensitive.
The passively loyal	- buy out of habit rather than reason.
Fence sitters	- are indifferent between two or more brands.
The committed	- are committed to one brand.

SOURCE: Adapted from Aaker, 1996

The challenge with these customer groups is to improve the brands loyalty profile by decreasing the number of *price switchers*, strengthen *fence sitters* and *the committeds* ties to the brand and increase the number of customers who would pay more for the brand. Aaker (1996) further states that *the committed* often are objects of underinvestment and taken for granted although there is a significant potential in increasing the business with the loyal customers. Another aspect is the risk of loyal customers being enticed away by competitors if the performance of the brand is not improved. Companies should therefore avoid utilizing resources from the group of committed to the non-committed customers or price switchers. (ibid)

Aaker (1996) further suggest an approach to enhance the loyalty of the fence sitters and the committed. This approach is to develop or strengthen their relationship with the brand through brand awareness, perceived quality and a clear brand identity. Brand awareness reflects the presence of the brand in the mind of the consumer, perceived quality is the brands associations, and brand identity provides direction, purpose and meaning for the brand. Programs that can build this type of loyalty are frequent–buyer programs and customer clubs which are becoming more common. Frequent-buyer programs are being adopted by many different brands in a variety of product classes, the program provides direct and tangible reinforcement for a customer's loyal behavior. The program also

enhances the value proposition of the brand, the brands differentiation, and affirms the commitment between the companies and their loyal customers. A more intense loyalty program is the customer clubs were the members receive discounts, news of upcoming events and special offers. Similar to the frequent-buyer program, customer clubs also provides visible evidence that the company really cares for their loyal customers. (ibid)

2.2 Benefits of Maintaining Customer Loyalty

According to Kumar and Shah (2004) it is difficult to build and sustain customer loyalty. It is more economical for a company to keep customers loyal than if the company have to replace them (Marken, 2001). Kumar and Shah (2004) states that a company that gains loyal customers receives different types of benefits, the most known are:

- Loyal customers are less price sensitive.
- Loyal customers spend more time with the company.
- Loyal customers pass on their positive feeling about the company or the brand to others.

2.2.1 Economical and Non-economical Benefits

In general the end goal of companies marketing efforts is to generate profit. From the relationship marketing's perspective, a successful company is according to Ahmad and Buttle (2001) a company "*which manage to turn their customers into clients and from prospects into partners*" (p.33). The most common argument for customer retention is that it is less costly to retain customers than to acquire new customers. There are both economical and non-economical benefits of retaining customers. The authors have identified six economic benefits of retaining customers shown in table 3:

Table 3: Economic benefits of retaining customers

Economic Benefits
Savings on customer's acquisition or replacement costs.
Guarantees of base profits as existing customers are likely to have a minimum spend per period.
Growth in per-customers revenue as, over a period of time, existing customers are likely to earn more, have more varied needs and spend more.
A reduction on relative operating costs as the firm can spread the cost over many more customers and over a longer period of time.
Free of charge referrals of new customers from existing customers, which would otherwise be costly in terms of commissions or introductory fees.
Price premiums as existing customers do not usually wait for promotion or price reduction before deciding to purchase.

SOURCE: Adapted from Ahmad & Buttle, 2001, p.36

The non-economic benefits consist of for example feedback about the product or service from the existing customers who works together with suppliers to add value to the products by improving its functional features. (Ahmad & Buttle, 2001)

2.2.2 Relational Benefits For the Customer

Marzo-Navarro, Pedraja-Iglesias and Riviera-Torres (2004) states that to be able to maintain a relationship, promises must be kept in order to expand the relationship and new promises must be established as long as the previous has been kept. The benefits of a stable relationship that a customer can obtain are for example an increase in confidence, reduction of risk, economic advantages, increase and simplification of efficiency in the decision process. These benefits are determined by the established relationship and can be divided into two primary categories; *functional* benefits and *social* benefits. The functional benefits include time saving, convenience, making the best purchase decision etc., and the social benefits include how pleasant and comfortable the relationship might be. The authors further states that by establishing stable relationships, customers themselves will reduce the problems associated with the purchase choice and thereby improve the efficiency of the decision-making process. (ibid)

2.2.3 Relational Benefits For the Company

The business strategy of retaining customers by making them brand loyal is done because it is more profitable to retain existing customers than to attract new customers. Customer loyalty leads to improved business due to the effect of the loyal customers. The loyal customers provide a communication route for strengthen the brand image, makes if

difficult for competitors to entice customers and allows setting higher prices. Another factor that loyal customers generate is a decrease in marketing costs since the loyal customers have knowledge about the company, their standpoint and know the quality of their products. (Marzo-Navarro et al., 2004)

The authors further states that no customer can be made brand loyal if they are not satisfied, which drives the companies to improve customer satisfaction. The concept of loyalty can be interpreted in two ways; *affective loyalty* and *behavior loyalty*. Affective loyalty has a positive attitude towards a brand or a company, which is generated through an internal evaluation process, the behavior loyalty reflects the degree of purchase repetition that an individual makes. There are also other determinants than satisfaction to create loyalty for example; brand capital and management of communication with the customers. This indicates that satisfaction is a feeling that generates a higher rate of customer retention and wider spread positive word of mouth. In order to make customers brand loyal the companies must act both effective and affective in their relationships to create both social and personal bonds with their customers. These bonds along with the financial bonds are the most significant elements for achieving brand loyalty. (Marzo-Navarro et al., 2004)

2.2.4 Benefits of Customer Loyalty Programs

Uncles, Dowling and Hammond (2003) states that loyalty programs can increase the brand loyalty through a decrease in price sensitivity and decrease in customers desire to consider other brand alternatives. It is shown that customer loyalty programs generate in higher profits since loyal customers buy more frequently and buy more products. This is a highly significant factor for companies since most companies are profit-seeking. Loyalty programs can also encourage a positive word of mouth, attract more customers and increase the number of purchases. (ibid) According to Yi and Jeon (2003) loyalty programs are profitable because the cost of serving existing customers is less than attracting new ones. The authors further states that loyal customers are less price sensitive and usually spend more money with the company.

