IS YOUR LOYALTY PROGRAM REALLY BUILDING LOYALTY?

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EXECUTIVE SUMMARY

Retailers’ today are experiencing increased competition from online retailers, while their loyalty programs only seems to make customers’ loyal to the discounts and not the retailer.

Therefore, this thesis aims to examine how retailers operating both online and offline can foster true loyalty toward the modern consumer. It seeks to provide retailers with a strategy for loyalty programs on the basis of theory regarding loyalty and customer relationships as well as studies of both qualitative and quantitative nature. The findings does not seek to create generalizing results, but instead “qualified guesses” as plausible explanation for the phenomenon.

First, loyalty is defined as function of satisfaction where consumers’ show both behavioural and attitudinal affection toward a company. This happens as a result of strengthening the relations through customer relationship management (CRM). Second, hypotheses on the basis of the theory are developed. Third, to test these hypotheses, three explorative and qualitative interviews of experts in modern retailing, and a survey targeting the modern consumer are conducted. Lastly, the findings are being used to develop 1) a strategy showing the most important requirements of modern retailing, and 2) a model for retailers to use for a modern loyalty program.

Seven elements of retailing towards the modern consumer that allows the retailer to meet the customers’ expectations could be identified. Having these implemented the retailer can begin to systematically collect data on its customers. Moreover, three primary elements of data collection, benefits, and marketing, supported by extra three CRM elements, could be identified as needed in loyalty programs for today’s retailers.

The findings relate to speciality retailers primarily as this type of retailers are placed in-between two types of retailers of respectively high-end (i.e. niche) and low-end (i.e. low-cost) retailers. The findings of the empirical study are of limited generalizability because the subjects are primarily consisting of the younger generation. Further work is necessary to allow deeper insights into the relationship between the elements in The Loyalty Engine model.

Several recommendations for retailers’ loyalty programs arise from the results of the study. Retailers have to make sure that program support each of elements so negative effects to the customers’ shopping experience is avoided. That calls for offering only those benefits that represent genuine additional value to customers by using customer insights through data collection. Moreover, the program should provide customers with relevant marketing based on the customers’ individual needs.

This thesis provides new insights into a new customer-centric era of retailing where the data becomes the key to knowing your customers.
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1. INTRODUCTION

1.1 EMERGING TECHNOLOGIES REACHES RETAILING

The new millennium has been largely characterized by the growing influence of online technology across industries. The modern consumer no longer follows the classic purchase funnel (Jacobsen & Bjerre, 2014), but navigates through the digital landscape of web-shops, blogs, review sites and social media channels, on multiple platforms, anytime of the day and anywhere in the world. This shift in consumer behavior has had a profound effect on the competitive environment of the retail industry, and traditional retailers that have neglected the new digital reality have lost their competitiveness to web-shops (Campbell, 2013). The web-shops, on the other hand, have flourished, as they have been able to satisfy the need of the modern consumers by offering them convenience, transparent pricing, a large selection of products, and the option to shop anytime of the day with almost instant delivery.

To stay competitive, many traditional retailers are desperately turning towards omnichannel strategies (Thau, 2015) (Rigby, 2011). Creating an omnichannel strategy is based on digitalizing the physical retailing and systematically collecting data on customers’ behavior prior to, during and after the shopping experience (Houlind, 2015). By doing this, retailers should be able to deliver a novel, unique and – most importantly – relevant customer experience throughout the consumer journey – all this while maintaining business as usual, both online and offline (Houlind, 2015).

One way of collecting customer data is through loyalty programs. These programs enable retailers to identify customers on multiple platforms and through various touchpoints, as well as to identify which stage of the lifetime cycle the customers are on. This way companies gain knowledge about customers’ needs and preferences and are thus able to give them relevant offerings, creating mutual value for both parties. This relationship can enhance customers’ commitment and engagement with the company, thereby creating a lasting bond between the two parties and the possibility of creating loyalty (Hansen, 2013).

However, it seems that today’s companies are implementing loyalty programs as a static element of their marketing strategy without really considering how they should be used, what purpose they have or which objectives they should reach. In fact, it appears that many companies implement loyalty programs as a defensive reaction because consumers are expecting it. This can lead to markets becoming saturated with loyalty programs and the programs loosing their effectiveness (Palmer, McMahon-Beattie, & Beggs, 2000).

So, even though loyalty programs enable the companies to collect data on their customers’
behavior, the designs of these programs are too alike. Therefore, it appears that many marketers either have poor skills in analyzing the data from loyalty programs, or just make shortsighted attempts to boost sales and increase revenue. Studies show that the vast majority of loyalty programs actually fail to generate true loyalty, but instead create a monetary dependence where coupons and discounts are used as the primary drivers for loyalty (Leenheer, J. van Heerde, Bijmolt, & Smidts, 2007).

The intent of this thesis is thus to understand how loyalty programs can be successfully executed and essentially generate actual loyalty.

The challenges identified above illustrate the complex situation many retailers are experiencing today, and need to understand and adapt to in order to stay competitive. To do so, our point of departure will be based on an outside-in approach, where we analyze the loyalty programs from the customers’ point of view and what they expect from retailers and their loyalty programs.

1.2 RESEARCH QUESTION

How can retailers operating both online and offline, gear their loyalty programs to foster true loyalty towards the modern consumer?

In order to guide the analysis and to answer of the research question, the following sub-questions have been developed:

- What is loyalty, and how is it achieved?
- What defines the modern consumer of this millennium?
- Why do loyalty programs fail to generate true loyalty?
- How can retailers gear their loyalty programs to foster true loyalty?

1.2.1 DELIMITATIONS

The following delimitations outline the deliberate choices that have been made for including and excluding areas within the thesis. The delimitations are developed to limit the scope of the research in order to best answer the research question.

In the retail sector the span of consumer goods differ largely, but is typically categorized by respectively convenience and specialty retailers. The scope of research will target retailers of
specialty stores\(^1\) that operate both online and offline and deal with selected goods (Gynther & Schlosser, 2012). Selected goods typically involve some degree of research prior to a purchase, as these have a long life span and can be used several times, e.g. furniture, clothing, appliances, sports goods and most consumer electronics. These products are therefore naturally related to hedonic products, as they provide the user with enjoyment and stimulation.

The nature of the retailer often defines the type loyalty program being used. Therefore, this research will focus on retailers’ loyalty programs that combine both tangible (e.g. gifts and discount) and intangible (e.g. special treatment) benefits.

Additional, it is necessary to narrow the amount of touchpoints as to focus on those with most effect for loyalty (see Appendix 01 – The New Marketing Ecosystem for full overview of touchpoints). A touchpoint is a point of contact between a brand and a consumer and involves:

> “Every action, tactic and strategy your brand has with customers or stakeholders, whether it is through advertising, a merchandising display or a customer service call.”

(Davis & Longoria, 2003, p. 18)

Our research will therefore concentrate on the major touchpoints that have a direct link between the customer and the company, which are the web-shop, the physical store, and the customer service. Naturally each of these three touchpoint is further interconnected with its own respective sub-touchpoints. All these touchpoints contribute to create a seamless experience, as the borders between them blurs.

### 1.3 STRUCTURE OF THESIS

To provide a visual structure of the thesis’s sections, the following structure has been constructed.

![Figure 41: Structure of the thesis](image-url)

1 Retailers such as Imerco, SportMaster, H&M, Fona, Skoringen, Inspiration, etc.
2. METHODOLOGY

The aim of the thesis is to conduct research that lead to findings, which will be used to answer the research question and the related sub-questions. Thus, this section seeks to clarify the method that will be used to reach these findings.

The following section is divided into two parts. First an introduction to the underlying philosophical approach is presented. This is necessary, as it will serve as the foundation of this thesis’s research design and methods. Secondly, the data collection methods used in this study will be discussed and reflected upon.

2.1 RESEARCH PHILOSOPHY

Before the analyses, it is important to state the research’s philosophy of science as this relates to the manner in which the data has been gathered and processed the data. This section seeks to illustrate what, from an epistemological view, can be defined as true knowledge, and how reality, from an ontological view, can be defined in regards to the area of research in this study.

For centuries, positivism has dominated scientific research based on its mathematical and logical reasoning. The objective of positivism is to reduce observations to create law-like theories based on the observable reality. Contrary, interpretivism rejects that the social realm and human experiences are subjects to the same principles as natural science, thus positivism becomes inadequate to explain the human understanding. In all its simplicity, positivism is based of the quantitative method, whereas interpretivism takes its point of departure in qualitative data. Where positivists are being criticised for their lack of understanding, the interpretivism lacks practicality, as it investigates the metaphysical world based on limited amount of subjects. Therefore, an alternative approach is needed in order to explain a “reality”, which embraces the physical and metaphysical world, but more importantly is practical in its current bearings.

In light of this and to answer the research question, this thesis will rely on the philosophical perspective of Pragmatism. Following section provides a brief introduction to the philosophy, which will clarify the reason behind the approach.
2.1.1 PRAGMATISM - AN ACTION-DRIVEN PHILOSOPHY

“To a pragmatist, the mandate of science is not to find truth or reality, the existence of which are perpetually in dispute, but to facilitate human problem-solving”

(Powell, 2001, p. 884)

Pragmatism is a philosophical tradition, which became widespread in the late 19th century by the philosophers C. S. Peirce and J. Dewey. The essence of pragmatism is, that knowledge has to be observed and obtained in their practical bearings (Egholm, 2014). This approach was radical from the – at that time – dominating scientific research methods. Thus, pragmatism was considered an alternative to both positivism and interpretivism.

The table below presents a rough overview of the mentioned philosophical perspectives:

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A pragmatic believes that research does not have to establish fundamental laws, but considers that the concept of truth is whether or not the findings are useful at the given time. For instance, a pragmatic view on religion is not a question of God’s existence, but that the faith in God is useful by giving religious peoples’ life meaning.

Event though pragmatism is a young philosophy and is still evolving, follows certain guidelines (Egholm, 2014):

- All knowledge stems from a physical experience of a specific situation
- Prior experiences affects current actions and the potential outcome of this
- The meaning of a phenomenon is fixed by its consequences
- A pragmatic does not seek to find generalizing laws, but “qualified guesses”
- Value-free knowledge\(^\text{2}\) is irrelevant, as all observations are an interpretation of the researcher
- Truth is a relative, as it has to be observed within its context

The abductive method of reasoning is a central element in pragmatic research. The two com-

\(^{2}\) Pure objectivity, making no value judgements
Commonly used methods of reasoning are induction and deduction, which respectively is theory-creating (induction) and theory-testing (deduction). Abduction seeks neither, but instead combines elements of both induction and deduction to create

“One or more largely plausible assumptions about correlations”

(Egholm, 2014, s. 174).

In practice, this will follow the principle of induction by creating hypotheses based on theoretical literature, and later deduce this set of hypotheses to generate “qualified guesses”.

2.2 **METHOD**

The next section will introduce the method used to collect the data of the thesis.

The thesis will consist of a combination of qualitative and quantitative methods, which according to Strang (2015) is beneficial when researching a complex field. To analyse the thesis’s research question, primary data is collected in the form of in-depth expert interviews and a survey, while secondary data collected from international reports and papers regarding modern retailing. Following section will first explain the considerations behind the collection of the primary data. Secondly, the qualitative method will be discussed, where it will be argued for the choice of experts, the use of expert interviews, as well as the validity and reliability of the this data. The concept of validity covers, if the method investigates what it is supposed to, whereas the concept of reliability covers, if the results can be reproduced (Kvale & Brinkmann, 2009). Thereafter, the quantitative method will be discussed, including the validity and reliability of this.

2.2.1 **PRIMARY DATA**

The purpose of the qualitative interviews is to acquire in-depth knowledge about a specific field, but also to identify the elements to be examined in the quantitative study. Both the qualitative and quantitative surveys are used to form an understanding of what drives consumers in their choice of retailer.

2.2.1.1 **EXPERT INTERVIEWS**

The interviews were conducted with three experts within the fields of modern retailing, omnichannel marketing and customer relationship and loyalty. One interviewee is head of development in a large retailer called SportMaster and contributes to the study with the practical implications and challenges of omnichannel marketing. The second expert is lector at CBS
and contributes to the study with academic perspectives of the current retailing situation. The third expert is customer relation consultant and contributes to the study with a more broad approach regarding the challenges with the modern consumers and their loyalty.

The interviews were all recorded and can be accessed here:

https://www.dropbox.com/sh/sgum8kazgo38ol0/AAB6OowRkh3HeKsuV8ICEnO-Ta?dl=0

The following section provides a brief introduction to each of the interviewees, their profession and background, and why their opinions are relevant for this study.

**STEFAN KIRKEDAL, BUSINESS DEVELOPMENT MANAGER, SPORTMASTER**

Stefan Kirkedal is in charge of SportMaster’s transformation to become an omnichannel retailer. Following the chain’s acquisition, Stefan was hired to help SportMaster streamline their organisation and adapt to “The New Normal”. Early in 2015 SportMaster won an award for being the best omnichannel retailer in Denmark, which justifies Stefan’s knowledge about and approach to retailing anno 2015.

**PER ØSTERGAARD JACOBSEN, LECTOR, CBS**

Per Ø. Jacobsen is lector at Copenhagen Business School and researches in customer relations and loyalty. Per is currently partaking in a larger research project that seeks to prove a connection between profitability and customer loyalty. Furthermore, Per has written several scientific publications and books about Customer Relationship Management that demonstrates his comprehensive academic knowledge about his subject.

**RASMUS HOULIND, BUSINESS DEVELOPMENT MANAGER, MAGNETIX**

Rasmus Houlin is a consultant at Magnetix, one of the leading digital communication bureaus in Denmark. Rasmus has assisted leading Danish companies such as Tivoli and Fitness World, in systemising their customer flow in order to increase loyalty by collecting and analysing data. Rasmus also recently published his book about omnichannel marketing (“Hvis det handler om mig, så kober jeg!”) that provides practitioners with a model to create the omnichannel experience. Rasmus’ years of experience with facilitating technology in a manner that helps companies to create synergies across different touchpoints validates his extensive knowledge about how to create a true omnichannel experience.
2.2.1.2 INTERVIEW METHOD

PURPOSE OF EXPERT INTERVIEW

Using expert interviews in research is a technique to gain in-depth knowledge about a specific field (Kvale & Brinkmann, 2009). The purpose of conducting these interviews was to gain the latest knowledge about loyalty in general, but also within the context of retailing. Unlike conventional in-depth interview it is here the respondent, who is an expert in the field and not the interviewer. This can cause the interview to follow a certain agenda based upon the expert’s perspective, as these are a part of the field, which is studied (Kvale & Brinkmann, 2009). This challenges the validity of the interview, as it is highly biased.

INTERVIEW STRUCTURE

Due to exploratory nature of this study, we have chosen to make use of a semi-structured interview design. The semi-structured interview has an open approach, which provides the study with the perspective of the respondent. Unlike the unstructured interview, the semi-structured interview follows a general interview guide containing subjects and questions, whose responses are required for the analysis. Nonetheless, it allows the interviewer to divert from the interview guide to gain additional information if needed (Blumberg, Cooper, & Schindler, 2011). The unstructured interview is therefore a useful method of extracting information in an unknown terrain without conceding relevance.

2.2.1.3 VALIDITY AND RELIABILITY

To increase the validity by using data triangulation, three interviews are conducted from different professional backgrounds. The responses from each interview are to some extent correlated, which provides a more balanced dataset. As the interviews are conducted at different stages during the thesis, the interview guide was adjusted to each expert’s professional background. This challenges the validity as the responses examine different areas within the same field. Furthermore, as researchers we acknowledge that the interviewees are biased due to their individual profession, which can affect the results this study. Having said that, all the experts’ responses indicated the same challenges of the today’s customer’s loyalty toward retailers, which provide the study with a comprehensive understanding of the many aspects regarding loyalty in today’s retailing.

Reliability is always questionable when it comes to qualitative data, as each respondent has a subjective perspective. It is therefore impossible to perfectly replicate the data from the interviews. As previously stated, it was necessary to adjust the questions so they matched the interviewee’s professional skills. In addition, the interaction between the interviewer and the respondent also has an impact on the course of the interview, which challenges the reliability.
of the data.

2.2.1.4 SURVEY

The purpose of the survey is to provide a methodological triangulation, which involves using different data collection methods to increase the validity and reliability. Besides from creating reliable support for our findings in the qualitative data, the survey’s purpose is also to test our theoretical hypothesis.

SAMPLE SIZE

The total amount of respondents was 388, which is satisfactory considering the time frame of the survey’s distribution. In only a week all the 388 responses was collected, and no noteworthy changes occurred in the statistics.

It is assumed that the sudden collection of data was due to two factors; 1) rewards, and 2) appealing design. Rewarding respondents for participation can have influenced the respondent’s motive for taking the survey and thus lessens the data’s validity. As several respondents shared the survey on its own initiative, we believe that this increased the diversity of respondents and thus provides the study with more reliable results.

2.2.1.5 VALIDITY AND RELIABILITY

The quantitative data do not possess the uncertainty regarding subjectivity, why they are more reliable than qualitative data. It is not possible to completely avoid individual perceptions of concepts and issues, which for example can be seen in the subjective perception of the three behavioural questions regarding time, price and knowledge. E.g. some respondents may think that two hours of product research seems like a long time, while for others it may seem as little. A different interval classification would have given different analytical results, but for this research it is not important to know how much time they spend, but rather their perception of research time that being little or much time. Furthermore, it is not possible to directly ask the respondents’ about their degree of loyalty, as this can be difficult concept to comprehend. Thus, it is necessary to divide such concept into additional questions regarding this concept from where the sum of these can derive a conclusion.

Some of the response-options in the survey are not very clear or accurate, and the respondents had troubles seeing the difference between these options. In these cases, the results are combined into one option: “to some degree important”. The same applies for a few other questions such as “occasionally” and “rarely” were combined to “occasionally”, and “some time” and “limited time” were combined to “some time”. By doing this the results will be more accurate and valid.
It is common practice to include a “Don’t know” option in surveys to increase the accuracy of the responses. This is deliberately omitted, as research shows that it does not actually increase the reliability of the results (Mondak & Davis, 2000). Mondak & Davis (200) shows that providing a “Don’t know” option serves as an “easy way out”, and thus allows the respondent not to take a position on the subject. As the theme for the survey is centred on the common practice of shopping, we estimate that the majority of the respondents have some opinion about this subject. The best “guess” is therefore statistical a better indication of the respondents opinions than a “don’t know”.