2.2.5 Benefits of Brand Loyalty

According to Aaker (1996) and Burgeson (1998) keeping customers brand loyal is easier and more profitable than attracting new ones. The increasing profits are due to the increase in purchase that follows from customers being brand loyal (Uncles, Dowling & Hammond, (2003). Another benefit arisen from brand loyalty is the spread of a positive word of mouth, which increases the reputation and image of the brand and also entices more and new customers (Kumar & Shah, 2004). The authors continue by claiming that keeping customers brand loyal builds exit barriers and switching costs for the customer to prevent the customers from switching brand. Companies create incentives for the customers in order to create brand loyalty and not just retention. Through brand loyalty the companies gain a customer base with high retention and according to Aaker (1996)

the marketing costs for existing customers are lower than for new customers. This since the company does not have to build up the existing customers' awareness of the company. The existing customers already have knowledge of the company and the quality of the company. (ibid)

2.3 Conceptual Framework

This section provides an overview of the relevant literature, which relates directly to our stated research questions. The purpose of this section is to provide the conceptualization that allows us as researchers to answer the stated research questions. This conceptualization will explain the main dimensions, factors or variables of our research questions. (Miles & Huberman, 1994) We begin by conceptualizing the different defensive strategies utilized to keep customers brand loyal, then the benefits arising from the utilization of these defensive strategies.

2.3.1 Conceptualization of Research Question One

The purpose of the first research question is to provide a deeper understanding of how the strategies used in maintaining customer loyalty can be described. Based on our literature review a combination of previous research will be used in our conceptualization.

Fornell (1992) provides a business strategy for dealing with both keeping existing customers and attracting new ones. The relationship between companies and customers can be divided into two strategies, defensive and offensive strategies. The defensive strategy aims to minimize customer switching and maximize customer retention. We have chosen to conceptualize this theory because although it is not recent it is the most relevant theory we have found.

Defensive strategies

- ❖ Keep existing customers
- ❖ Switching barriers
- ❖ Customer satisfaction

According to Yi and Jeon (2003) loyalty programs are introduced to build customer loyalty. Uncles, Dowling and Hammond (2003) states that customer loyalty programs offer rewards to customers in form of relationships and financial rewards. Butscher (2002) describes the importance of benefits for enticing customers into these loyalty programs and according to Yi and Jeon (2003) the goal of customer loyalty programs is to create a high level of customer retention. Concerning theories of customer loyalty programs we have chosen to conceptualize factors from several different theories in order to be able to compare the empirical data with the most relevant theories.

Customer loyalty programs

- ✓ Two aims – increased profits and building bonds
- ✓ Goal – build emotional relationships
- ✓ Reward loyal customers – financial and relationship rewards
- ✓ Build customer loyalty
- ✓ Generate benefits and value

- ❖ = Fornell (1992)
- ✓ = Yi & Jeon (2003)
- = Uncles, Dowling & Hammond (2003)
- = Butscher (2002)

2.3.2 Conceptualization of Research Question Two

The purpose of the second research question is to provide a deeper understanding of how the benefits of keeping customer loyal can be described. The reviewed literature displays different types of benefits both for the customers and the companies, the conceptualization of the benefits will consist of a combination of the different perspectives.

According to Marzo-Navarro et al., (2004) no customer can be made brand loyal unless they are satisfied customers this creates incentives for companies work towards gaining satisfied customers. The authors further states that to be able to maintain and expand a personal relationship with the customers promises must be kept, and as long as promises are kept, new ones must be established. We chose to conceptualize these theories since they are recent and cover the major issues other theories in our literature review brings up.

Benefits for the company

- ➢ Less costly to retain customers than to attract new customers.
- ➢ Generates profits
- ➢ Decrease in marketing costs
- ➢ Positive word of mouth

Benefits for customers – two categories

- ➢ Functional benefits
  - Time saving
  - Convenience
  - Economic benefits
  - Risk reduction

- ➢ Social benefits
  - Relationships   - pleasant
    - comfortable
  - Trust

- ➢ = Marzo-Navarro, Pedraja-Iglesias and Riviera-Torres (2004)

3 Methodology

In this chapter the method for our data collection will be presented. Throughout the chapter the different perspectives of research methods will be explained, along with the justification of the specific choices we made for our study.

3.1 Research Purpose

According to Yin (1994) there are three common purposes when conducting research; *exploratory, descriptive* and *explanatory*. The aim of exploratory research is to formulate and define a specific problem, which often is expressed as a hypothesis (Lundahl & Skärvad, 1992). The purpose of an exploratory research is to gather as much information as possible about a specific problem. This type of studies is often used when a problem is not known or the already available knowledge is not complete. (Patel & Tebelius, 1987) Yin (1994) states that an exploratory research is when the researcher deals with a new topic in which little previous research have been done and when it is difficult to clearly state the research problem.

According to Aaker and Day (1990) descriptive research aims to provide an accurate picture of the market environment. Descriptive research can concern past or existing relationships and is recommended when searching data, often secondary, in order to describe aspects of a clearly structured problems (ibid). Zikmund (1994) claims that descriptive research is used to determine the answers to; who, what, when, where and how questions.

Explanatory research is conducted by answering the research questions by using theories and previous knowledge. From these answers the researchers formulate hypothesis that are tested empirically and function as a suggestion on the relation between two phenomena. (Patel & Tebelius, 1987) For a research to be explanatory it should focus on cause-effect, relationships, explaining and show which cause produces which effect (Yin, 1994).

Since our purpose is *to provide a deeper understanding on how organizations maintain customer loyalty* and we try to gain as much information as possible within this specific problem area, the research can be considered as somewhat exploratory. Our research is primary descriptive since the research questions aims at describing, *"How can the strategies used in maintaining customer loyalty be described"* and *"How can the benefits of keeping customer loyalty be described"*. Our intention is to find out how companies strategically maintain customers loyal and how the companies benefit from this loyalty and create competitive advantages. The research can also be seen as somewhat explanatory since at the end we begin to explain while answering our stated research questions.

3.2 Research Approach

When conducting research there are two different methods that can be used; qualitative and quantitative. These methods refer to the way the researchers' treats and analyses the collected data. (Yin, 1994)

The distinction between *quantitative* and *qualitative* research concerns the treatment of data rather than the research method (Denscombe, 1998). Quantitative research emerges from that the data collected can be quantified, the data in a qualitative research cannot be quantified and could be examples such as attitudes, values and other "soft data" (Lundahl & Skärvad, 1992).

Qualitative research should be collected in form of ordinary and everyday conversations. The researchers only use the interview guide as a guideline, which give the respondents a chance to affect the dialog. (Holme & Solvang, 1997) Yin (1994) states that qualitative research is often related to case studies were the aim is to gain thorough information and thereby obtain a deeper understanding of the research problem. Quantitative research implies a search for knowledge that will measure, describe and explain the phenomena of our reality and is often more formalized and well structured (Patel & Tebelius, 1987). The researchers have in advance constructed questions, which give the researchers a high degree of control (Yin, 1994).

The qualitative method has been chosen for our research since the purpose of the study is *to provide a deeper understanding on how organizations maintain customer loyalty*. We also chose a qualitative approach since the questions posed will provide answers that cannot be quantified and measured in numbers.