Additional data from reports will support the findings from the survey to increase the validity. The secondary data derives from international studies of modern consumption habits, helping to increase this study’s degree of international perspective by not focusing solely on the Danish market.

### 2.2.2 SECONDARY DATA

Secondary data is used as an important data source and is derived from statistical databases, books, articles, journals, annual reports, management reports and publications. The secondary data of this thesis includes reports on modern retailing and omnichannel especially. More specific, the data consists of quantitative data from surveys regarding omnichannel. It is important to be careful when evaluating the validity of this secondary data to keep a high level of reliability (Blumberg et al., 2011). Therefore, the secondary data is used to triangulate and support the primary data gathered through the interviews and the survey. According to Sabroe, Olsen, & Toft Sorensen (1996), the advantages of using secondary data relates to the researchers’ ability to get their hands on a much bigger amount of data. Also by considering many secondary sources, the researchers can to some extent avoid potential bias than if they used primary data alone. This relates to the issue of only using respondents from the Danish market. The secondary data therefore provides the thesis with an international perspective.
3. **THEORY**

Turning now to the theoretical foundation of the thesis, several theoretical areas will be touched upon to answer the research question and the related sub-questions. The thesis will include the following areas: Loyalty, Customer Relationship Management and The Modern Consumer.

### 3.1 LOYALTY

Loyalty as a concept has existed since the beginning of the 20th century, and was merely observed as a term for repetitive purchase behavior. It was not until Jacoby & Chestnut (1978) studied the drivers of loyalty that it became a multifaceted theoretical concept. Today many definitions and variations of loyalty exist, but in general researchers agrees that loyalty can be viewed as either of following: *behavioral loyalty*, or *attitudinal loyalty*.

Behavioural loyalty is about making customers come back because of competitive prices, whereas attitudinal loyalty is about customers having strong positive attitudes towards a company, regardless of pricing or other financial reasons (Bloemer & Kasper, 1995).

Despite the different understandings of the concept of loyalty, there is a consensus among researchers that the derived effects of loyal customers, is that it:

- *... creates a barrier to entry for competitors;*
- *... increases the ability to respond to competitive threats;*
- *... increases sales and revenue;*
- *... strengthens the relationship between the company and the customer, making the customer base less sensitive to marketing efforts of competitors.*

*(Delgado-Ballester & Munuera-Alemán, 2001)*

In continuation of this, Aaker (1991) discussed the role of loyalty in relation to brand equity, and has especially noticed that loyalty leads to certain marketing advantages such as lower marketing costs, increased customer acquisition and superior trading leverage. Dick & Basu (1994) also suggest the advantages of loyal customers increases positive word of mouth.

It is therefore essential for companies to understand what loyalty consists of in order to foster the desired behavior. Following section therefore discusses the two different aspects of loyalty.
3.1.1 BEHAVIOURAL LOYALTY

Past understanding of loyalty has its point of departure in the behavioral aspect of loyalty by focusing on specific behavioral actions of the customer. Gómez et al. (2006) simplifies behavioral loyalty as the following:

“The repeated buying behavior of a customer over time.”

(Gómez, Arranz, & Cillán, 2006, p. 388)

In continuation of this, Day (1969) argues that behavioural loyal customers:

“[…] lack any attachment to brand attributes, and they can be immediately captured by another brand that offers a better deal, a coupon, or enhanced visibility of point of purchase”

(Day, 1969, p. 30)

It seems that customers expressing behavioural loyalty are much easier to influence, as these purchases are based on rational factors such as price or placement. A customer typically undergoes a psychological process when purchasing products, where she 1) recognizes the need, 2) searches for information and evaluates alternatives, and 3) completes with a purchase. By repeatedly achieving a degree of satisfaction of the purchase process, the customer’s behavior reinforces. Over time, the customer will reduce the need to undergo all the considerations in the purchasing process, and the purchase will become a routine. According to Ball & Coelho (2004) this is referred to as instrumental learning. Conversely, if an insufficient degree of satisfaction is not achieved, the probability of repurchase will be reduced, or the purchase will be placed in a competing business. Therefore, to enhance the desired behavior of repurchase, many companies reward customers for each purchase to amplify the satisfaction and thus increase the behavioural loyalty.

3.1.1.1 CRITIQUE OF BEHAVIORAL LOYALTY

However, many researchers criticize loyalty studies, based solely on behavioral loyalty, as they believe that a customer’s purchasing process is also affected by factors that can not be measured by the number of repurchases. Jacoby & Chestnut (1978) argues that behavioral loyalty studies lack of precision of the loyalty concept. In other words, measuring loyalty based on the customers behavioral response is too simplistic compared the complexity of the loyalty concept. The factors used to define customers’ loyalty mainly concentrate on the concept’s positive aspects, and neglects the underlying mechanisms of disloyalty. Furthermore, the definitions of loyalty based solely on obvious purchase behavior will have the derived effect that the results will be static in an otherwise dynamic process. Viewing loyalty from the behavioural approach therefore only provides an understanding of a customer’ current purchas-
ing behavior and perhaps future actions without really explaining the underlying factors that constitutes and cultivates loyalty.

3.1.2 ATTITUDINAL LOYALTY

Attitudinal loyalty, on the other hand, has little to do with customer’s purchase frequency (Bloemer & Kasper, 1996), but focuses on the customer’s attitudes towards a company affecting the buying behavior. Attitudes are the customer’s opinions and beliefs at a given point in time (Fishbein & Ajzen, 1975).

Therefore, the attitudinal perspective studies the cognitive, affective and conative mechanisms of consumers. These are activated from the customer’s memory during a purchase process. Chaudhuri & Holbrook (2001) defines attitudinal loyalty as following:

“Attitudinal loyalty is the level of commitment of the average consumer toward the brand”

(Chaudhuri & Holbrook, 2001, p. 83).

From this perspective, a consumer’s loyalty is therefore constructed on the basis of his beliefs about and commitment to a certain company. The attitudinal aspect of loyalty is therefore important in the light of creating long-term relationship with the customer, as this perspective looks beyond the actual behavior of purchase.

3.1.2.1 CRITIQUE OF ATTITUDINAL LOYALTY

However, the attitudinal perspective of loyalty does not come without critique, as it is only expressed through the customer’s opinions and attitudes toward a company. The attitudinal dimension therefore fails to demonstrate, whether or not these attitudes actual ends in a purchase. In other words, a consumer can easily have positive beliefs about a brand or company, but ends up buying from a different company, as there are other behavioral factors that affect the decision-making process.

3.1.3 BEHAVIORS OR ATTITUDES?

At this point it is clear that loyalty can be either viewed from a behavioural or attitudinal perspective, and each of the perspectives have their pros and cons. The behavioural loyalty requires a purchase, but does not take into account the customer’s opinion. On the other hand, the attitudinal loyalty emphasizes the importance of the customer’s opinion, but fails to prove this being based on an actual purchase.
Therefore, neither of these fully comprehends the complexity of loyalty. To create a better understanding of loyalty, researchers have recognized the need for a conceptual explanation of loyalty (Jacoby & Kyner, 1973; Zins, 2001; Assael, 2004; Schieffer, 2005; Peppers & Rogers, 2005). Therefore, a combination of the behavioral and attitudinal dimensions of loyalty is needed to assess the complexity and to establish true loyalty.

Jacoby & Kyner’s (1973) lists six factors that constitute true loyalty, and defines loyalty as following:

“True loyalty is the (1) biased (i.e., nonrandom), (2) behavioral response (i.e. purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision-making, evaluative) processes”

(Jacoby & Kyner, 1973, p. 2)

True loyalty is therefore a customer’s deliberate choice of a company over another. Moreover, this purchase has to be based on the customer’s consumption or use of the product for a period of time. However, for this to be true, there has to exist some degree of satisfaction related to the purchase. In the following section, we will describe the concept of customer satisfaction and relate this to the concept of loyalty.

### 3.1.4 CUSTOMER SATISFACTION – THE KEY TO SUCCESS

“[...] the key to success is not selling a product once, but rather forging a relationship with the consumer so that they will continue to buy in the future.”

(Solomon, Bamossy, Askegaard, & Hogg, 2013, p. 63)

Customer satisfaction has been around ever since there has been an interaction between seller and buyer. Due to the transition to relationship marketing, customer satisfaction is now an integral part of most companies’ performance metrics. This has led to an increasing interest among researchers to establish a common understanding and definition of the concept (Oliver, 1999; Armstrong & Kotler, 2013; Solomon, Bamossy, Askegaard, & Hogg, 2013).

Richard L. Oliver is one of the leading researchers within customer satisfaction, and has defined it as:

“Customer satisfaction is the consumer’s fulfillment response”

(Oliver, 1999, s. 13)

This condensed definition captures the sum of customer satisfaction, as it describes it as being a cognitive evaluation of a process.
Armstrong & Kotler (2013) believes in the same manner that customer satisfaction dependent of buyer’s expectations:

“The extent to which a product’s perceived performance matches a buyer's expectations”

(Armstrong & Kotler, 2013:42)

In the event that the product or service performs below the expectations of the customer, the customer will be unsatisfied. If the product matches expectations, the customer will be satisfied, and if the product exceeds expectations, the customer will be delighted.

Oliver’s (1999) definition differs from Armstrong & Kotler’s (2013) definition as customer satisfaction is not necessarily dependent on a purchase, but is the customer’s evaluation of any process. Based on Oliver’s definition, it is reasonable to say that customer satisfaction can occur before, during and after the purchase, whereas the Armstrong & Kotler’s (2013) definition describe customer satisfaction as a function after the purchase.

This thesis will therefore use Oliver’s (1997) definition of customer satisfaction, as this notes that there rarely can be drawn an accurate picture of neither the time nor the degree of satisfaction. This is also supported by Assael (2004) explaining that the customer not necessarily is unsatisfied with a company due to a bad experience, but neither satisfied by a good experience. Assael (2004) states that it is necessary to look at prior expectations as well, as to which extent the customer is influenced by the company’s actions before, under and after the purchase.

Therefore, it is necessary to consider what customers expect in order to satisfy these.

3.1.4.1 EXPECTATION VERSUS SATISFACTION


First, the customer forms expectations about a product or service prior to a purchase. Then, the consumption of the product or service reveals the perceived quality, which is influenced by the expectation. If the difference between the actual quality and the expectations is small, the customer’s expectations are fulfilled and satisfaction is positive. Thus, expectations provide the basis for the level of satisfaction, and if disconfirmation has occurred, then customer satisfaction can increase or decrease from the level of expectations.

Anderson & Sullivan’s (1993) conclusion is simple:

“The firm’s future profitability depends on satisfying customers in the present”

(Anderson & Sullivan, 1993, p. 141)
A high level of satisfaction leads to higher repurchase expectations. However, it is important that companies do not set the basis of expectations too high, as the negative effect on customer satisfaction has a greater impact than exceeding those expectations:

“In addition, quality which falls short of expectations was found to have a greater impact on satisfaction and retention than quality which exceeds expectations.”


Moreover, Anderson & Sullivan’s (1993) research shows, that a central element of customer satisfaction is the ability to control the impact of negative disconfirmation through proper conflict handling and effective customer service.

Therefore, companies must be very careful when setting the level of expectations about their products and services. Setting expectations too high will disappoint customers, whereas setting expectations too low, might satisfy the customer, but fail to attract new customers. Thus the following hypothesis is elaborated:

- **Hypothesis 1) There is a correlation between exceeding customer expectations and customer loyalty.**

Now we have constituted that satisfaction is a function of customer’s expectations and the company’s ability to meet or exceed these. Therefore, it is necessary to further explore the relation between satisfaction and loyalty, and at what point satisfaction becomes loyalty.

### 3.1.4.2 FOSTERING LOYALTY THROUGH SATISFACTION

Several researchers have slightly different perceptions of the satisfaction-loyalty relationship. Oliver (1999) has selected the most common conceptions of the satisfaction-loyalty relationship. Following model illustrates the different perspectives of this:

![Figure 42: Satisfaction and loyalty relationships (Oliver, 1999)](image-url)
Satisfaction is one with loyalty, which is another way of saying that satisfaction and loyalty is the same.

Satisfaction is the core concept of loyalty, and without satisfaction loyalty cannot exist. But, as we previously stated, it is possible for loyalty to exist without satisfaction.

Satisfaction is a part of loyalty. Thus, saying it is an ingredient, but not the only.

Satisfaction combined with simple loyalty equals ultimate loyalty, which according to Oliver is the purest form of loyalty.

Satisfaction and loyalty overlaps, meaning a certain fraction of satisfaction is found in loyalty and it is part of, but not the key to, loyalty.

Satisfaction becomes loyalty. Satisfaction is first part of a transition that ends in a separate loyalty state. This situation also suggests that loyalty may become detached from satisfaction so that in events of dissatisfaction, this will not influence the loyalty state.

Despite the different considerations of the relationship between satisfaction and loyalty, it is reasonable to suggest that there exists a kind of a dependency relationship in which satisfaction is an important part of loyalty. Customer satisfaction is a function of past experiences and expectations, while customer loyalty is the future fulfilment of this function and a long–term effect of satisfaction (Oliver, 1999). Therefore, customer satisfaction is seen as a temporary condition that represents a continuous consumption of the product or service, while loyalty is a more constant condition.
3.1.4.3 THE SATISFACTION-LOYALTY MATRIX

Kristensen, Martensen, & Grønholdt (1998) proposes a matrix showing the relationship between customer’s degree of satisfaction and loyalty, and why customer satisfaction is not equivalent to customer loyalty. The vertical axis shows the degree of loyalty, whereas the horizontal shows the degree of satisfaction. The colour scheme shows the profitability for the company, where dark is being most profitable, and orange the least profitable.

![Satisfaction and loyalty matrix](image)

Starting with a low degree of both loyalty and satisfaction is a condition of true disloyalty, where neither parties benefit from the relationship.

**False disloyalty** on the other hand can exists in market conditions with perfect competition, where brands, price and products are identical. The customers do not necessarily want to be disloyal, but it is not possible to distinct one seller from another, and in the end it does not really matter for the customers. False disloyalty can also be a situation where the customer actually wants to be loyal, but because of external factors are unable to (e.g. a satisfied experience at a restaurant on a vacation).

At the top of the matrix loyalty exists, and can either be false or true loyalty. **False loyalty** exists in markets where the degree of satisfaction is low, but the degree of loyalty is high. In other words, the customers are unable to switch to a competitor even though they are very unsatisfied (i.e. monopolistic market conditions).

The last condition is **true loyalty** and is considered the ideal situation for companies, from which the company should add depth to the relationship with the customer by focusing on continuously satisfying and increasing the profitability (Jacobsen & Ulka, 2015).

True loyalty is the ideal condition of maximum profitability, and thus a condition all companies should strive to achieve. Based on this, following hypothesis is presented:
Hypothesis 2) Loyal customers are more profitable than regular customers.

3.1.4.4 CRITIQUE OF LOYALTY

It is by now widely acknowledged that retaining customers is a more cost–effective strategy than acquiring new (Verhoef, 2003; Payne & Frow, 2005; Reinartz, Krafft, & Hoyer, 2004). So the maxim of customer loyalty is that the most loyal customers are also the most profitable ones.

However, it has also received some criticism. In 2001, Fred Reicheld, from Bain & Company, stated following:

“Loyalty is dead [...] We seem to face a future in which the only business relationship will be opportunistic transaction between virtual strangers”


This might seem as dull statement, but nonetheless is an interesting perspective. How can it be, that many companies strive to increase loyalty, but the customers seem to flee to wherever is cheapest?

Based on The Pareto Principle, a general rule–of–thumb for many companies’ states that about 20 percent of the customers generate 80 percent of the revenue. But these 20% of loyal customers are not necessarily only loyal towards one certain retailer. Actually there is a reliable empirical evidence suggesting that most heavy users are multi–brand loyal for a wide range of products and services. This means, that a company’s most loyal (and thus profitable) customers will probably be the competitors’ most profitable customers as well.

Let us consider some of the other previously described advantages that loyalty advocates often emphasize:

- Loyal customers are willing to pay a higher price for a product or service

According to Dowling & Uncles (1997), loyal customers might pay a higher price – or they might not. They argue that it depends on how important price is, and whether it is consistent with the brand’s value proposition. Many brand loyalty researchers claim that loyalty and higher prices are positively correlated, but this does not necessarily mean that loyal customers are less price–sensitive. It can simply mean that they perceive the product to be superior, and thus are willing to pay more. This is the perceived value that drives the customer, and not loyalty.

- The costs of serving loyal customers are lower than serving other customers

In some industries this can be true (e.g. banking), where there are manual processes related to
acquiring a new customer, but in much B2C retail this is less important considering everything is done automatically using IT systems (Dowling & Uncles, 1997). In fact, “loyal” customers are more inclined to contact the company in case of irregularities from previous purchasing experience, increasing the costs of customer support (Reinartz & Kumar, 2002).

- **Loyal customers support the brand through positive WOM**

The fact that loyal customers speak positively about a company is a reasonable statement, but the question is whether they provide significant better WOM than satisfied customers (Reinartz & Kumar, 2002; Dowling & Uncles, 1997). So far, there has not been conducted any research indicating that the positive WOM of loyal customers has higher impact than the WOM of regular customers (Dowling & Uncles, 1997). Therefore, if satisfaction is the primary driver for positive WOM, any satisfied customer can provide the company with this benefit.
3.2 ARE LOYALTY PROGRAMS REALLY BUILDING LOYALTY?

3.2.1 LOYALTY PROGRAMS

One of the most popular strategies developed by companies to retain customers is through the implementation of loyalty programs. Back in the 1970s researchers found that companies who develop relationships with their customers tend to have “better” customers (Dowling & Uncles, 1997).