3.3 Research Strategy

According to Yin (2003) there are five major research strategies. These five strategies are; *experiments, surveys, archival analysis, history* and *case studies*. Each of the methods has its advantages and disadvantages depending on the following three conditions;

1. The type of research questions posed.
2. The extent of control an investigator has over actual behavioral events.
3. The degree of focus on contemporary as opposed to historical events.

Case studies are the most suitable research strategy when focusing on few objects from several different aspects. This type of strategy is also preferred when asking "how" and "why" questions. It is also used when the researchers have little or no control over an event and the focus lies on a contemporary phenomenon within real-life context. (Miles & Huberman, 1994)

The most appropriate strategy for our research would be a case study since our research questions ask the question *"How?"*. Another aspect is the fact that we are not required to have control over behavioral events and the focus will be on contemporary events. By choosing qualitative method and case studies we are able to gain a thorough understanding within the area of our research.

3.4 Data Collection Method

Yin (1994) states that there are six different data collection methods to choose from when conducting a research; *documentation, archival records, interviews, direct observations, participant observations* and *physical artefacts*. These six different data collection methods are shown in table 4.

Table 4: Six sources of evidence: Strengths and weaknesses

Source of Evidence	Strengths	Weaknesses
Documentation	• Stable: can be reviewed repeatedly. • Unobtrusive: not created as a result of the case. • Exact: containes exact names references and details of an event. • Broad coverage: long span of time, many events and many settings.	• Retrievability: can be low. • Biased selectivity: if collection is incomplete. • Reporting bias: reflects (unknown) bias of author. • Access: may be deliberately blocked.
Interviews	• Targeted: Focuses directly on case study topic. • Insightful: provides perceived Casual inferences.	• Bias due to poorly constructed questionnaires. • Response bias • Inaccuracies due to poor recall. • Reflexivity: the interviewee gives what the interviewer wants.

SOURCE: Adapted from Yin, 1994, p.80

According to Denscombe (1998) the use of more than one method makes the researcher achieve different types of data from the same subject. This is called triangulation, the advantage is that this gives more data and with more data it increases the quality of the research. The disadvantage is that the researcher must sacrifice some areas of the research that could have been there if only one data collection method had been used. This disadvantage can be overlooked because with the use of triangulation, data can be collected and be seen out of several different perspectives.

The gathering of data from several different sources is of course valuable; the most important factor with this is that it gives the researcher the possibility to control the result from one method against another. (Denscombe, 1998) There are two categories when

collecting data, primary and secondary. Primary data is when the researcher collects data for a specific purpose and secondary is when another researcher already has collected the data for another purpose. (Wiedersheim-Paul & Eriksson, 1997)

The data collection methods that we are going to use are interviews and documentation. The interviews are our primary data, which we will perform at our selected case study company. The interview will be a face-to-face interview performed with the person that is responsible for marketing issues at our selected case study company. The interview guide will only be used as a guideline to give the respondent a chance to affect the interview. The idea of this procedure is that the interview should be conducted as an everyday conversation to make the respondent feel less nervous and more relaxed. Our secondary data will consist of documentation that will give us other perspectives that we might not get from the interview. This documentation consists of articles, annual reports and web pages.

3.5 Sample Selection

We chose to perform our single case study at Åhléns AB, which is a large retailer chain in Sweden. The reason why we chose Åhléns is due to certain criteria's that we stated before selecting our research company.

- A business within Sweden
- Closeness to Luleå
- A larger company with large number of customers

The first criteria we put up were that the business had to exist in Sweden since the time spent on this study was limited. We also believed it would be easier to get in contact and get permission to conduct an interview with a Swedish company rather than a company in another country. It was also important that the company should have a store close to Luleå since this makes it possible to conduct personal interviews, which increases the validity of the study. The criteria concerning that we wanted the company to be larger and have a large number of customers was that the previous theories we have reviewed focused more on larger companies. We chose to conduct our research on a larger company since we assumed that a larger company can put more resources on their customers, both trying to attract new customers and keep existing ones.

There are a variety of companies of this sort in Luleå and the reason we chose Åhléns was that they suited our criteria and that they were willing to be apart of our study. We contacted Åhléns via telephone and we were told that Anita Lundberg was the best suited to answer our questions. Anita Lundberg is the head of the department store of Åhléns in Luleå and she willingly answered our questions. The interview took place at her office on May 2, 2005 and lasted for about one hour. The respondent also provided us with additional information in the form of documentation, concerning the history of Åhléns and how the company has developed since the establishment as well as information of the company.

3.6 Data Analysis

When having decided how to gather our empirical data for this study it is also important to know how to analyze this data in a correct manner. Miles and Huberman (1994) states that when dealing with qualitative data the focus is on data in form of words. The authors have constructed the *Three Concurrent Flows of Activity* that consists of three stages in the process of analyzing the data (ibid).

Data reduction: is done in order to make the data focused, sorted and organized so that the researchers can draw and verify conclusions. Within-case analysis is often used at this stage which means comparing the collected empirical data to previous theories.

Data display: in this stage the researchers take the reduced data and display it in an organized way in order to simplify the conclusion drawing and verification.

Conclusions drawing and verification: in this final stage the researchers begins to detect patterns, regularities, similarities, explanations and propositions. Through this the researchers are able to draw conclusions.

We will rely on Miles and Huberman (1994) the three stage theory of data analysis when forming our analytical strategy. To reduce our data and compare it to previous theories stated in our conceptual framework we will use a within-case analysis. The display of the data will be simplified trough displaying it in a table and comparing it with the pervious theories. Finally the drawn conclusions will be presented in the last chapter.

3.7 Validity and Reliability

According to Denscombe (1998) "*validity is about to what extent researched data and the methods to receive this data are exact, real and accurate.*" (p. 238). Widersheim-Paul and Eriksson (2001) claims that validity is the most important requirement of a measuring tool since this will show the accuracy of the found data.

Reliability means that the research is performed in a reliable way. This is how well the measuring method resists different influences. If the reliability is high, different researchers will be able to come to the same conclusions with the same measuring methods, if the research would be repeated. (Denscombe, 1998)

To increase the validity in our study we are going to use a face-to-face interview, and we are going to interview the person in the company with the most knowledge of the subject. The closeness to the respondent when performing our interview also makes it possible for us to ask follow-up questions and to go even deeper into the questions. We are going to test our interview guide prior to the interview on a person that know the topic of our research well, this so the questions are easy to understand and so that the respondent are able to answer them. We will also use documentation such as web pages, annual reports,

and articles to receive data from different perspectives. Because we are using more than one method of collecting data this will increase the validity of our result since we can compare the different data against each other.