Loyalty programs are based on the principle of motivation of a certain type of behavior through reinforcement. Stauss, Schmidt, & Schoeler (2005) state that customers want to be recognized and rewarded for their loyalty. Therefore, it is believed that behaviors (e.g. purchase) that are rewarded will also be repeated. According to Stauss, Schmidt, & Schoeler (2005) the purpose of loyalty programs is to:

“Reward loyal customer behavior with special services or rebates and thereby at the same time to promote this loyal behavior in order to realize the economic benefit of long-term business relationships”

(Stauss, Schmidt, & Schoeler, 2005, p. 230)

A loyalty program is thus a strategic initiative, which companies initiate to make customers more loyal. But consumers today can sign up for multiple loyalty programs within the same industry. This certain behavior contradicts the original purpose of creating loyal customers, as these switch from store to store to take advantage of the best deals available (Kumara & Shahb, 2004). In mass consumer markets, loyalty programs are often used as promotional tools, prompting repeated purchases rather than fostering attitudinal commitment, meaning that companies are more focused on short-term relationships rather than long-term (Oliver, 1997; Wright and Sparks, 1999). According to Furinto et al. (Furinto, Pawitra, & Balqiah, 2009) loyalty programs should be designed in such a way that:

“They would be perceived positively by customers, and create attitudinally loyal customers who would allocate a higher share of their wallets to the focal firm relative to other competitors in their future purchases.”

(Furinto, Pawitra, & Balqiah, 2009, p. 308)

3.2.2 TYPES OF LOYALTY PROGRAMS

Broadly speaking, loyalty programs can be classified into two categories: monetary-oriented and special treatment-oriented (Furinto, Pawitra, & Balqiah, 2009). This is supported by Butscher (1998) stating that there are two types of benefits regarding loyalty programs; namely
hard and soft benefits. Hard benefits are often more tangible benefits such as gifts or discounts, whereas soft benefits are typically reflected in special communication and services.

Recent studies have shown that special treatment rewards educe emotions such as cheerfulness and excitement, whereas monetary rewards educe emotions such as confidence and security (Bridsona, Evans, & Hickmanc, 2008). Both types of rewards can lead to satisfaction, word-of-mouth referrals and repurchase intentions.

3.2.2.1 HARD BENEFITS

Monetary or economical benefits are defined as hard benefits, i.e. discounts, bonus points, free items and gifts, vouchers and coupons. The purpose with these rewards is to provide a selected number of customers with an economic benefit (Furinto, Pawitra, & Balqiah, 2009), which is by many customers perceived as an added value for joining the program. The most frequently used benefits among loyalty programs are discounts and special offers (Schultz, 2008).

Despite that, hard benefits are an effective method to acquire new customers, but are questionable when it comes to long-term retention (Kumara & Shahb, 2004). Monetary benefits are not proven to create emotional value in the consumer’s mind (Hallberg, 2004), which is an important aspect of achieving true loyalty (Oliver, 1999). In fact, these types of monetary reward–programs, can be misinterpreted as promotional programs with “a short time reason” to stay loyal towards the company (Furinto, Pawitra, & Balqiah, 2009). Hard benefits are also very easy to imitate resulting in direct competition where more companies offer the exact same benefits, leaving the customers with no reason to stay loyal towards any of these companies (Hallberg, 2004). Hard benefits can thus easily retain customers for some period, but should not be confused with loyalty. The only reason that customers do not buy from a competitor is because the product is not found cheaper elsewhere.

3.2.2.2 SOFT BENEFITS

Soft benefits evolve around areas such as service, communication, brand and image. Unlike hard benefits, the soft benefits evoke emotional value in the customer’s mind by making the customer feel unique compared to other customers.

Soft benefits are often reflected in good customer service, 1:1 communication, personalized offers, exclusive events, targeted communication, special VIP treatments, and by recognizing customers as being loyal (Butscher, 1998). As the soft benefits are reinforcement based upon a non–monetary relationship, these are more appealing than the hard benefits towards the customers’ attitudes. It is these soft benefits that eventually contribute to loyalty (Bridsona, Evans, & Hick-
Frequent flyer clubs are good examples of how to use soft benefits. These loyalty programs offer customers value-adding benefits such as access to exclusive lounges, use of the “fast track” for security check, free additional pieces of luggage, and seat reservation without additional costs. These soft benefits satisfy specific needs found particularly in the profiles of frequent travellers, which are means for establishing a relationship with the company that goes beyond the economic benefits.

Loyalty programs with special treatment rewards are mainly developed for providing customers with enjoyment, comfort and pleasurable experiences. These benefits trigger emotions of cheerfulness and excitement, and evoke feelings of reduced distress, increased trust, and confidence in the firm (Furinto, Pawitra, & Balqiah, 2009).

3.2.2.3 SUMMARY OF BENEFITS

Hard and soft benefits go hand in hand and a loyalty program will not be able to succeed without both types of benefits. However, it is important to have the right mix of hard and soft benefits that essentially creates the necessary attraction and retention, which creates a foundation for establishing long-term relationships. Both hard and soft benefits are important applicators of loyalty and the goal with loyalty programs is to create mutually beneficial relationships.

However, it is assumed that hard benefits are dominating the vast majority of today’s loyalty programs, which is why the following hypothesis is presented:

- Hypothesis 3) Discounts are the primary reason for consumers joining a loyalty program and these do not create true loyalty.

3.2.2.4 THE PSYCHOLOGY OF REWARDS

Customers should be able to easily track their progress in the loyalty program. According to Nunes and Drèze (2006), the sign of progress can have a strong effect on customers’ commitment to continue their efforts in reaching the goal, whereas actual progress that is not recognized can be demotivating. People who feel they are making little or no progress will be more likely to abandon efforts, opposed to people who are closer to the goal, as these will be likely to intensify their commitment and strive harder to achieve success (Nunes & Drèze, 2006).

Furthermore, companies must also provide customers with valuable and relevant rewards. Dowling and Uncles (1997) state that many companies offer freebies that aren’t even related
to the company itself e.g. clothing stores rewarding with lottery tickets. These rewards might be nice to receive but tend to be only short-term tactics that can devalue the brand.

O’Brien & Jones (1995) argues that there are five elements that consumers evaluate in order to determine a program’s value before enrolling:

- The cash value of the redemption rewards (e.g. the ratio of the cost for buying the product compared to the dollar purchases necessary to accumulate the points),
- The range of selection of these rewards (e.g., relevance of the reward),
- The aspirational value of the rewards (e.g., the attractiveness of the reward e.g. exotic free travel is more desirable than a cash-back offer),
- The perceived likelihood of achieving the rewards (e.g. how many points are required to achieve the reward),
- The loyalty program’s ease of use.

A loyalty program’s potential for attracting new members does not only depend on the value of the rewards it offers, but also on when the rewards are available. If it takes too long for the rewards to be redeemed, the loyalty program loses its attractiveness (Bootzin, Bower, Crock-er, & Hall, 1991).

3.2.2.5 CUSTOMER DATABASE

Loyalty programs are also used as means for tracking data about customers’ purchase behavior.

Information management has become a vital tool for many corporations today especially for those who want to sustain a competitive advantage in today’s increasingly globalized and turbulent environment. Companies today have warehouses of data from which they can pull useful information. Many companies use this information as base for their value proposition. Having the ability to identify commercially useful patterns about customers has been described as:

“The search for the golden nugget is the process of super-segmenting your client data-base to find an audience that, when mailed, will always produce a profit”

(Palmer, McMahon-Beattie, & Beggs, 2000, p. 50)

Loyalty programs are a relatively inexpensive medium through which companies can collect such information. The CEO of Boots, a leading pharmacy chain in the United Kingdom, said back in 1997 that:
“[…] it would be impossible in the retail market without the detailed knowledge generated by loyalty cards”
(Hart, Smith, Sparks, & Tzokas, 1999, p. 546)

When customers join the loyalty programs, the companies automatically gain information such as name, gender, address, date of birth, phone number, e-mail, interests, etc. which is voluntarily submitted by the customer (Stone & Jacobs, 2008:48). Furthermore, every time the customer makes a purchase and scans the membership card; additional data is stored about the customer’s purchase behavior. This knowledge is then used for designing targeted and relevant communication towards these customers (Schultz, 2008). Furthermore the loyalty programs also function as an effective communications channel.

3.2.2.6 TARGETED COMMUNICATION

Targeted and relevant communication plays a huge role in the creation of loyalty with today’s demanding consumers (Stone & Jacobs, 2008). By using information from the database, companies can make a detailed segmentation of their customers based on purchase behavior, interests, age, income and other recognizable patterns. This makes it possible for companies to communicate more personally with their customers and strengthen the relationship in between them. Besides these parameters, segmenting customers according to which stage they are at in their lifetime-cycle has a greater impact on customers’ loyalty (Holland, 2015). A customer’s lifetime cycle can vary a lot depending on the industry and the company, but there are often a number of different stages that customers go through in their relationship with the company, where the company’s communication should have a different focus and content (Jacobsen & Ulka, 2012). Customers can have different information needs if they have just become familiar with the company compared to customers who may be at the end of the cycle.

With the proper knowledge about customers, it is possible to provide them with the right offer at the right time. The better the communication is segmented, the greater the chances for satisfying the customers and thus the greater the chances that the customers will stay loyal and profitable (Stone & Jacobs, 2008:118).

3.2.2.7 CRITIQUE

The purpose with each loyalty program is to build a strong customer database of loyal customers, as well as to gain relevant information about these customers’ behavior and use the information to achieve a competitive advantage in the market.

However there is a certain wonder about the effectiveness of loyalty programs and their impact on achieving a competitive advantage. One can interpret a loyalty program as a pack-
age of benefits offered to clients with the purpose of rewarding repeated purchases, rather than building true loyalty. These types of loyalty programs are used as a short-term means for building volume fast, but have a small chance for developing one-to-one relationships with customers and thus achieving true loyalty (Palmer, McMahon-Beattie, & Beggs, 2000).

The advantage of having a constant flow of information about customers’ behavior is according to Palmer, McMahon-Beattie, & Beggs (2000), used ineffectively by many marketing departments. They state that the majority of marketers have so far made only shallow attempts to examine and utilize the information available. It appears that many marketers have poor skills when it comes to analyzing this data and because of that, they prefer to rely on their intuition rather than the data collected through the loyalty programs (Palmer, McMahon-Beattie, & Beggs, 2000). Also many loyalty programs do not have clearly specified objectives, which pretty much reflects the fact that companies today develop loyalty programs as a defensive reaction where it is a norm in the market to have such program (Palmer, McMahon-Beattie, & Beggs, 2000). Typically companies introduce loyalty programs to keep up with the competition or because customers expect it. This can lead to diminishing effectiveness where a sector becomes saturated with loyalty programs, meaning that companies that have loyalty programs will not gain any competitive advantage. Thus it is relevant to propose the following hypothesis to be tested:

- **Hypothesis 4** The majority of today’s loyalty programs are used as promotional tools based on marketer’s intuition rather than data insight.

Lastly, companies must be alert that their loyalty programs do not become a static element of their marketing planning and instead make sure that they are adapted to the changing environment. Given that the market develops and matures, so does the competition for loyalty too. Therefore it is important that loyalty programs are constantly adapted so they can follow both the market development and also the customer’s lifetime cycle (Palmer, McMahon-Beattie, & Beggs, 2000).
3.3 CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

3.3.1 MANAGING RELATIONS IS THE KEY FOR DRIVING SUCCESSFUL LOYALTY

The management of customer relationships is becoming increasingly popular among practitioners and researchers, as it seems that customer retention is a more viable business strategy than customer acquisition (Ahmed & Buttle, 2001; Veneti & Ghauri, 2004; Rust & Zahorik, 1993).

Previous studies have shown, that companies focusing on strengthening the customer relations can increase customers’ motivation to buy again, to buy other services, to be less price sensitive, and to tell others about their positive experiences (Anderson, Fornell, & Lehmann, 1994; Rust & Zahorik, 1993). All of which are similar benefits of loyalty as previously stated. Therefore, it is reasonable to suggest that by strategically managing the customer relations, a retailer enhances its chances of achieving customers’ loyalty.

3.3.2 THE CONSTRUCTION OF RELATIONSHIPS

A relationship is an ongoing process, which is created through a series of repeated interactions between two parties known to each other. The first encounter with the retailer is perceived to be the most essential, and is referred to as the moment of truth (Zeithaml & Bitner, 2003). During this meeting, the customer evaluates the retailer’s ability to meet her expectations and requirements (Coulter & Ligas, 2004).

Marketing today is all about creating and maintaining long-lasting relationships, which are rewarding for both the company and its customers. This can be achieved by a mutual cooperation and fulfilment of promises (Ndubisi, 2003). Through CRM the company can gain information about the customer’s shopping habits, which enables the retailer to create more personalized and appropriate marketing effort towards the customer. In return, the customer will experience more relevance and thus a sense of belonging towards the company (Ndubisi, 2007). Moreover, (Whyatt & Koschek, 2010) suggests that if a company manages to create a perception of empathy and reliability in the eyes of the consumer, then she will be less sensitive towards higher prices.
3.3.3 RELATIONSHIPS AND CUSTOMER LOYALTY

According to Webster (1994), relationships are essential for achieving true loyalty:

“Customer loyalty has meaning only within the context of relationships.”

(Webster, 1994, p. 26)

Aaker (2002) further supports Webster’s by stating that:

“One approach for enhancing customer loyalty is the development or strengthening of customers’ relationship with the brand.”

(Aaker, 2002, p. 23)

According to Webster (1994) and Aaker (2002), CRM is not only the key to achieving loyalty, but also important for understanding the underlying factors behind the formation of loyalty. Hougaard (1998) argues that today’s increasing flow of information reinforces an increased level of expectations and requirements from customers. Therefore, the purpose of CRM is not only to create a relationship with the customer that makes her return, but also to eliminate any temptations the she meets with competitors (Ndubisi, 2007). This suggests that the relationship has to be nurtured, as competition is inevitable.

In addition to this, researchers have studied the different stages the relationship between firm and consumers undergo, which often are referred to as the loyalty ladder (Payne & Frow, 2005; Whyatt & Koschek, 2010). Basically, moving customers up the ladder increases the customers’ lifetime value, and thus increases the company’s overall profitability.

3.3.4 THE FUNDAMENTALS OF CRM

Morgan & Hunt (1994) believe that successful management of customer relations requires commitment and trust. Furthermore, Ndubisi (2007) states that communication and conflict handling are also important variables for the relationship creation. Additionally, Grönroos (2007) states that service is of such a significant importance that companies not focusing on it make it impossible to establish relationships and thereby obtain customer loyalty. Thus, it is necessary that all these elements are achieved in order to create a loyal relationship with customers (Ndubisi, 2007).

In the following we will discuss the three key elements of CRM and how they are achieved.

3.3.4.1 TRUST AND COMMITMENT

Many marketing scholars have highlighted the importance of trust as a key predictor
of loyalty (Delgado-Ballester & Munuera-Alemán, 2001) (Morgan & Hunt, 1994) and consider it as a key factor for establishing engagement and commitment in the relationship, as well as for creating and maintaining a long-term relationship between the two parties (Garbarino & Johnson, 1999). A betrayal of this trust by the supplier or service provider could lead to defection.

Back in the 1980s Schurr & Ozanne (1985) defined trust as the belief that a party’s word or promise is reliable and that the party will fulfill its promise. Since then the definition has been further elaborated by Moorman, Deshpande, & Zaltman (1993) and defined as:

“A willingness to rely on an exchange partner in whom one has confidence.”

(Moorman, Deshpande, & Zaltman, 1993, p. 83)

Especially the promise factor has an importance when it comes to building relationships with customers. A retailer should not only give promises to consumers and then persuade them to act in a certain way; a retailer should also keep promises, which preserves and strengthens the development of the relationships. Fulfilling promises that have been given is as important as achieving customer satisfaction, retaining the customer base, and securing long-term profitability (Reichheld & Sasser, 1990).

In order to achieve trust, the retailer must show a certain commitment in the relationship. This commitment can among other things, be achieved by showing customers that you care about them and want to help them (Anderson & Srinivasan, 2003).

According to Moorman, Deshpande, & Zaltman (1993) commitment is also the driving factor for maintaining relationships between retailers and customers and they describe it as:

“An enduring desire to maintain a valued relationship.”

(Moorman, Deshpande, & Zaltman, 1993, p. 316)

Such commitment is often referred to as emotional commitment as it represents the customer’s feelings and is described by Allen & Meyer as:

“An affective or emotional attachment to the organization such that the strongly committed individual identifies with, is involved in, and enjoys membership in, the organization.”

(Allen & Meyer, 1990, p. 2)

Fullerton (2003) studies also confirm that the effect of the emotional commitment is a strong driver of customer’s willingness to be brand ambassadors as well as her willingness to rebuy the product.
In the following section we will discuss how customer service can have an impact on the customer’s commitment and trust towards the retailer.

3.3.4.2 SERVICE

Leung, Li, & Au (1998) argue that customer service is actually more important than perceived product value, when it comes to predicting customer loyalty. Customer service often affects the perceived value of the product and consumers may believe that good service goes with good products (Leung, Li, & Au, 1998). Moreover, good service generates a pleasant feeling in consumer’s minds and is in itself a positive reinforce for customers to come back.

Good customer service is defined by Leung, Li, & Au (1998) as:

"Understanding the needs of customers and providing them with individualized attention."

(Leung, Li, & Au, 1998, s. 1732)

Such service supports the customer in a value-creating way where the customer feels that she is better off in some way than before (Grönroos, 2007).

By adjusting their service behavior towards different customers, employees can better meet the expectations and needs of single customers and thereby create customer satisfaction (Coelho & Henseler, 2012). Such individualized service is possible to provide through technological mechanisms that help marketers customize offerings to the new era of constantly demanding consumers. The vast majority of empirical studies confirm that consumers who receive customized treatment will be more satisfied with the interaction than those who experience a standard treatment (Devaraj, Fan, & Kohli, 2006; Meuter, Ostrom, Roundtree, & Bitner, 2000; Anderson & Srinivasan, 2003; Bettencourt & Gwinner, 1996). Furthermore numerous empirical studies have confirmed a major effect of service customization on customer trust because customization reduces customer doubt and vulnerability, and thereby it generates customer trust (Coulter & Coulter, 2002; Komiak & Benbasat, 2007; Moorman, Deshpande, & Zaltman, 1993). Thus, service customization is a competitive advantage in itself. This competitive advantage is achieved through strong customer relationships that are personalized and which thereby contribute to increased customer loyalty and greater relationship quality.

On the other hand, conflict handling is also an essential part of service management and it has a direct impact on customer loyalty.

Conflict handling can be defined as:

“A supplier’s ability to avoid potential conflicts, solve manifest conflicts before they cre-
ate problems, and discuss solutions openly when problems do arise.”
(Dwyer, Schurr, & Oh, 1987, p. 158)

How well conflicts are handled will determine whether the outcome of loyalty is exit or voice. The likelihood of these behavioral outcomes relies upon the level of earlier satisfaction with the relationship, the degree of commitment invested in the relationship, and the evaluation of other alternatives available in the market (Rusbult, Farrell, Rogers, & Mainous, 1988).

The more satisfactorily a retailer handles the conflicts, the more loyal its customers will tend to be (Ndubisi, 2007). Thus, there is a direct relationship between conflict handling and customer loyalty (Ndubisi, 2007). It is therefore critical that the retailer has effective conflict-resolution mechanisms that are not only active but also proactive in order to pre-empt possible causes of conflicts, and address them before they become manifest. If a company succeeds in avoiding and/or resolving conflicts with customers before they become problems, this will have a positive influence on customer loyalty (Ndubisi, 2007).

Often, what may trigger a customer to defect is not necessarily the occurrence of a problem but how it is handled. Ndubisi (2003) found that perceived service quality, i.e. the retailer’s ability to handle conflict well, is directly affecting customer loyalty. This also leads to commitment which is defined as the willingness to work and stay in the relationship indefinitely (Sauers, 2008).

Thus, service is of such a significant importance that businesses not focusing on it make it impossible to establish a relationship and thereby attain customer loyalty (Grönroos, 2007). Treating customers well and making them satisfied is essential to the company’s success. A way of servicing customers effectively is by having interactive dialogues with them where they feel important and valued. This will be discussed in the next section.

3.3.4.3 COMMUNICATION

To be able to service the customer effectively, the retailer must know about customers’ wants, needs and preferences and try to live up to these. This insight can be achieved by having dialogues with customers and gaining the necessary insight in order to meet their expectations. Dialogues are based on one-to-one communication and takes place during the pre-selling, selling, consuming and post-consuming stages (Anderson & Narus, 1990). Such communication strengthens the relationship between the parties and influences the level of commitment in between them because customers want to be heard and not just promoted to (Ndubisi & Wah, 2005) (Anderson & Narus, 1990).

Communication within CRM means:
“Providing information that can be trusted; providing information when delivery problem occurs; providing information on quality problems and fulfilling promises.”

(Ndubisi & Wah, 2005, s. 545)

Thus, communication with customers should be designed to make them feel important and valued. For a customer to perceive a relationship as valuable, the customer’s needs must be fulfilled. Communication is hence the glue that holds the relationships with customers together and companies that provide an easy platform of communication excel with keeping in touch with their customers, increase the chances of creating stronger relationships and are thus one step closer to achieving customer loyalty. Therefore, researchers and strategists aiming to nurture loyal customers should pay close attention to issues of trust, commitment, service and communication.

3.3.5 OUTCOMES OF CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

All activities regarding the management of customer relations are ultimately evaluated on the basis of the company’s overall profitability. The so far described determinants of CRM educe two essential outcomes as a result of their successful management, i.e. customer loyalty and positive word-of-mouth.

According to Berry (1995) customer loyalty has a positive effect on profitability through cost reduction effects and increased revenue per customer. It is generally recognized that retaining customers is less costly than acquiring new ones, as customers become more experienced with the company’s products. The costs of servicing customers are therefore expected to decline throughout the late stages of the customer life cycle. Also, repeating store visits, willingness to buy other products as well as an increased share-of-wallet are additional positive outcomes of loyalty.

Customer acquisition is equally important for a company’s long-term economic success, as success cannot be attained by solely focusing on the retention of current customers at the expense of attracting new customers. Even in times with perfect customer service and high focus on customer relations, failure is a natural part of service delivery and therefore customers will defect at some point and must be replaced. There might also be situational and psychological factors that influence customers to leave such as moving to another city or seeking for new product varieties. Therefore positive word-of-mouth is an important outcome of CRM that helps replace lost customers. Positive word-of-mouth is prompted by satisfaction and can be characterized as all informal communications between consumers and others where they evaluate products or services, share pleasant experiences and give recommendations to others (Anderson, Fornell, & Lehmann, 1994).
a powerful force in influencing future purchase decisions, because personal communication is perceived as a more reliable source than non-personal information. Word-of-mouth is considered to be the most honest type of marketing as it reflects the customer’s own free will and desire for sharing her experience about the brand with her social network (Li & Bernoff, 2008).

Although customer loyalty augments the economic attractiveness of existing customers, positive word-of-mouth is considered to be one of the most effective tools for acquiring new customers.

3.3.6 SUMMARY OF CUSTOMER RELATIONSHIP MANAGEMENT

Based on these findings, it is reasonable to suggest that customer relationship management is a fundamental element of achieving true loyalty. For retailers it has become common knowledge that retaining customers is a more profitable strategy than acquiring new customers. As loyalty is expected to increase by having a successful relationship with customers, positive outcomes such as WOM, have the potential of acquiring new customers while maintaining existing relationships. Thus, following hypothesis is presented:

- **Hypothesis 5)** Customer Relationship Management has a strong effect on retailer’s retention and acquisition of today’s customers.

As stated, service is a driving factor of the customer relationship. Thus, much relies on the retailer’s service level during a conflict. A well-handled conflict by the retailer shows commitment, engagement, and confidence and above all; that the retailer cares. Thus, conflict handling is expected to affect both the attitudinal and behavioral loyalty of the customer:

- **Hypothesis 5a)** There is a direct relationship between conflict handling and true loyalty.

In addition to the retailer’s level of service; good service generates a pleasant feeling in consumer’s minds that in itself reinforces customers to return to the store. Thus it is relevant to propose the following hypothesis to be tested:

- **Hypothesis 5b)** The personal contact in stores has a strong effect on the customer’s loyalty.

Lastly, the communication between the retailer and the customer is considered a vital element in maintaining the relationship. Each customer is an individual with different needs and demands, why standardized communication lacks of relevance toward the today’s consumer.
Hypothesis 5c) Retailers that have customized service and communication enhances the relations with today’s consumers.

In the following we will define the modern consumer and their expectations from retailers.

3.4 THE MODERN CONSUMER

3.4.1 THE NEW NORMAL

For decades, companies have divided populations into predetermined static categories based on cultural, demographic or psychographic variables, in order to target the right customer, with the right products. However, these established segmentation methods are becoming inadequate to define today’s consumers, as the Internet has increased complexity of today’s societies. In literature, today’s sociologists define the current era as a hypermodern society (Lipovetsky & Charles, 2005). Today’s consumers are characterized by an increased individualism, and individual actions have therefore become the center of the creating of one’s identity (Castells, 1996) (Lipovetsky & Charles, 2005). Moreover, the fluidity of the modern society brings a wide range of new opportunities and possibilities for the consumer to consider. The consumer is required to appear in different and often conflicting social roles depending on the situation, which leaves the consumer’s identity as fragmented (Amine & Smith, 2008). Therefore, to target today’s consumers requires a more modern approach that diverts from the mass-market perspective and instead seeks to emphasize uniqueness, diversity, plurality and idiosyncrasy of one’s customers (Amine & Smith, 2008).

The purpose of this chapter is to provide a characterization of the complexity of the modern consumer to help the understanding of which factors influence today’s consumer’s behavior.

3.4.2 THE OMNISCIENT CONSUMER

“Consumer purchase in a hi-tech world is intelligent, social, fast and spontaneous, and it has to be inspired and not persuaded”

(Kompella, 2014, p. 372)

Technology has become an integral part of the modern consumers everyday life. The constant uplink to the Internet through mobile devices is providing the today’s consumers with information on everything from products attributes, location of the nearest dealer and the lowest price on the market ( Jacobsen & Ulka, 2012). However, having all information available with a single click also comes with a price, as it takes up time to navigate through the massive amount of information. Time has therefore suddenly become a scarce resource for the
modern consumer, which is why relevance is becoming a priority for companies (Jacobsen & Ulka, 2012).

Consumers today are experiencing an information overload of advertisements in their mailbox, on TV, on their phone, in their e-mail, and the whole public space is surrounded and filled with companies trying to gain attention (Jacobsen & Ulka, 2012). Consumers are checking information about products and services in their own way. However, the sources of information that the consumers rely on are often detached from the company’s direct influence, and are instead influenced by personal recommendation as well as digital recommendation (Jacobsen & Bjerre, 2014). With the increased need for information being relevant and personalized, the traditional marketing approaches (i.e. mass communication like TV commercials and print ads) have become less effective in gaining the consumers attention. This is by researchers and practitioners being described as advertisement blindness (Jacobsen & Ulka, 2012) (Houlind, 2015). The traditional approach of the AIDA-model is therefore becoming incapable in understanding and affecting today’s customer journey. Previously, companies eagerly competed for gaining attention, whereas today, companies focus on customer interaction and the management of relationships. Marketers are thus experiencing a shift from “Attention Economy” to “Participation Economy”.

Many online companies have emerged from this change, whereas traditional retailing has been rather unprepared to handle this shift in consumers’ behavior. This new reality is gradually gaining attention among traditional retailers, and the transformation has for many become a necessity in order to survive. The following section intents to outline this new evolution in retailing, which practitioners label as omnichannel retailing, and is considered a necessity in order to appeal to the modern consumer.

3.4.2.1 ADVANCING RETAILING TO OMNICHANNEL

When marketing and retail experts disagree in the how to use the composition of the two words omni and channel, it is a good indication that this is a new concept. The word omni originates from Latin, and literally means everything. Omni is often related to religion, and the perception of a divine being who is omniscient. This premise of knowing everything is crucial to the understanding of the concept of omnichannel, as knowledge is fuel for omnichannel retailing.

Lazaris & Vrechopoulos (2014) defines today’s omnichannel consumer as following:

“An evolution of the multichannel consumer, who instead of using channels in parallel, uses them all simultaneously.”

(Lazaris & Vrechopoulos, 2014, p. 1)
The omnichannel consumer is thus a consumer that manages to move in and out of the traditional channels. To attract the omnichannel consumer does not only consist of being present and communicating on multiple platforms, but more importantly, it requires a shift of perspective. Single, multi and cross channel (see Appendix 02 – Evolution of Retailing for an overview) are therefore relatively easy concepts to comprehend for today’s managers, as these are business centric in the traditional sense of selling. Omnichannel on the other hand, is much more complex and intangible of nature, as it requires a fundamental shift of perspective. An omnichannel approach is dependent on the collaboration of multiple business functions, such as marketing, IT, finance as well as management, which together create the seamless shopping experience (Lazaris & Vrechopoulos, 2014; Houlind, 2015). Levy, Weitz, & Grewal (2013) describes omnichannel as following:

“A coordinated multichannel offering that provides a seamless experience when using all of the retailer’s shopping channels.”

(Levy, Weitz, & Grewal, 2013, p. 67)

Omnichannel is therefor not just about creating a coherent brand experience by merging all the retailer’s channels together. Omnichannel is an organisational culture of customer centricity, which requires retailers to rethink their business by listening to their customers through systematic data collection. Companies should place the customers at the centre of their business and focus from that centre outward so they can give the customers a consistent experience through whichever touchpoint they choose to use when engaging with the company. By doing this, the retailer can reach the customer on their terms, in a shoppable moment, with maximum convenience and provide a truly omniscient shopping experience.

3.4.3 SUMMARY OF THE MODERN CONSUMER

Satisfying the needs of the modern consumers requires retailers to take a holistic approach to their brands. As each touchpoint together constitutes the sum of the entire brand, a retailer is only as strong as its weakest link. This is an important perspective for retailers, as only one channel exists for the modern consumer. Therefor it is hypothesized that:

- **Hypothesis 6)** Retailers must have a holistic approach in order to gain the modern consumer’s true loyalty.

As the modern consumer’s time is an important resource, it is necessary for retailers to incorporate the element of convenience in all its processes. Therefore, following hypothesis sought clarified:

- **Hypothesis 6a)** To stay competitive and enhance loyalty, retailers need to focus
on convenience as today’s consumers find time a scarce resource.

Additional, since today’s society increasingly has become more accessible because of the Internet, this has had a profound effect on the formation of the modern consumer. The reality for retailers is that the world is now borderless and markets are – to some extent – open for everyone. This challenges some fundamental elements in customer’s loyalty, as the set of alternative retailers have rapidly increased. Thus, following hypothesis is presented:

- **Hypothesis 6b)** The intensified competition by online competitors have reduced customers’ loyalty.
4. ANALYSIS

Up to now, the thesis has focused on the theoretical approach of loyalty programs and how CRM contributes to the effectiveness of these programs. In the following it will be investigated how consumers and experts view retailers and their loyalty programs today and how these could be improved. The analysis will be based on data from primary and secondary sources and according to the pragmatic approach both qualitative and quantitative datasets will be analyzed. The qualitative data is based on three interviews with experts; a retailer, a practitioner and a scholar. This provides the study with knowledge about the current market situation regarding the modern consumers and how retailers do business today, which is based on the experts’ insight and experience within this field. The interpretation by these researchers cannot be considered value-free knowledge as stated in the chapter of methodology. The quantitative data is based on a survey uncovering the behavior of modern consumers and their attitudes towards retailers’ current loyalty programs.

The intention of this study is not to create generalizing laws, but instead conduct one or more plausible assumptions about the purpose, formation and effect of loyalty programs.

4.1 QUALITATIVE DATASET

As the interviews are of explorative nature, they will provide a big variety of data. Therefore, it is necessary to conduct a thematic condensation of the interviews so they have a clear correlation to the previously described theory and can also be used to determine the framework for the analysis of the survey in the next chapter. The following qualitative analysis will be based on three topics:

- The Modern Consumers
- Loyalty Programs
- Customer Relationship Management

This chapter aims at investigating how experts view the modern consumers, their opinion about today’s loyalty programs and their take on managing customer relationships.
4.2 ANALYSIS OF QUALITATIVE DATA

4.2.1 THE MODERN CONSUMERS

During the interviews it became evident that the challenge for most retailers primarily consists in the change of consumer’s behavior. Technological innovation has in many ways cultivated the consumer’s behavior to an extent many retailers have not been geared to deal with. Stefan Kirkedal describes how SportMaster has experienced this shift in consumer behavior:

“The borders have become obsolete, which means that a consumer can buy a pair of football shoes from UK to be delivered in Denmark the following day. The retail industry has become more dynamic. Customers want products quickly, they want more to choose from and they want the convenience to shop 24/7. In addition, people want everything at a discount, because retailers have accustomed the consumer to expect this. Thus, many consumers wait to shop until the products are on discount, which is self-inflicted in a way.”

(Stefan Kirkedal, 2015, 07:30)

The substance of this statement refers to the modern consumers’ requirements towards retailers, and the way technology has affected their behavior. Consumers today are used to shop on discount and their purchase behavior is highly influenced by rebates. Also, the need to be able to shop 24/7 is a manifestation of how consumers live today (in a fragmented and changing environment). In fact, this challenges retailers, as they need to grasp the complexity of the modern consumers’ different identities. Stefan Kirkedal describes how SportMaster communicates to the fragmented identities of these modern consumers:

“With ‘Vild med Sport’, we want to demonstrate that we are ‘crazy’ about all aspects of sports. Sport is heterogeneous, and so is the modern consumer.”

(Stefan Kirkedal, 2015, 12:50)

Not only does a retailer have to embrace the many facets of today’s consumers, but he also has to be available and at the customers’ service when they need it.

According to Rasmus Houlind,

“It may be that a retailer has a huge customer base, but if he is not involved with his customers then he is out of the picture.”

(Rasmus Houlind, 2015, 39:20)

According to Per Ø. Jacobsen, the retailers who can deliver on these service requirements will
win in the long run:

“The retailers that make it simple and convenient to make a transaction will attract the modern consumer. Location, accessibility and the ease of completing a purchase is of growing importance to these customers.”

(Per Ø. Jacobsen, 2015, 07:10)

This is because time is of increasing importance to the modern consumers:

“Time is a scarce factor. Consumers are becoming more bussy and stressed in their everyday lives, they have many chores to handle and this means that the retailers that can deliver goods fast and easy will win in the long run.”

(Per Ø. Jacobsen, 2015, 06:25)

Additionally, Per Ø. Jacobsen states that in some occasions, time is actually more important than the price of the product. This applies especially for products which price is the same from one retailer to another, typically in markets with perfect competition.

“The price is about the same, if I buy something in one place or another. So I chose what is closest to me and save some time.”

(Per Ø. Jacobsen, 2015, 40:00)

Due to increased transparency of prices, it has become easier for consumers to switch between different retailers. In such situations it may occur that consumers act upon false disloyalty, because they buy the product from the retailer that can deliver it fastest, despite their personal preferences for another retailer.

Traditional marketing, while extremely effective in the past, has lost its effectiveness in recent years.

“The traditional marketing channels have less impact on today’s consumers, because they are filled with pushy and irrelevant content.”

(Per Ø. Jacobsen, 2015, 16:10)

But also modern channels such social media pages are starting to be used as the new mass communication channel for retailers:

“Today many retailers pay for exposure on e.g. social media channels where they communicate one-to-many with messages regarding discounts and with a focus on acquiring new customer rather than taking care of the existing.”

(Rasmus Houllind, 2015, 36:05)
Further Rasmus Houlind states that the sales funnel the customer moves through, does not longer work.

“The traditional sales funnel does not apply in the modern society as it is based on the wrong type of customer data.”
(Rasmus Houlind, 2015, 7:10)

For example, Per Ø. Jacobsen describes that he shops in a different city than the one he lives in, i.e. the city he works at, because it is more convenient for him (Per Ø. Jacobsen, 2015, 39:20). Thus, the demographic data that companies have about Per is not matching to his actual purchasing behavior. In addition to this, the consumer does not only deviate from the static demographical segmentation principles, but has also a more circular shopping behavior:

“The old AIDA[3] approach is completely dead. Today the consumer has a circular path, and everything happens more instantly.”
(Per Ø. Jacobsen, 2015, 35:35)

This is also confirmed by Rasmus Houlind, stating that:

“The customers bustle through different channels, which make the journey far from a linear process and impossible to completely keep track of.”
(Rasmus Houlind, 2015, 7:05)

The customers’ journey resembles a ball of yarn rather than a funnel which requires retailers to rethink their appearance across the different touch points, so the customers experience a seamless shopping experience that gives them delight and convenience:

“Today we still have some challenges with the different store’s variance in assortment, prices and interior. Soon everything will be streamlined, so the customer will experience the same SportMaster façade, product range and price across all stores and channels, because there is only a single channel in the eyes of the consumer.”
(Stefan Kirkedal, 2015, 08:45)

In continuation with this “single channel” experience, Rasmus Houlind explains that:

“When you enter the store, you have to pick up where you left online in order to get a fluid single channel experience.”
(Rasmus Houlind, 2015, 43:05)

And as time is an essential factor for the modern consumers of today, the positive experience by not having to start all over when switching channels, will probably result in increased sales.