To increase the reliability we are going to use a tape-recorder during the interview to not lose out on important and relevant information. The interview guide will only function as a guideline in order to make the interview as an everyday conversation. This is done in order to not influence the respondent's answers with our own knowledge and thoughts. The both of us researchers are also going to take notes during the interview in case the tape-recorder would not function. After the interview we will analyze the information on the tape-recorder and compare it with our notes.

4 Data Presentation

In this chapter the data gathered at Åhléns through an interview with the head of the department store will be presented. The chapter begins with a brief presentation of the company, and is then followed by presenting data concerning the two research questions.

Åhléns AB was founded in 1899 by Johan Petter Åhlén and Erik Holm and was from the beginning a mail order company. The founders' main strategy was to gain the customers' confidence and make the customers feel that the products gave value for their money.

Today Åhléns AB is a wholly owned subsidiary of Axel Johnson AB which is entirely owned by Antonia Ax:son Johnson and since April 1998 Bjarne Mumm is the executive director of Åhléns AB. Åhléns business concept is "*to be the best retailer for modern shopping to the forever young customer.*" The company have 75 department stores in Sweden and have a well-developed homepage, (www.ahlens.com) which provides information of Åhléns and possibilities for club members to login and receive special information. Åhléns have approximately 2800 employees and has a turnover of 4 500 million SEK. In 1998 Åhléns expanded and opened department stores in Norway, which today have 18 stores. Since May 2002 the cosmetics chain KICKS with 72 stores is a part of the Åhléns group and the interior chain Lagerhaus with eight stores joined the group in October 2004. Åhléns is today one of Sweden's most known trademarks and leading retailer. The company have four different business areas; fashion, beauty, home ware and media and within these product areas Åhléns offers a wide range of trendy products to reasonable prices.

The data for this study was collected through a face-to-face interview with Anita Lundberg who is the head of Åhléns department store in Luleå. At this position, she has been working for four and a half years and before that she worked within the travel business for 20 years. The data presented below is mainly from the interview with Anita Lundberg, from whom we also received documentations concerning Åhléns and its organization, additional information has been gathered from Åhléns homepage.

4.1 Research Question One: Strategies for Keeping Customers Loyal

According to Anita Lundberg at Åhléns, in order to *gain loyal customers* companies have to create trustful relationships with their customers. It is important that the customers feel trust towards the company and secure with their purchases. An important factor to achieve this is to treat the customers well and with respect. Åhléns reclamation policy is very 'kind' and Åhléns trust their customers in occasions of reclamation and do not question their customer's reason of returning the product. This Åhléns believe will pay-off in the long run, with highly satisfied customers and a better reputation.

The company have today a very large customer club, which also is increasing in numbers of members, this is seen as an increase in loyalty according to Anita Lundberg. Åhléns customer club started in 1996 and have today over 1.2 million members in Sweden. The customer club have a system were the customers gather point based on how much they buy. The members of the customer club receive a club magazine, premium checks, discounts and other benefits. For Åhléns to be able to meet each customer's specific desires, the customers are given the possibilities to inform Åhléns, when entering the customer club, of their interests, and how their family is constructed. The main concern is to make the customer feel that they really gain something for being a member in the customer club.

Anita Lundberg claims that everyone is a customer, it does not matter if you are a member of the customer club or not. It is important that all customers receive the same treatment since non-members are potential future members. She further explains that Åhléns is working toward a *more personal relationship with the customers.* The history of department stores is that the customers would look around by themselves instead of receiving any personal service due to the department stores size and the many customers. The personnel did often not have the time to care about the customers or the knowledge on how to treat them. The customers would then go straight to the cash registers and pay without receiving any attention from the personnel. Because of this Åhléns have in the last couple of years educated their personnel to see the customer in a different way. Their goal is to be able to give *personal service* in all of their four business areas although they are a large department store. The respondent says that when the customers enters one of the four different business areas in Åhléns, fashion, beauty, home ware or media, they should feel as if they were in a department specialized at just that business area. Personal service is the first thing an employee must learn and work towards when they begin working at Åhléns and the management has regular check-ups to see if this new policy is being followed. According to Åhléns it is important to treat customers' right and make them feel as if they are of great value since in the end it is the customers who are paying Åhléns salaries. Anita Lundberg says that their vision is *"to be best at service in the city (Luleå)."* She continues by describing the large competition on the market and the importance of being perceived as friendly and receiving the customers well in order to gain and keep customers loyal. A lot of people comes to Åhléns just to look around and get inspiration but may not always buy and according to the respondent it is important that the customer's feels that they are not obligated to buy something.

The aim of the personal relationships Åhléns creates with their loyal customers is to increase their profits. Åhléns is a profit-seeking company and they have to maintain and nurture their relationships with their loyal customers since the loyal customers are those who generate an *increase in profits*.

An important tool in *keeping customers loyal is the customer club*, which have grown rapidly since the start in 1996. Åhléns customers club arranges *customer club nights, send out direct mails, club magazine, premium checks, discounts* etc. At the customer club nights, which usually occur four times per year, the members are invited to the store and offered different types of discounts. The club members are also given the opportunity

to take part of new products and sales before the non-members. The customer magazine contains not only Åhléns products but also articles of for example current writers or designers presenting their work. The magazine is mostly a source of inspiration for the customers and the aim is to entice the customers to visit Åhléns. The first year in the customer club is free and the following years are free if you reach 25 000 points or more otherwise it costs 100 SEK per year. The customers receive point for everything they buy and one Swedish crown is equal to ten points. In 1998 Åhléns complemented the club card with the opportunity to apply for a credit card that generates points for all purchases made even outside Åhléns. Åhléns strives to become a more modern company and to achieve this they work hard within each business area and not just as one large department store. The main idea is to have a wide range of products within all four business areas to be able to meet as many customers' needs as possible. Within home ware and fashion Åhléns have hired designers to create modern products to reasonable prices. Anita Lundberg emphasis that Åhléns should not be the cheapest or the most expensive on the market but the customers should feel that they get a lot for their money. It is also important for a customer to feel welcomed and well taken care of whether or not he/she is a club member, and it should always be fun to visit Åhléns.

When asking the respondent *why she believes customers chose Åhléns before other brands*, she answered that she hoped it was because they are friendly and have modern products to reasonable prices. The question had not previously crossed her mind but she again emphasized that Åhléns should not be the cheapest or the most expensive brand and that it is important for the customers to feel that they gain a lot for their money.

Anita Lundberg further says that she believes that all customers are 'unfaithful' to some extent, but that Åhléns is aware of that problem. Åhléns is working towards decreasing this problem by improving and strengthen their relationship with their customers. According to the respondent Åhléns do not have any specific *strategies towards preventing customers to change brand* but they try to be a modern company, have reasonable prices, good reclamation policy and a high-class service. These actions all work towards retaining customers and the most important factor is the relationship with the customers. The respondent again emphasizes that the customer should feel that they want to visit Åhléns because of the friendly environment and the helpful personnel.