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3 Attention, Interest, Desire, Action
But besides making consumers’ purchase experience pleasant and convenient, staff should equally be well equipped with the right tools to provide the service thereof:

“The store needs to become a showroom and provide the customer with a great experience. As a salesperson you need to deliver an experience instead of just selling products.”

(Stefan Kirkedal, 2015, 36:40)

In order to do this, the staff should be trained in analysing the customer data available and acting upon this knowledge by offering relevant and customized offerings and services. This in fact will bring value to the relationship between the parties:

"Figure out what kind of data is beneficial for creating customer relationship and use it to tailor some relevant offers that are valuable to customers. This will enhance the relationship."

(Rasmus Houllind, 2015, 28:30)

This way the modern consumers do not only perceive the retailer being present and alert, but they also get a perception that the retailer is listening and cares about them, which is an important element of creating relationships:

“The customers want to feel that they are being heard and recognized across the different touch points.”

(Rasmus Houllind, 2015, 2:50)

4.2.2 LOYALTY PROGRAMS

Today, loyalty programs are a common offering among retailers, as it seems that it has become a norm in the market to have one. According to Per Ø. Jacobsen, there are typically more women than men enrolled in such loyalty programs and this might be because:

“The offerings related to these loyalty programs are better suited for women than men; the benefits are more appealing to the female sector. Also women can better see the opportunity in saving money by earning points.”

(Per Ø. Jacobsen, 2015, 13:35)

In order to keep up with the increased demand for relevancy and convenience, retailers must somehow be able to track consumers’ behavior in order to be able to offer them something relevant and to their convenience. Therefore many retailers use loyalty programs to track data about their customers:

“If one of the methods for retailers to extract data about their customers is by conceptu-
alizing a members club, then it is also Omnichannel.”
(Rasmus Houlin, 2015, 14:30)

But according to Per Ø. Jacobsen, the majority of loyalty programs are not strategically embed-
ded in the retailer’s customer strategy:

“Many loyalty programs only focus on collecting e-mail addresses that the retailers use
to spam customers with by pushing sales through. Retailers are not utilizing their cus-
tomer clubs effectively.”
(Per Ø. Jacobsen, 2015, 44:40)

It seems that many loyalty programs (unintentionally) follow Butscher’s (1998) approach of
generating more profit, higher revenue and larger market share at the detriment of customer
spam and irrelevance with the hope of securing the company’s existence and stability. Rasmus
Houlin further describes how retailers collect data today in an insufficient manner.

“Instead of collecting unique data about the individual customer that can be used in
one-to-one communication, retailers send surveys that are answered anonymously.
With these surveys it is not possible to connect the answers to the individual customer
and learn about their preferences. Thus, this type of data collection makes it impossible
for retailers to provide customers with tailored offerings of their interest.”
(Rasmus Houlin, 2015, 39:38)

Besides these unstructured ways of collecting data, according to Palmer et al. (2000) the ma-
jority of marketers do not even know how to analyze and utilize this data. This scenario was
also recognized by Per Ø. Jacobsen, who states:

“The retailers bombard customers with irrelevant information about products they are
not interested in. By having such a short-sighted focus, retailers actually sabotage it for
themselves. If retailers are unable to create value for the customers, then they are not
able to create value for themselves.”
(Per Ø. Jacobsen, 2015, 17:00; 44:40)

It is evident from these statements that loyalty programs are, as Wright & Sparks (1999) stat-
ed, used as promotional tools prompting repeated purchases rather than fostering attitudinal
commitment evoked from customer–retailer relationships. The reason many retailers have
turned to this practice is because the effect of traditional marketing channels is diminishing.
Through loyalty programs retailers can gain email addresses from customers and use them as
a direct communication tool that is cheaper compared to utilizing other marketing channels.
However, this can damage the relationship on the long run, as it only creates temporary and
not a permanent value.
According to Rasmus Houlind, a part of the problem with current loyalty programs is that they are communicated as being a club:

“If you want to label something as a club, then it has to also be a club; A community with people that share similar interests. You have to offer more than bare discounts.”

(Rasmus Houlind, 2015, 11:45)

From this perspective, a loyalty program that is labelled as a club should not only consist of hard benefits that foster behavioral loyalty, but should also consist of soft benefits that drive attitudinal loyalty. Further, Per Ø. Jacobsen supports this statement by empathising that:

“There is no doubt that the promise of discount motivates the customer to join the program, but it does not necessarily create loyalty. If a loyalty program merely focuses on attracting customers via economic benefits, then the customer is loyal towards the discounts and not the products or the brand.”

(Per Ø. Jacobsen, 2015, 16:20)

This statement is similar to the theoretical findings by several researcher (Sharp & Sharp, 1997; Bagdonienė, 2007; Hallberg, 2004), who emphasize that financial incentives are not proven to create true loyalty. Thus, other means should be taken into consideration in order to create the desired long lasting loyalty that increase customers’ lifetime value. According to Rasmus Houlind, this loyalty is generated further down the funnel, where behavioral data of the customer is used to build one-to-one relationships. Therefore, the monetary benefits become bait for data collection:

“Bonus points are for retailers a mean to connect the purchase with the customer and track the behavior of the customer.”

(Rasmus Houlind, 2015, 07:51)

This knowledge about the customer’s behavior can, if used properly, be valuable for the retailers as:

“It is not just about affecting the customer’s next purchase, but more importantly is about when to influence the customer.”

(Rasmus Houlind, 2015, 15:38)

This is coherent with Palmer et al. (2000) that emphasize the importance of targeting customers with timely information. Thus, the current retailers’ short-sighted practices can be seen as a violation of the customer’s trust in them:

“It does not become more intimate than when the retailer can make something vibrate
in your pocket (push notification), which is why it is important to respect the customer by not sending irrelevant information.”
(Rasmus Houlin, 2015, 39:00)

4.2.3 CUSTOMER RELATIONSHIP MANAGEMENT

Since most of current loyalty programs do not create true loyalty but instead function as a direct marketing tool to push sales, it was appropriate to get the experts’ view on what drives true loyalty.

According to Per Ø. Jacobsen, the most important element of customer loyalty and how to achieve it, is the notion of mutual value creation:

“Loyalty is about mutual value creation, and relations can be a means to achieve this.”
(Per Ø. Jacobsen, 2015, 23:20)

Per Ø. Jacobsen further explains why this as a strategy can benefit the retailer:

“To create relations can be a way to differentiate your business from competitors.”
(Per Ø. Jacobsen, 2015, 27:20)

Per Ø. Jacobsen’s approach about mutual value creation is similar to the findings of several researchers stating that the primary objective for a customer relationship is that it has to be beneficial to both parties (Grönroos, 1994; Ndubisi, 2003; Hougaard & Bjerre, 2009). For the retailer, this benefit is obviously to increase sales and reduce costs as loyal customers shop more often and are less expensive to market the products towards compared to regular customers. According to Rasmus Houlin, this can be done though relevant one-to-one communication:

“If it is relevant for me, then I will buy. I will buy more and I will buy more frequently.”
(Rasmus Houlin, 2015, 11:30)

This type of relevant communication with customers has a direct impact on their purchase behavior. Similarly, Per Ø. Jacobsen also suggests that relevance is a key element to mutual value creation:

“Relevance is scarce today. Retailers need to woo and excite the customers, but instead they are bothering and harassing them with irrelevant information. This is a big challenge for many companies because they have not settled a clear strategy for what they want to do with their customers.”
(Per Ø. Jacobsen, 2015, 50:28)
It seems that both Rasmus Houlind and Per Ø. Jacobsen believe that the key to loyalty lies within the framework of providing relevant communication to the customers.

Providing relevant and timely information is not only a means to increase sales, but also to enhance relations. Enhancing the relations and increasing customers’ loyalty have other derived effects such as creating trust in the brand. Additionally, trust can be used as a lever to reach new market segments and industries as the customer has confidence in the brand and what it offers. Per Ø. Jacobsen exemplifies this with the British grocery retailer Tesco:

“Because Tesco has created strong relations with its customers it can sell different types of products and services to the same customer. Now it has expanded the business into financial and telecom services as well. In other words, selling different products to the same customer creates financial security and stability as the risk is being spread across different products”

(Per Ø. Jacobsen, 2015, 28:15)

Another example of the effect of having strong relationships is the fact that SportMaster is experiencing intensified competition from brands that previously were not in direct competition with them:

“Another challenge is that retailers, such as H&M and Best Seller, have discovered that sportswear is a market of potential.”

(Stefan Kirkedal, 2015, 6:00)

In this case, H&M and Best Seller have benefitted from their strong customer relations by expanding their business into the market of sportswear. This increased competition essentially means less market shares for SportMaster. With such intensified competition, retailers must differentiate their business from competitors by creating lasting relationships that make the business less vulnerable for competitive threats such as the before mentioned. Per Ø. Jacobsen emphasizes the importance of continuously providing good service for the customers even though they might have been unsatisfied with the product:

“Since there is a scarcity of customers, sometimes it is necessary to walk that extra mile for unsatisfied customers. The key is therefore for the retailer to ask for forgiveness.”

(Per Ø. Jacobsen, 2015, 20:03)

He goes, as far as to say that the ROI on forgiveness is superior to marketing:

“It can be much more efficient to spend resources on repairing damaged customer relationships than trying to acquire new customers.”

(Per Ø. Jacobsen, 2015, 20:16)
Providing good customer service may seem as plain strategy, but in reality it is for many retailers a difficult task, where a simple process of returning a product can cause logistical and economical troubles:

“The in-store staff should be absolutely positive and open about the possibility that a purchase made online can easily be returned in any store. They should treat these customers as good as the one who are in store to purchase, because these customers are just as important as the ones that shop in-store.”

(Stefan Kirkedal, 2015, 17:45)

By accepting the fact that all customers are the same and should be treated equally; meaning that they should not be divided between online store vs. physical store customers, the company has already taken a leap toward becoming an omnichannel retailer. Therefore, it is important to include the in-store service in the omnichannel strategy, since many customer relationships start at the store:

“Today’s retailers are in a dilemma. The in-store personal, which face the customers every day, are the ones that have the lowest wages and the poorest education. It is illogical. They should be the ones best paid and have the best education as they have the primary contact with the customers and thus their service makes the customer return.”

(Per Ø. Jacobsen, 2015, 8:03)

It clearly shows that the first encounter with the retailer i.e. “the moment of truth” happens in-store. This is a new challenge for the retailer as the average customer is much different today than a decade ago. From the moment where the modern consumer enters the store, she has already spent time researching the product in advance. It indicates a need for a different approach of service towards the customers than previously. Stefan Kirkedal describes how SportMaster has overcome (or tries to overcome) this challenge:

“When you enter a SportMaster store, the staff should, besides from knowing about the products, also be passionate about sports. They are being hired based on their interests in sports. If you do not care about sports, then you are unable to initiate the dialogue and communicate on the same level as the customer.”

(Stefan Kirkedal, 2015, 13:48)

This approach is a central element in becoming an omnichannel retailer. The customer’s experience has to be without any friction – a so-called seamless experience. Being excellent at collecting and analyzing data to provide relevant and timely information loses all its impact if the in-store experience is far from excellent. Thus, the experience in-store and online has to be connected through all touch points:
“The customer's experience has to be identical across all channels and with a persistent service that follows this experience.”

(Per Ø. Jacobsen, 2015, 30:22)

According to Per Ø. Jacobsen, delivering excellent service is an efficient method to demonstrate the seamless experience, but it has to be strategically embedded within the organization. Many companies are still working in fixed silos and the modern consumers want more personalization and relevance when interacting with the company. Something as ordinary as a telephone number to customer support reveals much about how the retailer cares about its relations with customers:

“It has to be strategically embedded in the organization, so it becomes easy and convenient to make a complaint. Without having something as simple as phone number shows that the retailer does not want to listen and is detached from its customer’s needs.”

(Per Ø. Jacobsen, 2015, 21:00)

These simple but significant adjustments within the organization and its culture will have a positive impact on satisfaction and the customer relationship as it shows commitment and a desire to genuinely help the customer:

“The retailer constantly needs to consider: What can we do for you? And how can we help to solve your problem?”

(Per Ø. Jacobsen, 2015, 34:00)

According to Per Ø. Jacobsen, this is the biggest challenge for retailers today. The majority of retailers are stuck in an old mind-set of increasing revenue, and not providing actual value to the customers. As his research shows, the retailers that have a precise strategy for their customers also manage to increase profit:

“The challenge is that many retailers do not have a clear vision of what they want to achieve with their customers and a precise strategy of how to accomplish this. Those who have one, manage to make more money.”

(Per Ø. Jacobsen, 2015, 51:10)

4.2.4 SUMMARY OF QUALITATIVE DATA

Overall, the experts agree on time being a scarce resource for many consumers today and that they highly evaluate convenience and ease of purchase when considering where to shop from. Further, they all state that traditional marketing is losing its effectiveness and therefore the importance of delivering relevant offerings is paramount to penetrate the clutter and reach the customer. Due to increasing competition from online retailers the supply
of goods has increased significantly and has thus made the customers more demanding and less tolerant. Therefor creating relationships with customers is paramount for surviving as a retailer.

Loyalty programs are ineffective and the data gathered through these programs is not used effectively. Loyalty programs are used as promotional tools that promote generic offerings that most of the time are irrelevant to members. Furthermore the combination of benefits are not appealing to the individual customer as well as the monetary discounts are not the path for creating true loyalty. Thus, the experts agreed on relationships being a central element for loyalty creation and a means to both differentiate and strengthen the business. By enhancing the customer relations, retailers can provide more relevant and targeted communication. Last but not least, personal service in store and conflict handling are mentioned to have the biggest impact on the relationship.

Based on the statements from the experts, we found it relevant to conduct a survey about consumers’ enrollment in loyalty programs and how satisfied they are with their membership. In the following section we will analyze the results from the quantitative dataset.
4.3 QUANTITATIVE DATASET

In spite of the great deal of practitioners’ interest in loyalty programs, there is only little academic literature regarding the actual impact of these programs and how customers perceive them. Most research is based on how the programs should be implemented and why they are valuable for retailers to have (eg. Stauss et al. 2004, Dowling and Uncles, 1997, Palmer et al., 2000).

We have chosen to analyze the effect of loyalty programs in specialty stores. We found these stores interesting because they are operating in a market that is very promotion sensitive due to a lack of product or price differentiation. For that same reason we were curious to investigate how these stores can create true customer loyalty in such a competitive market.

4.4 ANALYSIS OF QUANTITATIVE DATASET

4.4.1 DEMOGRAPHIC VARIABLES

The Danish consumers are considered to be leading in the field of digitization (Jacobsen & Bjerre, 2014), which is why this will work as proper benchmark toward our study. The total amount of respondents was 388 and as shown in the diagrams below, men (45%) are slightly under-represented in the responses in the survey in relation to women (55%).

As for the respondents’ age distribution there is a clear overrepresentation of the younger audience between 20–29 years old, accounting for 80% of the respondents. The reason for the large overrepresentation of the younger generation is probably due to the distribution methods of the survey, which primarily was shared on social media channels of our own network. Because of this, it is reasonable to assume that the majority of the respondents are students with a limited budget and thus have different priorities compared to an older audience of people with a higher disposable income and better economical situation. These factors could have affected the results of the respondents’ purchase behavior and their prioritization of benefits from the loyalty programs. We believe, however, that the overrepresentation of young people does not impact the study’s recommendations, as this segment is a good example of the tech-savvy modern consumer.
4.4.2 BEHAVIORAL VARIABLES

The questionnaire begins with three behavioral questions to test Hypothesis 6.b regarding online competitors reducing customers’ loyalty. These three questions try to reveal the research behavior of the customers, how prices affect their purchase and how retailer knowledge affects their purchase decision.

4.4.2.1 RESEARCH TIME

According to the theory about the modern consumer, today’s consumer posses multiple identities, which require a distinct ability to adapt to the specific situations (Amine & Smith, 2008). This adaption has to happen frictionless, which imposes higher demands to the retailer and its presence on different channels. To live a frictionless, but fragmented existence, the consumer expects instant access to information about products and services. Therefore, time has become a central element for the modern consumer. To test Hypothesis 6.a about time being a scarce resource for today’s consumers, we wanted to investigate how long time our respondents use on research prior to a purchase. The question seeks to clarify the importance for retailers to prioritize their presence across channels in a manner that appeals to lifestyle of the modern consumer.

The majority of the respondents, i.e. 80%[4], answered that they spend some time on research[5] prior to a purchase. Actually only 16% of the respondents spend long time on research and 4% spend no time at all. This tells us that consumers do like to spend time on gaining information to be well informed, but also do not want to spend long time on it, as they perceive time as a scarce resource. This has furthermore been confirmed by previous studies studying the modern consumer, and is especially clarified in the report of Cognizant (2014) regarding the purchase behavior of the modern consumers. This study states that 74% of consumers spend some time researching products prior to a purchase, which is similar to the results of our survey. Thus we believe that there is an indication for our respondent’s behavior that confirms the theory about the modern consumers and their time consumption on research not being exaggerated.

Furthermore, it was relevant to consider if there was a correlation of the time spent on research with how price sensitive our respondents are and how much it means to them to purchase from a well-known retailer rather than from an unknown.

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4  49% sometime + 31% limited time
5  Price, product features, delivery time, etc.
4.4.2.2 PRICE AFFECT

The majority of the respondents i.e. 64% stated that they occasionally let price affect their choice of retailer. This is followed by 34% stating that price affects their purchase decision every single time when choosing a retailer whereas 2% states to not even consider price when deciding where to shop.