On the question, if Åhléns *put more efforts into keeping customers loyal than to attract new customers,* the respondent stated that Åhléns do put more effort into serving their loyal customers. This through maintaining good personal relationships with their loyal customers and developing benefits through their customer club. Åhléns is also constantly trying to attract new customers through the customer club but that the main focus lies on the customer club members. The large efforts put on the customer club and the loyal customers require large marketing efforts.

4.2 Research Question Two: Benefits of Loyal Customers

The main *benefit that loyal customers generate* to Åhléns is good publicity. Since it is very difficult and demanding to build up a trustful relationship towards the customers it is important to get good publicity. The good publicity can be achieved through strategically marketing efforts such as press releases or advertising campaigns. Good publicity can also be achieved through the loyal customers spreading a *positive word of mouth* and enhancing the perceived value of Åhléns for the non-customers. A positive word of mouth comes from a good relationship with the customers and Åhléns works a lot towards enhancing their customer relations. The respondent also emphasizes the fact that Åhléns as many other companies is a profit seeking company and therefore one of their main goals is increased profit. Another incentive for *increased profits* is that Åhléns have to make sure that their company will not seize to exist and that their personnel have continued employment.

Anita Lundberg further states that it *is more profitable to keep existing customers than to attract new customers*. This is why Åhléns put so much effort into their customer club where they believe they have their most loyal customers. The key is to constantly develop Åhléns customer club and create benefits for their customers. At the same time it is important to always look ahead and continuously develop both the organization and the activities, this to keep existing customers and to attract new ones. Another important aspect is that the customers have to feel trust towards Åhléns to be able to develop a good relationship with the company. The relationship is not only important for Åhléns to gain more loyal customers but also for the customer to be able to feel secure with their purchases. The respondent also states that the large marketing efforts laid on the loyal customers' results in high costs for Åhléns but the benefits generated from the loyal customers will in the end exceed the high *marketing costs*.

According to Anita Lundberg there are only *benefits with loyal customers*, Åhléns look at how much a customer buys for and how many products they buy. The loyal customers buy more frequently and they buy more products, this purchase patterns leads to a higher turnover for Åhléns, which in the end is what the company is striving for. Åhléns also measure how their customers perceive the company and their customers' opinion of them. This is measured through surveys that are sent out to their customer club members, the surveys are conducted at least two times per year. The survey concerns the department stores environment such as if the stores are inviting, if it is easy to orientate in the stores and if the stores are clean and proper. There are also questions concerning the personnel and if they behave well, if they are helpful enough and if they make the customers feel welcomed to Åhléns. Other questions concern, the pricing and if the customers get inspired when visiting Åhléns, the customers can also give suggestions of improvements to be done within Åhléns. The respondent states that the information received from the customers is very valuable for Åhléns in order to make improvements to satisfy the customer's needs. The viewpoints and the suggestions from the customers are compiled for each department store, which is good since department stores in different cities needs to focus on improving different areas.

When asking about *how Åhléns value their loyal customers*, she says that it is difficult to value them but that they are the most valuable they got. The respondent further states that the loyal customers are those who keep Åhléns alive. It is the loyal customers who generate Åhléns turnover and who in the end pays the employees salaries. The loyal customers are necessary for the Åhléns survival and without them Åhléns would not exist, therefore the loyal customers are invaluable for the company.

The main *benefit the customers* gain for being loyal to Åhléns is that it becomes less expensive for the customers. Customers who buy often, not necessarily expensive products but regularly, is rewarded for their loyalty. These *rewards* are given to the loyal customers through the customer club. A loyal customer can through Åhléns customer club receive premium checks, discounts and special offers or invitations to the customer club nights. The customers do not only receive tangible benefits but also *social benefits*. The close relationship between Åhléns and the customers creates value in form of trust and security. When bringing up the different factors of *functional benefits* Anita Lundberg can identify the economical advantages as a very important factor for Åhléns customers. The other factors; time saving, reduction of risk and convenience are factors that she recognizes but cannot connect with Åhléns and their loyal customers.

5 Data analysis

According to Miles and Huberman (1994) the data analysis consists of three parts, data reduction, data display, and drawing conclusions. We will use within case analysis to reduce our data and compare it to prior theories. To simplify the data we will display it in a table and show the comparison with the theories we stated in our conceptual framework. The drawn conclusions will be presented in the final chapter.

5.1 How Can the Strategies Used in Maintaining Customer Loyalty be Described?

Fornell (1992) states that the defensive strategies deal with trying to *keep existing customers*, which means building switching barriers and increasing customer satisfaction. Switching barriers makes it costly for the loyal customers to switch brand and are for example discounts, transaction costs and emotional costs. Customer satisfaction is created when a company makes it difficult for competitors to entice their customers. The benefits of customer satisfaction are high customer retention this leads to increased profits and a favorable word of mouth. Anita Lundberg at Åhléns recognizes these strategies but within Åhléns these are not mentioned as specific strategies.

Åhléns is today working towards creating a more personal *relationship with their customers*. Due to the history of department stores, described in the previous chapter, one of Åhléns goals is to give their customers high-class personal service within all of their four business areas. Furthermore she point out the increasing competition on the market and the importance of being perceived well by the customers and receiving the customers with respect. An important factor while keeping customers loyal is to create a trustful relationship with the customers. A customer should not only feel secure with the company but also with their specific purchases. These actions taken from Åhléns builds up personal relationships, which if the customers want to switch brands would create emotional costs for the customers. The close relationships might also be seen as a way to create customer satisfaction. The relationships generates in high customer retention, which in turn leads to higher profits. Another important benefit that customer satisfaction generates and that the respondent also recognizes is a positive word of mouth, which is highly important in the retention of customer relationships.

The adaptation of customer loyalty programs has increased over the last couple of years and Åhléns introduced their loyalty program in 1996. According to Yin and Jeon (2003) the *customer loyalty programs is introduced to build customer loyalty* through rewarding the loyal customers. The respondent emphasizes the importance to treat all customers the same, she says that everyone is a customer both members and non-members. Åhléns have today a very large customer club with over 1.2 million members and the club is still growing. Anita Lundberg at Åhléns sees the growth of the club as an increase in customer loyalty. Butscher (2002) suggest a primary aim of loyalty programs, which is to build emotional relationships that generate benefits both for the customer and the company.