As the majority of the respondents do let price affect their purchase decision occasionally, it is reasonable to suggest that the majority of the respondents are price conscious (those who stated occasionally 64%) but not price fixated (as those who stated every time 34%) where they e.g. look for the absolute cheapest price – no matter how long time it takes. This confirms that there can be drawn parallels between our respondents and the theory stating that the modern consumer is price conscious, perhaps as a result of the technological evolution where there is price transparency across all channels, but also perceives her time as limited resource.

4.4.2.3 RETAILER KNOWLEDGE

Regarding knowledge of the retailer, only few respondents (11%) stated that it is not important at all for them to know the retailer in advance, and these respondents are also the ones who stated that price is either paramount (32%) or is occasionally evaluated (55%) when deciding which retailer to shop from. These consumers are primarily price fixed with little or no loyalty towards retailers.

On the other hand, the majority of the respondents i.e. 73% stated that it is actually to some degree important for them to know the retailer in advance. Therefor we assume that the theory of having confidence and trust in a retailer is in fact affecting the purchase behavior of the customers, as majority of the respondents do agree that retailer knowledge is more or less important for their purchase decision.

Only 15% of the respondents stated that it is actually very important to them knowing the retailer in advance, but this does not necessarily mean that they would not consider a cheaper price

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6 Occasionally 56% + Rarely 9%
7 Appendix 4 - Calculations
8 Appendix 5 - Calculations
at an unknown retailer. Actually 33%\(^9\) of these respondents stated that it plays a role *every single time* when considering where to shop, and 64%\(^10\) answered that it plays a role *occasionally*; both statements with a clear consideration element. This proves how price conscious consumers are today even though they have a clear preference for shopping at a well-known store. It indicates that the relations between retailers and consumers are not as strong as they could be (cf. chapter of *Customer Relationship Management*). Furthermore, these results are based on attitudinal statements, i.e. what consumers think and their emotional evaluation of the scenarios provided in our survey, but it is hard to verify if their actual behavior is as they state in the answers.

### 4.4.2.4 SUMMARY OF BEHAVIORAL QUESTIONS

Overall, we believe these behavioral questions reflect the behavior of the modern consumers where they see time as a scarce resource and therefore do not use long time on making research prior to a purchase. Neither do they let price fully influence them on which retailer to choose, because as they stated, they find it to some degree important knowing the retailer they shop from, rather than buying from an unknown one to a cheaper price. So customer relations do in fact have a strong effect on customer loyalty.

### 4.4.3 THE RETAILING EXPERIENCE

In order to investigate how retailers can improve the shopping experience of today’s modern consumers, we asked the respondents to choose up to three disadvantages concerning shopping both online and offline. By demonstrating the distress connected to each shopping experience, it is possible to find solutions that meet the need of the consumer. Disadvantages are therefore another word for opportunities.

#### 4.4.3.1 ONLINE STORES

According to our survey, the primary disadvantage of shopping online is that the *products cannot be evaluated* in terms of size, quality and appearance (84%). In continuation to this, *returning costs* associated with misfits or wrong purchases are perceived to be the second biggest disadvantages of shopping online with fully 48% of respondents stating so. This result is similar to the finding in the Cognizant (2014) report where it is stated that the ease of returning products is a major influencer for whether to buy online or not. The third major disadvantage is that *delivery costs*, when ordering a product online are also perceived being too high with 42% of the
respondents claiming so. There is clearly some type of discomfort associated with the risk of buying something that does not fit or does not match to the expectations of the customer, which evidently can have a direct effect on customer satisfaction. Moreover if the customers are accountable for the costs related to delivery and return of an already unsatisfactory product, it reduces the chances of establishing a satisfactory customer relationship. One could assume that returning costs are not only the monetary elements, but also the time consuming elements such as packing the product in a box, going to the post office, staying in line and coming late to work because of that.

Other notable insight to point out from this survey question, besides the top three factors from above is that delivery-related aspects such as delivery time and delivery problems are not seen as a momentous disadvantage of shopping online. Only 14% and 9% of the respondents respectively, chose them as their top three disadvantages of shopping online, which indicates that delivery is both fast and reliable. Another interesting factor is that only 15% of the respondents stated that they lack trust to online retailers and see it as a top three disadvantage of their online shopping experience. This indicates that there is generally great confidence to online retailers.

### 4.4.3.2 PHYSICAL STORES

According to our survey, the primary distress of physical retailing is that the respondents often experience long queues during their shopping experience (43%). Waiting in line during checkout or at the fitting rooms is time consuming tasks, which is inevitable in many popular stores. This demonstrates that time is very important for the modern consumer, as waiting is considered a waste of their time.

A second reason for not shopping in stores is that customers perceive that the staff is not competent enough to guide and advice about the purchases (34%). This reflects that the staff does not meet the service expectations that the customers require from them which can result in dissatisfaction or customer deficit, a proclamation that is also stated by Per Ø. Jacobsen in the qualitative data. But not is the staff only perceived as being incompetent, they are also perceived as being too pushy towards customers to make a purchase. This is the third major reason for customers not shopping in stores with fully 32% of the respondents stating so and choosing it as their top three. This can be perceived as lack of empathy harming the relationship between the customers and the retailer because as the theory states; relationships should be beneficial for both parties in order to obtain loyalty, and empathy and reliability should be well visible (cf. chapter of Customer Relationship Management).

Besides the abovementioned top three factors, another noticeable factor from the survey is
that the respondents perceive the arrangement in stores to be disorganized and overwhelming (32%) which can cause an uncomfortable shopping experience. This can be of benefit to web shops that are better structured providing a clear and easy overview of the product range. Actually, according to the Cognizant report, 72% of the customers assess ease of finding information as the primary influencer for purchasing online. One last important factor to mention regarding disadvantages in physical stores is that the staff is perceived to be unwelcoming and unfriendly towards customers (28%). This can have a direct consequence in the relationship formation between customer and retailer as bad customer service can damage the commitment and trust in the customer relationship.

Even though there are a lot of challenges both offline and online, the customer’s experiences with each channel are generally positive. When asking respondents to rate from 1 to 5 the experience of their latest purchases respectively online and offline, it appears that the respondents are equally satisfied as both channels had a similar score of almost 4.6.

### 4.4.3.3 CUSTOMER EXPECTATIONS

According to our survey, the top five elements that customers expect from their retailer today are; website (72%), webshop (69%), free returns (53%), mobile friendly website (47%) and free delivery (42%). This clearly indicates that the consumers expect retailers to have a website, but also be able to manage a webshop. As the question refers to retailers in general, and does not differ between online or offline retailers, free return is naturally the fourth most important feature, whereas free delivery is associated with shopping online and thus ranked lower.

Besides these five features, immediate customer support (chat/telephone), physical stores and “buy online and pickup in store” (BOPIS) are other less expected elements corresponding to 31%, 25% and 20% respectively.

These results show some areas where retailers can actually exceed customers’ expectations, but more importantly, it also indicates where retailers must not fail to meet customers’ expectations. With such a large percentage of the respondents expecting not only to access information about the retailer, but also be able to shop 24/7, it shows strong indications that retailers that do not meet the expectations of the consumer will drastically decrease their competitiveness.

### 4.4.3.4 BOPIS

To create a flawless and frictionless experience for the demanding consumer, the days of single channel shopping are over. The “Buy Online and Pick-up In Store”-service has become a popular
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element in the omnichannel strategy. The intent of this service is not derived from a financial perspective of saving delivery costs, but a vision to satisfy the modern consumer’s many demands. Thus, it was interesting to investigate the respondents’ experiences with this service and its effect on satisfaction, which indirectly affects loyalty.

67% of the respondents have tried to buy a product online and collect it in store, which is similar to the 62% in Cognizant report. As 2/3 of consumers have tried this service, fully 82% of these have been satisfied with the experience of BOPIS. 14% did not really have a strong opinion about it and stated to be neither satisfied nor unsatisfied towards this option. Only 4% have been less satisfied and 0% claimed to be unsatisfied, which shows strong indications that this service is worth considering for retailers in general, as it seems it has high level of satisfaction with very few flaws.

However, even though that most the respondents have had very positive experiences with this service, few respondents actually assessed it as being of great importance for their choice of retailer. The respondents were asked to evaluate the importance of a retailer offering BOPIS on a scale from 1 to 5 (5 being very important, 3 being indifferent and 1 being not important). The mean value was 2.58, which placed it a little below the median value of 3. This results shows that the consumer consider it to have little importance. The consumer therefore sees this as a rather mundane service, which if not executed exemplary can cause great distress for the consumer. Furthermore, BOPIS drives customers to the store, which increases the retailer’s chance to delivering exceptional service. As stated in the theoretical section of satisfaction, exceeding customers’ expectations can be a significant driver for loyalty, thus even though they do not expect BOPIS, they will probably be delighted if it is offered.

4.4.3.5 EXCEEDING CUSTOMERS EXPECTATIONS

In order to test Hypothesis 1 regarding whether exceeding customers’ expectations has an effect on customer loyalty, it was necessary to ask the respondents directly if they have experienced a retailer exceeding their expectations. 73% answered yes and 27% answered no.
85% of those who experienced a retailer exceeding their expectations, have following showed an increase in their behavioral loyalty by returning to the store and buying again. Furthermore, 64% have shared the positive experience with friends (WOM), 34% have followed the retailer on social media, 25% have written a review online and 19% have signed up to its newsletter. This shows that there is a strong correlation between exceeding customers’ expectations and both repurchases and creating a positive attitude towards the retailer.

In order to test Hypothesis 5.b of whether the personal contact in stores has a strong effect on customer loyalty, it was necessary to ask the respondent what caused this positive experience that exceeded their expectations of the retailer.

The primary reason for creating this positive experience has been the staff in the store (63%), meaning that the personal contact with customers has the biggest effect on creating a positive experience. Furthermore, retailers that are able to create a user friendly website also shows to have a substantial impact on the customers’ experiences with the retailer, as half the respondents (50%) selected a user friendly website as a cause of exceeding the expectations. Customer service/support is perceived to be the third biggest reason for exceeding experiences with 41% of the respondents stating so.

Surprisingly, targeted communication is perceived to evoke positive experiences by only 23% of the respondents, where the store atmosphere is actually more value creating with whole 30% of the respondents stating that it delivers a positive experience. One reason might be that customers take it for granted that the communication sent by retailers should always be relevant for them, which is why they do not attach it particular importance and see it as “exceeding their expectations and creating value” when it is done correctly i.e. when the information sent is relevant and of interest to the customer. Other variables that the respondents stated, which had created positive experiences were: fast shipping, free shipping, coupons and discounts, a personal greeting in the package and unexpected gifts.

This result indicates that retailers can gain much by focusing their efforts on cultivating the staff within their stores and support departments to deliver optimal service. Furthermore it is important to create a digital channel that provides the same excellent level of service and usability as the customer would expect and experience in physical retailing.
4.4.3.6 CONFLICT HANDLING

As Per Ø. Jacobsen suggests, retailers can gain a lot from allocating resources on handling customer complaints. In order to test Hypothesis 5.a of whether conflict handling has an effect on loyalty, it was interesting to investigate how much a good versus a bad handled conflict would impact the respondent’s behavior and thus loyalty.

Initially, the respondents were asked whether or not they have experienced a conflict with a retailer. 61% of the respondents have had a bad experience with a retailer from which only 28% have been satisfied with the way the conflict has been handled. The satisfying conflict solution has resulted in 67% of the customers returning to the store and buying again, 47% sharing the positive experience with friends (WOM), 13% writing a positive review online, 13% following them on social media and 8% registering to their newsletter.

From those respondents who did not get a satisfying solution to the conflict, 87% did not shop there again, 60% shared the bad experience with friends (WOM), 33% made a bad review online, 22% unfollowed them on social media and 18% unsubscribed from their newsletter.

These results confirm our theory stating that well managed conflict handling has a positive effect on customers’ loyalty as it enhances both the behavioral and attitudinal loyalty. Opposite, a poorly handled conflict can damage the retailer by not only losing sale, but also receiving negative publicity by the customer.

4.4.4 LOYALTY PROGRAMS

This section of the survey focuses on the respondents’ experiences with loyalty programs. Initially the respondents were asked whether or not they currently are involved in one or more loyalty programs. Those who stated not being enrolled in any loyalty program were asked which benefits would thus make them consider joining such program. This question intends to investigate which benefits have value for the customers in order to create an appealing loyalty program.

For those who stated being already enrolled in a loyalty program, we asked them if they joined the loyalty program due to discounts and points, the so-called “hard benefits”. Additionally we asked them which other benefits, besides the discounts and points, would make them join a
loyalty program. With this question, we intend to investigate which benefits have value for the customers besides discounts. Furthermore, we made them rank the importance of discounts compared to the other benefits they chose in order to see how important discounts are to them. Lastly, we asked the respondents to compare the previously selected benefits to discounts and points in order to determine the importance of these hard benefits.

To start with, the respondents were asked whether or not they currently are involved in one or more loyalty programs. 33% of the 388 respondents stated to not being members of any loyalty programs and it was therefore interesting to ask them which benefits would make them consider joining a loyalty program. For questions such as this, it was necessary to set a limit of answers to avoid respondents to select all benefits offered and instead prioritize the options. The respondents were listed with 10 options and their top three choices were free delivery with 66% of the respondents choosing this benefit, followed closely by discounts and points with 65% and lastly express delivery without additional cost accounted for 42% of the respondents’ choices.

In order to compare this study’s results of loyalty programs in general with a supposedly notable case example, the respondents are being asked whether or not they are members of SportMaster’s loyalty program. The reason for this is that SportMaster was awarded with the “E-handelsprisen 2015” for being an exceptional omnichannel retailer, which should provide a good benchmark to our results. The comparison with SportMaster will be evaluated at the end of the analysis.
4.4.4.1 LOYALTY PROGRAMS IN GENERAL

To start with, the respondents were asked whether or not they currently are involved in one or more loyalty programs. 33% of the 388 respondents stated to not being members of any loyalty programs and it was therefore interesting to ask them which benefits would make them consider joining a loyalty program. For questions such as this, it was necessary to set a limit of answers to avoid respondents to select all benefits offered and instead prioritize the options.

The respondents were listed with 10 options and their top three choices were free delivery with 66% of the respondents choosing this benefit, followed closely by discounts and points with 65% and lastly express delivery without additional cost accounted for 42% of the respondents’ choices.

The remaining 67% of the respondents that confirmed being members of one or more loyalty programs were asked if they joined the loyalty program primarily due to monetary benefits, such as discounts and bonus points. This question was relevant to ask in order to confirm Hypothesis 3 about discounts being the primary reason for joining a loyalty program. Not surprisingly, 93% of the loyalty members answered yes.

This may be due to soft benefits not being appealing enough towards the customers or not perceived as providing value that exceeds the worth of discounts and points. It can also be due to the fact that retailers do not offer other benefits than the monetary ones. Findings from Forrester Research (2015) supplement this finding about economic benefits being the major reason for enrolling into a loyalty program. But as theory states, an effective loyalty program cannot have the one benefit without the other, therefore retailers should look to improve these soft benefits in order to achieve a more balanced program with soft and hard benefits that fosters true loyalty, and not just the behavioral loyalty as it is seen in this case.
Additionally it is noteworthy to see that the majority (86%) of the females were members compared to 44% of the males, exactly as Per Ø. Jacobsen affirmed in the interview.

Further, it was interesting to investigate which other benefits that besides discounts and points – would attract the respondents to enroll in a loyalty program. They had the option of choosing up to three benefits out of nine from which their first priority was having the benefit of free delivery (79%), followed by free returns (64%) and lastly express delivery without additional cost (47%).

The ranking of the benefits are similar for both members and non-members, as free returns was the fourth preferred benefit by non-members.

Furthermore, the remaining 7% who stated to not have enrolled a loyalty program due to discounts and points (hard benefits). It was therefore interesting to investigate what kind of benefits would make them enroll into a loyalty program. We gave them the possibility of choosing their top three reasons for joining such a program and the results were the following: their primary reason was free delivery (83%), followed by discounts and points (58%) and free returns (50%). It is here interesting to see that even though they claimed not having enrolled into a loyalty program due to discounts and bonus points, this were still part of their top three reasons for considering enrolling in such program.

These results show that there are other benefits besides discounts and points that are of value to the customers and that can be used as enticement for joining the loyalty program. Nonetheless, the theory states that the monetary benefits are “effective to acquire new customers” and from above mentioned results, there is no doubt that this is in fact true because the majority of the respondents have selected these as the reasons for joining loyalty programs.

4.4.4.2 HARD BENEFITS VERSUS SOFT BENEFITS

Those members who enrolled in the loyalty programs due to discounts (hard benefits) were asked to evaluate how important these monetary benefits are compared to a set of other benefits (soft benefits). With this question we wanted to dig deeper into their “mental consideration set” in order to see how high, discounts are actually weighted, when they are lined up against benefits of a more soft value.

When asking the respondents how important it is to them having a checkout counter for mem-
bers only (a so called express checkout) compared to discounts, the majority chose 3 on the scale, meaning that they are indifferent towards such benefit. This result arouses some wonder because the very same respondents stated that queues at the cashier and in the fitting rooms (ref. question about dissatisfaction in physical stores) were the primary disadvantages of shopping in physical stores. Thus, such an express checkout should both be relevant and important for the respondents.

Exclusive events were neither of vital importance to the members as these also scored a value of 3 with no particular preference compared to discounts.

On the other hand, extended cancellation right scored a value of 4 meaning that is important to members having such a benefit, but is not exceeding the benefit of discounts. This is also applicable to satisfaction guarantee which also scored 4 on the scale. Retailers should take these soft benefits into consideration, as they might add significant value to the attractiveness of the loyalty program.

4.4.4.3 SATISFACTION WITH LOYALTY PROGRAMS

When asking the respondents how satisfied they are with their current loyalty program, 25% stated unsatisfied, 31% stated satisfied but the majority, i.e. 46% are neither satisfied nor unsatisfied with their current loyalty program. This shows that in general, loyalty programs are inadequate of delivering the relevant and valuable benefits that customers expect.

4.4.4.4 COMMUNICATION

In order to test Hypotheses 4 regarding loyalty programs being used as promotional tool and Hypothesis 5.c regarding the positive effect of customized communication; it was necessary to investigate how relevant and customized the communication is towards the members of loyalty programs. We found it necessary to first ask how often they read the information sent by retailers (e.g. emails, catalogues, push notifications on mobiles, etc.) and what they experience the information is about. Lastly they were asked if the information they received was relevant to them.
Based on the negative results from the previous sections regarding the satisfaction degree of loyalty programs, it was as expected that the reading frequency would be in the negative end of the scale. 72% the respondents stated that they rarely read the information sent from retailers, followed by 19% stating that they actually never read the information. It is obvious here that there is a problem in attracting the attention of the members as only 7% read the information often and only 2% read it always.

The 19% stating never to read the information are difficult to influence through communicative activities and retailers should therefore re-consider the relevance of the content they send out or perhaps try another method of communicating with them. On the other hand, the majority of the respondents (81%) have at least some kind of interest, even though it might be of limited degree and it is therefore assumed that this customer segment has potential of being influenced to read the information more often. This indicates that there is space for improvement to be done by retailers and a clear possibility to push these customers further the loyalty ladder.

But why is it that; the majority of the members are not fully attracted to reading the information sent by retailers, as those who read the information often and always. In order to answer this question we first need to investigate what the information is about and thereafter ask the respondents if this information is relevant and interesting for them. The purpose with these questions is to identify whether there are gaps between what the retailers send to their members and if this information is actually perceived as being relevant and interesting for members. The figure below shows the distribution of answers.

The majority of the respondents stated that the information generally was purchase related content, where offers and campaigns accounts for 86% of the answers. Moreover, information about new products was also a major contributor to the stream of information with 63% of the respondents choosing this. On the other hand, “community” related information such as competitions, accounted for 47%, ideas and inspiration were chosen by 41% of the respondents and invitations to exclusive events accounted for 38%.

Surprisingly, information about products of interest, i.e. product recommendations based on earlier purchases, scored the lowest ranking and was not experienced to occur that often in the information sent by retailers, as only 21% of the respondents stated that they have seen

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12 72% rarely, 7% often and 2% always.
it in the information sent to them. It is interesting to see that the least selected option in our survey is argued by Cognizant (2014) to be most significant opportunity for retailers when establishing relationships. According to Cognizant, 54% of consumers respond positive to personally customized content than to mass-marketing blasts.

Finally, when asking the members if the information is relevant and interesting to them, 73% of the respondents answered no.

Thus, the members are not reading the information sent to them because it is not relevant to them. It indicates that retailers with loyalty programs do not facilitate their customer data to send customized offerings, but instead it seems that they send generic offers that are the same to all their club members. This clearly shows that retailers are more focused on generating revenue through short-term strategies instead of building long-term relationships with the members.

4.4.4.5 SERVICE

Besides the fact that customers are not experiencing personalized and relevant information from retailers’ marketing efforts, our survey showed that 82% neither feel that they get special treatment through the loyalty program.

As the theory states, special treatments are part of the soft benefits that were discussed earlier, which are the most important benefits to provide customers in order to increase the attitudinal loyalty. Additionally, the absence of special treatment may also indicate that the retailer lacks emotional commitment by showing it cares and wants to help the customer.

Additionally, the respondents were asked whether they felt that the retailers used personal data to improve their purchase experience in satisfactory manner, only 21% stated yes. 50% stated no to experiencing any improvement in their shopping experience and the remaining 29% did not really have an opinion about this subject, meaning that they have not really noticed any major improvement in their shopping experience.
This result indicates that even though the retailers might collect data through different systems, such as cookies, membership cards, location tracking through GPS, etc., there are still gaps within connecting, analyzing and executing the data to enhance the customers shopping experience through different touch points. These results show that there clearly exists an absence of relevance in communication and customized services, which need to be managed in order to create a favorable relationship with consumers. This can be a symptom of retailers still being divided into silos with no flow of information between the different departments.

4.4.4.6 ENGAGEMENT

We assume that because the respondents stated to read the information sent by retailers very rarely, it must be an indication that they are not really engaged in the company. It can also be reflected in their statement about not getting any special treatment as members of a loyalty program. Thus we assume that their engagement with the company is low not excluding that other factors may contribute as well.

In the following we will discuss the data about SportMaster and compare their findings with the general results from above.
4.4.5 SPORTMASTER

4.4.5.1 THE OMNICHANNEL RETAILER AND ITS LOYALTY PROGRAM

Out of the total amount of 388 respondents fully 99% knew the retailer SportMaster, which demonstrates the company’s strong brand position in the Danish retailing industry. It is interesting to see that Klub SportMaster’s vast size of more than 700,000 members (ranking it as one of the largest loyalty programs in the Danish retail industry) is actually appealing to the younger segment of the modern consumer that this thesis represents, i.e. the 20 to 29 years old. As the Danish population accounts for 5,7 mio., the total amount of 700,000 SportMaster-members therefore has a penetration of 12.3%. This correlates with our survey base of 12% of the respondents stating to be enrolled in the loyalty program of SportMaster (SM).

Despite SM’s strong brand awareness among our respondents, it is interesting to see that more than 71% of the 388 respondents have a neutral impression of the company.

Only 22% have a positive impression and 7% have an actual negative impression about the company. Thus, these findings illustrate a general picture of how consumers perceive SportMaster today and in the following section we will go more in depth with SM members only.

4.4.5.2 SPORTMASTER - ECONOMIC BENEFITS

When asking SM members whether they have joined SportMaster’s loyalty program due to economic benefits such as discounts and points, 78% answered yes. Compared to the results of the members of loyalty programs in general (i.e. 94%), this is a difference of 16 percentage points compared to the general findings from the precious chapter. Therefore, the remaining 22% that answered no are actually representing a much higher share than the members of loyalty programs in general (see section Loyalty Programs in General). This indicates that SM has to some degree been successful by offering other appealing benefits, i.e. satisfaction guarantee, online receipts and a free analysis of your running style (SportMaster, 2015). These are all soft benefits that appeal to the attitudinal aspect of loyalty and are means of creating a mutual beneficial relationship.

13 Name of SportMaster’s loyalty program
Having said that the majority of the respondents still enrolled based upon the monetary benefits, which demonstrates the effect that discounts have on customer acquisition.

### 4.4.5.3 SportMaster - Program Satisfaction

However, when asked about how satisfied the SM members are with their benefits from the program, only 24% was *satisfied* with the benefits. Fully 53% stated to be *neither satisfied nor unsatisfied* with the current loyalty program of SM, and 23% directly confirmed to be *unsatisfied*.

Compared to the general results from previous chapters where 30% were *satisfied*, 46% *neither satisfied nor unsatisfied* and 24% were *unsatisfied* with their current loyalty programs; the results from SM indicate that despite their major success of acquiring customers with a soft(er) value proposition (i.e. soft benefits), the majority of their members are somewhat neutral in the level of satisfaction, which does not exactly increase the loyalty towards the company.

### 4.4.5.4 SportMaster - Communication Relevance

In continuation of the above section, SM members were asked how often they read the information they receive. 60% stated *rarely*, followed by 36% stating that they *never* read the information. Only 4% answered that they read the information *often* and nobody answered to read the information *always*.

From the perspective of SM these results are much poorer than the results of programs in general, as only 19% stated to *never* read the information sent, followed by 7% reading it *often* and 2% reading it *always*.

From these results, it is obvious that SM does not communicate well with their members, as the proportion of respondents who never reads the information is almost twice as large compared to members of loyalty programs in general.
This is an interesting finding as a central element of increasing loyalty as an omnichannel retailer is by enhancing the relationships with customers through timely and relevant communication.

Following this, the results of whether retailers’ information felt customized to the individual needs of the customer were exactly the same between SM members and the general findings. Both data sets indicate that 73% of the respondents do not feel that the information they receive from retailers is relevant and interesting.

It indicates that despite SM’s transformation to an omnichannel practitioner, the challenges with collecting and analyzing data are the same for SM as well as for other retailers that have not taken the omnichannel road. The result is a clear hint demonstrating a significant inadequacy in many retailers’ current marketing strategy.

4.4.5.5 SPORTMASTER - BRAND PERCEPTION

To analyze whether the loyalty program of SM has had an effect on the members’ perception of the company, we asked them whether they have a positive, negative or neutral impression of the company. The results show that the impression by SM members is slightly more positive than non-SM members’ impression. More precise, the data revealed an 11 percentage points increase of positive responses from SM-members to non-SM members (from 22% to 33%), and a 7 percentage points decrease in neutral responses (from 71% to 64%). Also the negative impression had a decrease among SM members with 4 percentage points (from 7% to 3%). The fact that members of SportMaster have a more favorable attitude towards the brand was nonetheless expected, as it is unlikely that a consumer would enroll in a loyalty program by a retailer that she is not interested in.

Having said that, there is still a majority of SM member that have a neutral impression of the company i.e. 64% and a further investigation of these neutral responses gave some interesting insights. A plausible reason for the neutral impression can be due to the fact that more than half of these members i.e. 58%, admitted to be neither satisfied nor unsatisfied with the benefits of the program. This was followed by additional 25% stating directly to be unsatisfied. Only 17% of the SM members with neutral impression stated being fully satisfied with the benefits, and yet they
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still have a neutral impression of the company. This indicates that SM is not building effective
customer relations, at least not some of significant importance to their members. Thus, SM
should seek to nurture these relations before they shift towards the negative direction.

On the other hand, 33% of the SM members, who have a **positive** impression of SM are not fully
satisfied with the benefits either. In fact only 40% of these members are fully satisfied with
the benefits of SM’s loyalty program. The remaining 60% are divided between 13% stating to be
**unsatisfied** and 47% stating to be **neither satisfied nor unsatisfied** with the benefits.

Nonetheless these **not fully satisfied** members still have a positive impression of SM, which is
interesting as it shows that, despite the lack of satisfaction with the loyalty program, there are
other factors, which are affecting the customers’ overall satisfaction and impression of the
company. These customers can be driving sources of positive Word-Of-Mouth (WOM), which
is one the most powerful outcomes of customer relationship management (CRM).

**4.4.5.6 SPORTMASTER - SERVICE**

Similar to the results from the **members of loyalty programs in general**, only 11% of the SM members felt that they received relevant special treatment as a result of enrolling into the loyalty program compared to 18% from the general findings. Fully 89% of the SM members, compared to 82% of the non-SM members, did not acknowledge this sense of uniqueness due to the loyalty program.

From this it can be deduced that loyalty programs – even successful ones (in terms of size/popularity) – are too generic and do not take the individual customer’s needs into consideration. It seems that retailers today, follow Butcher’s (1998) approach to loyalty programs by contacting the members “… on a regular basis and offer them a benefit package with a high perceived value, with the goal of activating them…” (p. 20). This is to some extent the reality except the fact that the members do not perceive the benefits they receive as high value.
In order to offer the modern consumer benefits with a high-perceived value, retailers have to customize the offers to the individual needs of the customer, thereby systematically collecting and analyzing data to avoid lack of relevance. Considering that SM has achieved to transform to an omnichannel retailer, the lack of utilizing its data is evident in our results. Actually, 69% of the SM members responded no to the question whether they felt if the retailer used data to improve the shopping experience, compared to the non-members where 64% responded no.

However, more interestingly are the positive responses, where 2% of SM members answered yes to the question whether the retailer used data to improve their shopping experience, compared to 5% from the general findings.

Following the qualitative interview with Stefan Kirkedal; stating SM’s recent employer strategy of having only employees that can deliver genuine service with expert knowledge about the customers’ needs, we were inclined to test the customers’ impression of SM’s service level.

The respondents were asked to rate on a scale from 1 to 5, (1 being poor and 5 being great), *how good experts they perceived SM’s staff to be*. Only 26% of the respondents perceived the staffs to be good experts, compared to 29% stating that the SM staffs were poor. Almost half i.e. 45%, *did not have an opinion* about this.

Considering each end of the spectrum, it is interesting to see that the respondents were almost equally divided between poor and good, which indicate that this strategy might not have been implemented sufficiently. It is reasonable to assume that this result would have had a more positive outcome if SM had also managed to train their staff according to the omnichannel requirements.

Having said that, the effect of service-minded staff on customers’ experiences is unquestionable as our data shows that it has had the greatest impact on customers’ satisfaction.

**4.4.5.7 SUMMARY OF SPORTMASTER**

So even though SM has one of the biggest loyalty programs in Denmark and won the price for best omnichannel retailer, they still lack behind when it comes to being an exemplary role model of a successful loyalty program. Their program is not satisfactory enough. It shows that...
becoming omnichannel is rather complex and not that easy. In the next section we will dig deeper to figure out how loyalty programs can be built on such an attractive and effective way that they gather enough data to develop true (and not superficial) customer relationships with revenue generating outcome.

4.4.6 RESULTS

○ **Hypothesis 1)** There is a correlation between exceeding customer expectations and customer loyalty

According to our survey there is a direct correlation between exceeding customer expectations and achieving customer loyalty. The respondents confirmed it, by expressing a behavior of repurchase and spreading positive word of mouth as a result of a retailer exceeding their expectations. Moreover, the experts emphasized the importance of the positive effect of such service increasing the loyalty of the customers. On the other hand, the experts stated that retailers that do not live up to the standard expectations of the customer can significantly damage the loyalty. Thus, hypothesis 1 can be confirmed.

○ **Hypothesis 2)** Loyal customers are more profitable than regular customers.

It was not possible to get a certain answer to this hypothesis, because it was difficult to measure directly. But based on the general findings from the analysis it is obvious that loyal customers ought to be profitable since all data indicates the importance of attracting and retaining them and building valuable relationships with them. Theory also stated that loyal customers are more profitable than regular customers, which the data results have to some degree confirmed. Thus the hypothesis is indirectly confirmed.

○ **Hypothesis 3)** Discounts are the primary reason for consumers joining a loyalty program and these do not create true loyalty.

The majority of the respondents confirmed joining a loyalty program due to the monetary benefits. This was additionally confirmed by the experts who were convinced that discounts are the primary driver for enrolling into loyalty programs, but that these do not create true loyalty. However, as satisfaction is a necessary condition to have in order to achieve true loyalty and the majority of the respondents expressed being neither satisfied nor dissatisfied with their loyalty program, hypothesis 3 is confirmed as true loyalty is based on full satisfaction (see graph about satisfaction and loyalty).

○ **Hypothesis 4)** The majority of today’s loyalty programs are used as promotional tools based on marketer’s intuition rather than data insight.
It is evident from the survey results that loyalty programs are in fact used as a direct communication channels with customers, primarily through e-mails. The survey revealed that the information sent to customers is irrelevant and experts state that this is because marketers have poor skills in analyzing data and tailoring offerings that match to the customer’s needs and lifetime-cycle. Thus, hypothesis 4 is confirmed.

- **Hypothesis 5) Customer Relationship Management has a strong effect on retailers’ retention and acquisition of today’s customers.**

- **Hypothesis 5.a) There is a direct relationship between conflict handling and true loyalty**

  The respondents who experienced a well handled conflict, expressed strong evidence of both repurchase and brand affection by spreading positive word of mouth. On the other hand the respondents who did not get a satisfactory handling of the conflict, did not return to the company and spread negative WOM. This is also confirmed by one of the experts stating that reparation of damaged relationships is much more profitable than acquiring new customers. Thus hypothesis 5.a is confirmed.

- **Hypothesis 5.b) The personal contact in stores has a strong effect on customer’s loyalty**

  From the survey it was evident that the personal contact with the in-store personnel had the biggest influence on the customer’s loyalty. This is additionally being confirmed by each expert, who state that being customer-centric and delivering a good service is much more valuable for the company than forcing sales through the personnel.

- **Hypothesis 5.c) Retailers that have customized service and communication enhances the relations with today’s consumers.**

  It is evident from the survey data that the retailers’ communication is not customized towards the individual customer’s need and preferences, and instead has a vast focus on generic offerings. This is also confirmed by the respondents stating that the information sent is of low interest to them and that they rarely read it. These findings indicate that retailers’ communication lacks relevance, which does not contribute to long-term relations and mutual value creations. On the other hand, the experts confirm the existence of this relevance-gap, which is an opportunity for retailers to properly use their data to send customized offers. Thus, it is only possible to partly confirm hypothesis 5.c, as our data only reveals that the current communication and services lack relevance for customers and is therefore not enhancing the customer relationship.
Hypothesis 6) Retailers must have a holistic approach in order to gain the modern consumer’s true loyalty.

Hypothesis 6.a) To stay competitive and enhance loyalty, retailers need to focus on convenience as today’s consumers find time a scarce resource.

According to the data, the comfort of shopping online is becoming increasingly important for the modern consumers as time is a scarce resource. It was further evident in the survey that today’s consumers expect retailers to have online stores that are open 24/7 as accessibility has become a necessity. Moreover, the survey data showed that the benefits of free delivery and free returns are of high importance to customers today, as these are related to the ease of online shopping and were among the top three benefits of choice for enrolling into a loyalty program. It is further confirmed that the convenience of BOPIS is a service that has satisfied the majority of the respondents. Additionally, the experts confirmed this by stating that the retailers that make it easy and convenient by providing a seamless shopping experience will attract the modern consumer and their loyalty. Thus, hypothesis 6.a is confirmed.

Hypothesis 6.b) The intensified competition by online competitors has reduced customers’ loyalty.

The experts did indeed confirm that the competition among retailers has increased as a result of the advancement in online retailing. With the increased market transparency, the consumers are more inclined to research and buy products online instead of in physical stores. Additionally, as the online retailer’s delivery methods have gradually improved, e.g. retailers using affiliated pick-up locations (BOPIS), and delivery was of little concern for our respondents, it further challenges the existing loyalty of today’s consumers toward the retailers. These are all factors that influence the consumer’s shopping behavior and make them more willing to buy products online. Thus, it is reasonable to suggest that competition from online retailers has reduced customers’ loyalty and hypothesis 6.b is confirmed.