Uncles, Dowling and Hammond (2003) also suggest goals with customer loyalty programs such as increase of profits through increased purchases and building bonds between the customer and the brand. The main idea of Åhléns is to offer a wide range of products within all four business areas to be able to meet as many customers' needs as possible. The respondent further states that building personal relationships with the customers is very important, since it generates in customers loyalty. According to the respondent Åhléns loyal customers buy more frequently and more products, which in turn generates in an increase in profits for the company. Today Åhléns is trying to become a more modern company within all four business areas, the respondent emphasizes that the customers have to feel that they gain something for being a member of the Åhléns club. Anita Lundberg think that it is important to state that Åhléns is not striving to be the cheapest or the most expensive, but the customers should feel that they get a lot for their money. The benefits that customers gains from being a member is for example premium checks, discounts, direct mails, invitations to customer club nights and the club magazine. According to Åhléns their reclamation policy is very 'kind', the company emphasis the importance of trusting your customers and believe that this will pay-off in the long run. Anita Lundberg further states that to be a successful company and to have an increasing turnover it is important to build and sustain strong relationships with their customers.

The respondent also brought up her belief that all *customers are 'unfaithful'* but that Åhléns is aware of this and that they work towards reducing this problem through improving their relationships with their customers. To prevent customers from switching brands Åhléns have to continue being a modern company, keeping reasonable prices, high-class service and making the customer feel that they get a lot for their money.

In table 5 a summarize of the comparison of the theories stated in the conceptual framework and the empirical data from our interview with Anita Lundberg head of Åhléns department store in Luleå. The empirical data also consists of additional information from Åhléns homepage and in form of documentation received from Anita Lundberg. The first research question concerns the strategies used to keep customers loyal to a brand. This loyalty generates in benefits both for the company and the customers, and that is what the next part of our data analysis will cover.

Table 5: Summarized analysis of how strategies for keeping customers loyal can be described.

Variable	Previous Theories	Empirical Data	Support / Disagrees
Strategies for keeping customers loyal.	• Creating switching barriers. • Creating customer satisfaction. • Building personal relationship with the customer.	• Building personal and trustful relationships with the customers. • Creates switching barriers through personal relationships.	**The empirical data supports the previous theories but is presented in a different terminology.**
Activities for keeping customers loyal.	• Customer loyal program. • Customer clubs. • Discounts. • Rewards.	• Loyalty programs such as a customer club. • Discounts. • Rewards such as premium checks. • Invitations to customer club nights. • Club magazine.	**The empirical data supports the previous theories and bring up additional activities used within Åhléns.**
Benefits of activities.	• Increase profits. • Builds customer loyalty. • Word of mouth.	• Loyal customers . • Increased profits. • Positive word of mouth.	**The empirical data supports the previous theories but is presented in a different terminology.**
Strategies for preventing customers from switching brands.	• Create value. • Strengthen relationships. • Create satisfaction. • Create switching barriers.	• Improving the personal relationship with the customers. • Create value for the customers.	**The empirical data supports the previous theories to some extent but the additional factors in the previous theories are to some degree integrated in the empirical data.**

5.2 How Can the Benefits of Keeping Customers Loyal be Described?

According to Marzo-Navarro et al. (2004) a good relationship between a company and a customer (i.e. when the customer is loyal towards the company) results in different *benefits for the customer*. These benefits can be divided into functional and social benefits. Types of functional benefits are timesaving, convenience, economic advantages, and reduction of risk. Types of social benefits are if the relationship is pleasant and comfortable, and trust towards company. The main functional benefit that Åhléns loyal customers receive is economic advantages, since the loyal customers receive discounts, premium checks and special offers. The respondent further states the importance of loyal customers feeling secure with the company and with their purchase. This can be received through a *very* good reclamation policy and the personal relationships Åhléns try to create with their customers. The other factors of functional benefits; timesaving, reduction of risk and convenience are something Anita Lundberg did not bring up but when asking about these factors she recognized them.

Marzo-Navarro et al. (2004) further states that it is *less costly for a company to retain loyal customers than to attract new customers.* The respondent agrees with this statement and says that Åhléns try to concentrate their efforts on keeping customers through their customer club by constantly trying to develop the customer club and creating new advantages for their loyal customers. She further states that even though they work a lot on meeting their loyal customers needs Åhléns also try to attract new customers. This is done even though she agrees that it is more expensive to attract new customers. Anita Lundberg further states that the company has to look towards the future and gaining new customers is a part of securing the companies future.

Another *benefit for companies who has loyal customers* is according to Marzo-Navarro et al. (2004) that it generates in profits. This is according to Anita Lundberg true, she states that loyal customers buy more frequently and more products than non-loyal customers do. This leads to a higher turnover for companies who have a lot of loyal customers than companies that has only a few or no loyal customer at all.

To have loyal customers leads to according to Marzo-Navarro et al. (2004) a *decrease in marketing costs*. This since the loyal customers already knows who the company is, what it stands for and the quality of their products. Anita Lundberg does not agree with this statement since the Åhléns club is very large it demands a great deal of marketing efforts. The main focus lies on the customer club and to be able to keep the existing customers and at the same time attract new customers Åhléns needs to put a lot of efforts into marketing.

Another benefit brought up is that loyal customers spread a *positive word of mouth,* which is very important for a company in order to build a good reputation. Marzo-Navarro et al. (2004) agrees with this statement. The respondent further states that to build up a good reputation takes time, are costly and the company has to put a lot of

efforts into it. To have loyal customers who spread this positive word of mouth is therefore extremely valuable for a company.

At least two times per year Åhléns measure the customers' opinion of the company, the measurement are conducted through surveys among Åhléns customer club members. This is done so that the company can receive feedback of improvements that their customer's feels are less good with Åhléns. This is done for each of the different department stores because the different department stores may not need to improve the same things. The respondent further states that this feedback is extremely important for them to receive since Åhléns wants to increase the loyalty from their customers. The customers must feel that their opinion of the company is important.

In table 6 shows a summarize of the comparison of the theories stated in the conceptual framework and the empirical data from our interview. This part of the analysis concerns the benefits of keeping customers loyal which is derived from the previous analysis, which dealt with strategies for keeping customers loyal. The overall conclusion from these two analyses is that the respondent agreed with most of the stated theories in our conceptual framework but the stated theories were presented in a different terminology than used within Åhléns.

Table 6: Summarized analysis of how benefits of loyal customers can be described

Variable	Previous Theories	Empirical Data	Support / Disagrees
Benefits for the company with loyal customers.	• Increase of profits. • Decrease in marketing costs. • Creates switching barriers. • Positive word of mouth.	• Increase of profits. • Positive word of mouth.	**The empirical data support the pervious theories to some extent.**
Benefits for the loyal customers.	• Time saving. • Convenience. • Economic advantage. • Reduction of risk. • Relationships. • Trust.	• Economic advantage. • Relationships. • Trust.	**The empirical data support the pervious theories to some extent.**
What is more profitable, keeping existing customers or attracting new ones?	• More profitable to keep existing Customers.	• More profitable to keep existing customers.	**The empirical data supports the previous theories completely.**

6 Findings and Conclusions

In this chapter our findings and conclusions will be presented according to the model by Miles and Huberman (1994). We will answer our research questions by drawing conclusions based on our empirical data compared to the theories stated in our conceptual framework. At the end of the chapter we will present possible implications of this study.

6.1 How Can the Strategies Used in Maintaining Customer Loyalty be Described?

Our research shows that the most significant strategy when trying to maintain customer loyalty is the creation and maintenance of relationships between companies and their customers. We have discovered that a close and personal relationship with the customers generates in a number of benefits including customer loyalty. To be able to maintain the relationships, trust between companies and their customers are of great importance. The companies have to trust their customers before their customers can feel trust towards them. This trust is important in the process of customer retention and creating customer loyalty. Furthermore a good and close relationship can create switching barriers for the customers, which also is a type of strategy for keeping customers loyal. We have found in our study that companies in order to create loyalty entice their customers with different proposals to tie them to their brands. These switching barriers make it costly and difficult for the customers to switch brand, in other words the companies' tries to limit the customers' alternatives of brands to encourage loyalty towards their own brand.

These close relationships can also create customer satisfaction, which according to our study is another significant strategy when trying to retain customers. We further found in our study that the creation of customer satisfaction is a way for companies to prevent their competitors to steal their customers, which also means preventing customers from switching brands. We have also found several different ways to create customers satisfaction such as meeting the needs and desires of the customers, treating the customers with respect and receiving them well. The most important factor we found concerning the creation of customers satisfaction is the companies' personal service towards the customers. Maintaining a high-class service towards the customers is a good way to create satisfied customers, which in return also creates loyal customers.

Our study also shows that satisfied customers generate a favourable word of mouth for the companies. To have customers who spreads a positive word of mouth is very valuable for the companies in order to build a good image and reputation. An important aspect to consider when dealing with word of mouth is that although a positive word of mouth can give a company a good reputation, a negative word of mouth can damage a company's reputation even more. Therefore it is important for the companies to always think about how they behave towards the customers and how they treat them. We have also seen in our study that word of mouth is important when handling the non-customers, who only knows the companies by their reputation. The non-customers perception of the companies mostly derives from the companies' reputation in form of word of mouth. Therefore word of mouth not only becomes an issue when retaining loyal customers but also when attracting new customers.

We further found in our study that one of the most used strategies today dealing with keeping customers loyal is the customer loyalty programs. These programs are introduced to build customer loyalty by rewarding the customers. According to our finding these programs work towards building relationships that generates benefits for both the companies and the customers. We have seen that these programs aims at creating relationships which will entice the customers into the program and then give them incentives to become and stay loyal to the brand/company. Our study show that companies, in order to gain and maintain loyal customers, have to make sure that the customers see and perceive the benefits of being loyal.

Finally, we have drawn certain specific conclusions that our study found is strategies for keeping customers loyal.

- ✓ The most significant strategy to maintain customer loyalty is the creation and maintenance of relationships between the companies and their customers.

- ✓ The most important factor concerning the creation of customer satisfaction is the companies' personal service towards the customers.

- ✓ Companies have to achieve customer satisfaction in order to prevent the customers from switching brands.

6.2 How Can the Benefits of Keeping Customers Loyal be Described?

In our study we found that it is less costly for companies to work towards keeping customers loyal than to attract new customer. This does not mean that companies can put all their efforts toward their loyal customers, the companies have to work towards a combination of both attracting new and keeping existing customers. It is important for companies not to forget to attract new customers even though it is more expensive than to focus on keeping existing ones. The companies have to realize that their future not only consists of existing customers and to secure their future existence they also have to attract new customers.

Our study shows that loyal customers tend to buy more frequently and more products and this combined with an increase in retention from loyal customers generates in higher profits for the companies. Since most companies are profit seeking, this function as an incentive for companies to work towards creating customer loyalty. Our study further shows there are different opinions concerning the connection between loyal customers and decreasing marketing costs. Some argue that loyal customers contribute to lower marketing costs since they already have previous knowledge and experience of the company. Others claim that loyal customers demand large marketing efforts to continue being loyal since loyal customers demands a lot of attention. In our study we found that the relation between loyal customers and a decrease in marketing cost depends on how large efforts that are put on keeping loyal customers or attracting new customers. Our study shows that companies with large customer loyalty programs and with many loyal customers are forced to allocate large resources in order to keep their loyal customers.

A positive word of mouth, according to our findings, creates benefits for the company through building a good reputation and image for the companies. Since it is hard to create and maintain a good reputation the positive word of mouth is extremely valuable for the companies. The difference between a positive and a negative word of mouth can be the difference between success or failure.

Our study also showed benefits the customers gain for being loyal to companies. The primary benefit the customers' gain for being loyal is economical advantages, this through discounts, sales and special offers. These benefits makes is less costly for the customers to purchase their products at a specific company, which in turn creates incentives for the customers to continue being loyal to that specific company. Another benefit that we found through our study is that the good relationship formed between the loyal customers and the companies generates in a feeling of trust and security for the loyal customers towards the companies.

Finally, we have drawn certain specific conclusions that our study found concerning benefits of maintaining customer loyalty.

- ✓ It is less costly for companies to work towards keeping customers loyal than to attract new customer.

- ✓ Keeping customers loyal generates in increased profits.

- ✓ Customers primary benefit for being loyal towards a company is that they gain economical advantages in form of discounts, premium checks etc.

- ✓ A positive word of mouth is very valuable for the companies to build a good image and reputation.

6.3 Implications

The purpose of this study is to provide a deeper understanding of how organizations maintain customer loyalty. This section will cover the implications this study could have for managers, theory and possible future research.

6.3.1 Implications for Managers

The most important for managers to take in consideration when dealing with customer loyalty is to build and maintain relationships with the customers. Building good and close relationships with customers is difficult but maintaining that relationship is even more difficult. Customer loyalty is of great value for the companies therefore the companies really have to nurture their relationships with their customers. Therefore is it important for managers to always work towards improving their relationships with their customers and also to involve the whole personnel in this process.

Since it is more profitable to work towards keeping loyal customers rather than attracting new ones, companies today have to take good care of their loyal customers and put lot of efforts into satisfying their existing customers in order to make them loyal. Managers have to realize

that satisfied customers are those customers most likely to become loyal and therefore it is important to focus on satisfying their customers. The benefits generated from loyal customers should work as an incentive for managers to strive for creating highly loyal customers. In order to achieve this retention of customer, managers have to constantly develop their activities and create new and valuable benefits for their customers.

Many of the theories suggest that satisfied customers often generate in brand loyalty but managers have to be aware of the concept of false loyalty. The false loyalty occurs when the customers are given a limited selection of products, the customer will then appear to be loyal and continue buying from one specific company. This appearance is due to the lack of products substitutes and if other brands were available the customer would be likely to change brands. Although it might be difficult managers have to try to recognize and differentiate between these types of loyalties.

6.3.2 Implications for Theory

The purpose when writing our thesis was to provide a deeper understanding of how organizations maintain customer loyalty. We focused on how strategies for maintaining customer loyalty could be described as well as the benefits generated from customer loyalty.

In order to fulfill this purpose we have explored how a company strategically handles their customers. We have looked at how strategies for keeping customers loyal are used and maintained as well as how different loyalty creating activities are implemented. Furthermore we have described the different benefits both for the company and their customers, generated from customer loyalty.

During our interview, indications were that, most of the suggested theories were actually used in within Åhléns. Our thesis indicates that the focus on keeping customers loyal is increasing. The most important factor for companies trying to keep customers loyal is to create close and trustful relationships with their customers and also to nurture these relationships well. This thesis also shows that loyal customers generate benefits for the companies, but for customers to become loyal they also have to receive benefits from the companies. It is a question of give and take between the companies and their customers. With the findings of this study as a base, further research within this area can be done.

6.3.3 Implications for Future Research

We concentrated our study on brand loyalty and more specific on how companies use defensive strategies and the benefits with those. During our research several different other topics that would be interesting to research came up. These are:

- ✓ Research how false loyalty can be mistaken for brand loyalty.

- ✓ Research how companies use the offensive strategies (i.e. how to attract new customers).

- ✓ Investigate if customer satisfaction really equals customer loyalty.

✓ Conduct a study on the customer decision process – how does customers decide to buy a brand.

✓ Conduct a study on how the usage of customer loyalty programs differ between large and small companies – how are their programs designed.

✓ Conduct a study on brand loyalty to a specific brand, e.g. Nike, Addidas, Peak Performance etc.

✓ Compare brand loyalty to a specific brand in two different countries.

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Personal Interview

Anita Lundberg, Head of Department store, Åhléns, Luleå. (2005-05-02)

APPENDIX 1

Interview Guide, English Version

Interview guide

General Information

Company name?

Year of establishment?

Number of employees?

Annual turnover?

Type of business?

Respondents name?

Years in the company?

Position in the company?

Had any other position?

Research question 1
How can the strategies used in maintaining customer loyalty be described?

- ✓ What do loyal customers mean to your company?

- ✓ What type of relationship do your company have with your customers?

- ✓ Do your company have any specific strategies to keep customers loyal?
  - o If yes, which?
  - o If no, why not?
    - • Minimize customers switching brands
    - • Maximize customer retention
    - • Loyalty programs

- ✓ What do your company do to keep customers loyal?
  - o Loyalty programs? Describe..
    - • Customer clubs?
    - • Club cards?
    - • Customer club evenings?
  - o Discounts?
  - o Activities?
  - o Rewards?

- ✓ Why do you believe customers chose your brand over others?

- ✓ Do your company have any specific strategies for preventing customers from switching brand?
  - o If yes, which?
  - o If no, why not?
    - • Create value, benefits
    - • Create/strengthen relations
    - • Create satisfaction
    - • Create exit barriers

- ✓ Do your company put more efforts into keeping customers loyal than attracting new customers?

Research question 2
How can the benefits of keeping customer loyal be described?

- ✓ What do you consider that loyal customers generates for your company?

- ✓ Many theories states that it is more profitable to keep existing customers than to attract new ones, what is your opinion of this?

- ✓ Do you believe that there are advantages with loyal customers?
  - o If yes, which?
  - o If no, why not?
    - • More profitable
    - • Increased profits
    - • Decrease in marketing costs
    - • Create switching barriers
    - • Positive word of mouth

- ✓ How do your company value your loyal customers?

- ✓ What benefits do loyalty generates for your customers?

Functional	**Social**	
Time saving	Relationships	- Pleasant
Convenience		- Comfortable
Economic benefits	Trust	
Risk reduction		

APPENDIX 2

Interview Guide, Swedish Version

Intervjuguide

Generell Information

Företagets namn? _____

Etablerings år? _____

Antal anställda? _____

Omsättning per år? _____

Typ av verksamhet? _____

Respondentens namn? _____

Antal år inom företaget? _____

Position i företaget? _____

Någon annan position? _____

Forskningsfråga 1
Hur kan strategier för att behålla kunder lojala beskrivas?

- ✓ Vad innebär lojala kunder för ert företag?

- ✓ Vilken typ av relation har ert företag med era kunder?

- ✓ Har ert företag några specifika strategier för att behålla kunder lojala?
  - o Om ja, vilka?
  - o Om inte, varför inte?
    - • Minimera att kunder byter märke
    - • Maximera antalet återkommande kunder
    - • Lojalitetsprogram

- ✓ Vad gör ert företag för att behålla kunder lojala?
  - o Lojalitetsprogram? Beskriv..
    - • Kundklubbar?
    - • Klubbkort?
    - • Kundkvällar?
  - o Rabatter?
  - o Aktiviteter?
  - o Belöning

- ✓ Varför tror du att kunder väljer ert märke framför andra?

- ✓ Har ert företag några specifika strategier för att förhindra att kunderna byter märke?
  - o Om ja, vilka?
  - o Om inte, varför inte?
    - • Skapa värde, förmåner
    - • Skapa/stärka relationer
    - • Skapa tillfredställelse
    - • Skapa utträdesbarriärer

- ✓ Lägger ert företag ner mer tid på att behålla kunder lojala än att locka nya kunder?

Forskningsfråga 2
Hur kan fördelar med lojala kunder beskrivas?

- ✓ Vad anser ni att lojala kunder genererar för ert företag?

- ✓ Många teorier fastställer att det är mer lönsamt att behålla existerande kunder än att locka till sig nya kunder, vad anser ni om detta?

- ✓ Anser ni att det finns fördelar med lojala kunder?
  - o Om ja, vilka?
  - o Om inte, varför inte?
    - • Mer lönsamt
    - • Ökade vinster
    - • Minskade marknadsföringskostnader
    - • Skapar bytesbarriärer
    - • Positivt 'word of mouth'

- ✓ Hur värderar ert företag era lojala kunder?

- ✓ Vilka fördelar genererar det i för kunderna att vara lojala mot er?

Funktionella	Sociala	
Tidssparande	Relationer	- behagliga
Bekvämlighet		- bekväma
Ekonomiska fördelar	Förtroende	
Minskad risk		