Based on above considerations, today’s retailers are facing some radical changes within their business. Not only has the competition among retailers both physical and online intensified, but retailers are also experiencing a shift in consumer’s behavior that challenges their current business setup. As all the experts emphasized, the times of being great at traditional retailing is gradually fading, as this is only one element of the omnichannel experience. Today retailers need to consider all aspects of operating both online, offline and the combination of these, as only one channel exists in the eyes of the consumer. Therefore to stay competitive, retailers need to have a holistic approach and hypothesis 6 can be confirmed.
4.5 SUMMARY OF ANALYSIS

We have found out that loyalty programs have a great potential to increase revenue and customer lifetime value, to influence referrals, to gain key consumer insights and of course to achieve customer loyalty. But one size does not fit all. Retailers should be cautious with generic promotional approaches because this survey confirms that it is not working.

As a result of market pressure because “everybody has one”, many loyalty programs seem to be developed without much though. The majority of the retailers think that customer loyalty comes purely from great discounts and offers, and they all end up offering these benefits. As a consequence, the loyalty program ends up focusing on discounting strategies that in the end only drive temporary spikes in the customer engagement and in the company’s revenue. With such strategy, the market gets overcrowded with homogenous loyalty programs; all with the same rewards and customers end up developing loyalty towards the program and its benefits rather than true loyalty towards the brand. In fact the findings indicate that there is polygamous loyalty among consumers, as the majority have multiple memberships in different loyalty programs. This is why retailers should conceptualize their loyalty programs in a way that they differ from others.

The survey revealed that the benefits of current loyalty programs do not provide value for customers, as the majority of the respondents were not satisfied with the benefits of the programs.

The data additionally showed that there is lack of relevance in the information sent to customers. This result reveals that retailers are not sharing the gathered customer data across the entire enterprise in order to deliver relevant and consistent offerings. Loyalty programs are used as promotional tools but the information sent and benefits offered through this program are irrelevant to customers because retailers have poor skills in analyzing the data.

To earn long-term loyalty, brand advocacy and truly loyal customers, marketers must adopt a balanced approach that drives both short- and long-term gains, combined with both hard and soft benefits.

The next chapter aims at describing how retailers can create effective loyalty programs and thus achieve true loyalty.
5. MANAGERIAL IMPLICATIONS

Based on the theoretical and analytical findings, this section will provide recommendations on how the retailer can successfully integrate a loyalty program as a central element of its omnichannel strategy. The purpose of this chapter is therefore to concretize and operationalize the results of this research.

As none of the existing literature’s models was found to cover the findings in this thesis, our recommendations are based on a self-developed model called The Loyalty Engine as well as a self-developed figure called The Omnichannel Hierarchy of Needs. These two are based upon our theoretical findings and the results from the analyses.

The figure of The Omnichannel Hierarchy of Needs illustrates the different aspects of modern retailing, and subsequently provides retailers with recommendations on how to adapt to an omnichannel environment, and provide customers with a seamless shopping experience. The Loyalty Engine illustrates which elements are important for creating true loyalty and it provides the retailer with specific recommendations on how to develop effective loyalty programs. The figure of The Omnichannel Hierarchy of Needs is the starting point for implementing The Loyalty Engine – model; thus one can state that these two supplement each other. These two will be reviewed and discussed in the following sections.

5.1 THE NEW NORMAL & THE OMNICHANNEL EXPERIENCE

5.1.1 THE OMNICHANNEL HIERARCHY OF NEEDS

Inspired by Maslow, we have developed a figure that is very similar to Maslow’s pyramid of needs. As known from Maslow’s model, the lower part of the pyramid is the most vital for human survival and therefore also for the retailer and the success of its loyalty program. If these requirements are not met, the retailer cannot function properly and will ultimately fail in creating true loyalty with consumers. These elements are perceived to be the bare minimum for retailers today and are highly expected by the modern consumers. Thus, we suggest the retailer to first meet these expectations before implementing the remaining elements shown higher in the pyramid.

It is not, however, required that all ”bare minimum” elements from first stage are fully operational, as it depends on the type of retailer. It could also be advised to implement elements of the higher level earlier in the process, if they would be of higher relevance to the individual retailer. The three different levels have to be considered as a process, as some retailers will find it more suitable to implement certain elements before others. This is illustrated by the
faded color of each level.

As the retailer implement more elements, the complexity and amount of data increases, which the arrow to the left illustrates. The pyramid does not have a top or a final destination, as the elements illustrated in the top of the figure eventually become common practices, and thus give rise for new requirements for exceeding customers’ expectations.

The figure is a proposition rather than a rule. We present this figure and its division in “stages” as an example of what should be done as a “bare minimum” in order for the retailer to be able to utilize the developed Loyalty Engine described in the next chapter.

In the following we will describe the requirements for meeting customers’ expectations in today’s modern retailing. Thereafter, we will provide the retailer with suggestions on how to exceed these customer expectations in order to provide a truly seamless omnichannel experience to its loyalty members.

5.1.2 MEETING CUSTOMER EXPECTATIONS

5.1.2.1 IN-STORE PERSONNEL

When potential and existing customers enter a store today, the majority of them have already conducted research on the product in question, its features, and also competitors’ prices. This requires the retailer to instruct the in-store personnel on how to approach and service such consumers. The in-store personnel should provide customers with a satisfying experience instead of merely a satisfying transaction. The encounter with the customers should
be as efficient as possible by only providing the customers with information of relevance. According to the survey data, the in-store personnel are the primary reason for creating positive experiences among customers with 63% of the respondents stating so.

As the in-store personnel have the biggest impact on whether customers return or not, they need to deliver an experience that is above the standard by being service minded instead of sales oriented. The in-store personnel should engage in dialogue, assist the customers and demonstrate products in friendly manners rather than overtly pushing for sales. It is important that the retailer does not underestimate the power of the in-store personnel’s engagement with customers, as this engagement has a direct impact on the customer relationship and thus also the customers’ loyalty towards the retailer. Having passionate employees that are perceived as competent in their respective range of products is a key element for providing above the standard service that makes customers come back.

5.1.2.2 PHYSICAL STORES

Besides having competent and service-minded in-store personnel, we suggest the retailer to consider its physical stores as showrooms instead of sales channels.

Showrooms motivate and inspire customers to buy, because they provide an experience where-as stores simply offer the customers a range of products. This is also confirmed in the survey results where 30% of the respondents stated that the store atmosphere is one of the major reasons for creating a positive experience when shopping.

We recommend that retailer should integrate ideas from the digital space, where user experience is a central element in website construction. Similar to the web, the store design should consist of a logical structure in the placement of the products, so the customers experience the stores as easy to navigate in.

Additionally, as the customers visit stores to inspect products, it is important to show related products that are relevant to the product the customers desire. Therefore, we suggest the retailer to display products in an inspiring setting.

*For instance, a home-décor retailer showing the discounted vase on a beautifully arranged table can inspire customers to purchase additional products such as the table linen and thus increase their basket size generating more revenue for the retailer.*

Therefore, the retailer needs to create an in-store experience that not only motivates customers to come back, but also increases the customers’ basket size.

Besides of increasing sales, the financial upside of having showrooms instead of stores packed
with products is that the retailer can reduce its fixed costs by decreasing the size of the store. Having smaller stores equals less monthly rent.

5.1.2.3 DIGITAL STORES

The vast majority of the respondents from the survey (69%) expected that retailers today have a web-shop and in fact almost all retailers today have a web-shop that accommodates the modern consumer’s need to shop 24/7. However, as the consumer journey is much more complex than before and consists of visiting the retailer’s web-shop multiple times before making a decision, it is only logical to prioritize this touchpoint.

We suggest the retailer to rethink its digital storefront and consider whether it accommodates the today’s consumers’ requirements of usability and accessibility. These requirements consist of simple adjustments such as providing a direct number for the customer support or a more advanced setup with direct online chat support. Moreover, the webshop should be visually attractive by providing a coherent experience and easy to navigate and use with features such as product search and online wish lists. The retailer on the other hand can utilize its loyalty members’ online behavior to adjust the web-shop’s content to increase relevance or to improve targeted communication and advertisement.

Lastly, by having a web-shop that facilitates data collection, the retailer can start creating customer specific profiles based on customers’ interactions with the retailer e.g. purchase history, opening rate of newsletters, and other behavioral and demographic data. This information will be stored in the retailer’s customer database and used to personalize the customers’ experience.

5.1.2.4 MOBILE-FRIENDLY WEBSHOP

Since mobile devices have become a natural part of the customer journey, it is a necessity that the retailer’s webshop is accessible and usable on mobile devices (also known as mobile-friendly). This was also confirmed by the survey respondents where 47% expected retailers to have a mobile-friendly website.

Since time is a scarce resource for today’s consumers, having a mobile-friendly webshop is paramount for retailer’s long-term success. As the modern consumer is constantly on the go with these devices and uses them to throughout the customer journey, potential customers will deflect if using the webshop and navigating in it becomes time consuming and frustrating. Additionally, mobile-friendly web-shops rank higher on various search engines such as Google.com, which will have the effect of more organic traffic to the website. Moreover, as customers research products on mobile devices before making purchases, ranking high on search
engines will also have the derived effect of more traffic to the physical store.

5.1.2.5 SOCIAL MEDIA CHANNELS

Social media channels are an essential part of today’s new normal, as the modern consumer uses these to create validation through its social network. A retailer that does not have a profile on social media channels such as Facebook, Instagram or Twitter is perceived as immature and less trustworthy. Customers express their attitude towards the retailer by following it on social media channel. Therefore, the more followers the retailer has, the more reliable it is to shop from. Social media channels create social proof for the customers, which affects on the retailer’s reliability and trustworthiness.

Furthermore, according to the results from the survey and the interviews, the majority of the customers interacts on social media channels and uses these to ask for help, share opinions and write reviews. Thus, it is necessary for the retailer to accommodate this behavior by providing customers with a platform (e.g. a Facebook page) to do so. It demonstrates that the retailer is open-minded, engaging and attentive to its loyalty members by responding to content involving the retailer.

The retailer can therefore use these channels to engage in a dialogue with its loyalty members, showing that it listens and cares, and is committed to have genuine relationships with its loyalty members.

These channels can also function as a marketing platform, where the retailer can announce product news and push sales to its loyalty members. The retailer can use the customers’ feedback as an indication of how well it is appealing to the customer segment’s preferences. In addition, by using the social media channel’s own segmentation tool, it allows the retailer to target detailed segments with specific advertisements and thus increase the relevance of the marketing activities.

Lastly, these channels are also used in customer service, where customers directly can contact the retailer with product or purchase related questions. It provides the customer with an easy and familiar platform for complaints or for guidance regarding the retailer’s products or services. Using social media channels as a means to provide customer service is to meet the customers on their terms, which is a central element in becoming an omnichannel retailer.

5.1.2.6 CUSTOMER SUPPORT

Customer support is another fundamental element to have as a retailer; which 30% of the respondents chose it to be among their top five expected services for retailers to offer. Customer support is important, because it provides service to customers before, during and
after a purchase. Since the direct contact with the retailer has a great impact on the customer experience, the customer support is much more than just providing answers; it is a means of building relationships with customers.

We recommend the retailer to provide something as simple as a telephone number to call if the customer experiences problems or have questions. Having a direct means of contact accessible provides customers with a familiar contact procedure and shows that the retailer cares about its loyalty members’ problems. The retailer can additionally implement a chat support on its websites as these are having increased popularity among today’s consumers. In contrast to the telephone number, the online chat may not provide an immediate answer, but instead eliminates the distress of waiting in a telephone queue. The online chat thereby more convenient for some customers and seeks to accommodate the different needs of the modern consumer. In situations where the support department is unable to provide the customers with immediate answers, the customers’ reply will be sent to their email instead. This increases the success rate of the customer support and it also increases the chances of providing customer satisfaction.

Lastly, as a result of the increased popularity of social media channels, these have in fact also become popular support channels as described in previous section. After all, it is therefore expected that retailers today provide cross-channel support across a variety of platforms, i.e. emails, telephone, chats, social networks and review sites.

5.1.2.7 CROSS-CHANNEL INTEGRATION

In order to be able to reach the next section of “Exceeding customer expectations”, cross channel integration is a perquisite.

Cross channel integration helps the retailer to systematically collect data from different touch points and to be able to deliver a seamless shopping experience towards its loyalty members. If the different channels do not “talk” and share data, then it is not possible for the retailer to develop an omnichannel strategy.

Thus, cross-channel integration is a business necessity in order to be able to systematically collect data and use it for targeted and relevant communications and services.

Retailers today operate on multiple channels and for customers it is important to know “what you see is what you can get”. This relates to customers’ concern regarding variances in price and selection of products from webshop to physical store. We suggest the retailer to streamline its product assortment and prices along all channels i.e. webshop, physical store, call center, app, etc., to avoid the customers’ distress of being presented different offerings depending on the channel. This may seem as a simple procedure, but in reality it is a rather resource consum-
ing process, as it requires the retailer to manually review inventory and prices listed in each channel. However, it is a necessity for the cross-channel integration that the web-shop and physical stores communicate in order to avoid that customers’ visits become pointless when a product is shown on the web-shop, but not sold in the store.

Moreover, another important feature of having cross-channel integration is the option to buy online and pick-up/return in store (BOPIS/BORIS). 82% of the respondents claimed to be very satisfied with this service option and therefore we find it relevant for the retailer to implement. A retailer that is in situations where a certain product is out of stock should offer customers the possibility to have the product delivered at home. By offering these services, the retailer appeals to the complex customer journey of the modern consumer and reduces the chance of customers leaving dissatisfied from a store visit, as well as increases the satisfaction to customers having urgent needs.

Lastly, the retailer benefits from the cross-channel integration by collecting data on which products are being sold in different geographical areas both online and offline. With this knowledge the retailer can manage its inventory more efficiently, which saves the retailer of costs for being either under or over stocked.

Based on these recommendations, the retailer can start systematically to collect data about its loyalty members.

5.1.3 EXCEEDING CUSTOMER EXPECTATIONS

The before-mentioned services are the foundation to simply meet customers’ expectations by delivering a satisfying shopping experience. The following section therefore seeks to provide the retailer with recommendations of how to exceed customers’ expectations based on the premise that the before mentioned elements are operational to a satisfactory level. In order to exceed these expectations, data collection is a prerequisite for a retailer to have.

5.1.3.1 POINT-OF-SALE SYSTEMS (POS)

To provide customers’ with a personalized and convenient experience, the in-store personnel need to have access to the customers’ profiles as well as to main inventory. Therefore, the retailer’s in-store personnel should each be equipped with a mobile point-of-sale system, which is connected to the local and the main inventory as well as the customer database containing customers’ profiles[14].

If the retailer has this, it enables the in-store personnel to quickly help customers finding the right products and to see whether these are on stock without having to send the customers...
to the information desk. As the mobile POS system is connected to the main inventory, it is not necessary for the in-store personnel to suggest the customers to order the desired product from home. Instead, while servicing the customers the in-store personnel can use the system to have products delivered directly to customers’ home address, and thereby increasing sales. This service is especially relevant in situations where the retailer does not have the desired product available in-store. Such mobile POS-systems increase the efficiency of the in-store personnel workflow and reduce the possibility of the customer leaving without making a purchase.

Moreover, providing a personalized experience that exceeds the customers’ expectations requires that the in-store personnel have access to data about their customers. In practice it means that while servicing customers, the in-store personnel can ask if the customers are members of the retailer’s loyalty program. Affirmatively, the in-store personnel can locate the individual customer profile through the POS system and use this knowledge to service them in a more personalized manner. Thus, the portable POS systems can be used as a tool to identify existing customers that provide the staff with insights about the preferences of the registered customers while they are standing next to them.

Integrating IT and data as a natural element of the in-store personnel’s daily routine enables the retailer to provide customers with a relevant and personalized experience. This strengthens the relationship as the retailer can provide a seamless and relevant shopping experience by rendering a service that exactly satisfies the individual needs of the customer.

5.1.3.2 SELF-SERVICE

As the result from the survey showed, a big concern for many consumers was time waste related to queues. Therefore, ease of purchase has become a necessity for today’s consumers and the need for servicing more customers more efficiently is increasing. By implementing a self-service checkout, the retailer can meet this demand as it appeals to customers that do their shopping quickly. The growing popularity of express checkout is already gaining foothold among supermarkets and larger retailers such as IKEA and customers are increasingly becoming used to them. However, identifying customers and connecting purchases to individual customers are key elements in the future of retailing as it enables the retailer to collect data about its loyalty members’ purchase behavior. Therefore, we suggest that the retailer only implements the self-service counters to its existing cash register setup for members of the loyalty program. Besides providing the customers with a more efficient shopping experience, the self-service checkout also works as an incentive for enrolling into the loyalty program.

Moreover, the self-service counter also retrieves information from the customer profile and reminds the customers about products left in the cart on the web-shop. This supports the
crosschannel integration as previously mentioned and enhances the seamless shopping experience as the customers can continue their shopping journey from where they left online.

### 5.1.3.3 MOBILE APPLICATION

Native apps improve the ease and speed of purchase for consumers who prefer online shopping. Moreover, an application can provide the customers with additional servicing, which a mobile-friendly web shop cannot as it is limited by the speed and signal of the Internet connection. Thus many of the larger pure-play retailers (i.e. Zalando.com and ASOS) have developed apps for mobile devices in addition to their mobile-friendly websites. The classic pitfall with applications is that it quickly becomes a nice to have, but not a need to have. Therefore, such strategy requires much consideration for the retailer, as developing an application for mobile devices is resource consuming. Having said that, applications also have many advantages and can consist of functionalities that are directly related to the retailer’s omnichannel strategy.

Developing an application for the retailer’s registered customers helps the retailer to create a more seamless experience by enhancing the crosschannel integration. As basic functions, the application enables the customers to browse the retailer’s products, make transactions frictionless by storing the customers payment information and to keep track of receipts, which are automatically stored along with the customers’ profiles. Moreover, it can be used to locate nearest store, which is useful for a retailer with multiple stores. The application can in fact also be used within stores to quickly navigate the customer to the desired store department. According to the data from the survey, one third of consumers found the navigation in stores to be a major distress of shopping in physical stores. Thus, the application can be used to address this concern by showing customers an interactive map. By typing in the product name, it provides the customers with a path on the map that leads to the desired product.

![Figure 79: Example of an app (from the loyalty member’s point of view)](image-url)
Furthermore, by using the camera function (or NFC technology\textsuperscript{15}), the app can be used to scan products and provide the customers with detailed product information and product reviews, or simply to see if the product variant is available in-store.

Even though an application is a costly strategy, the wide functionality of it can also greatly benefit the retailer in the pursuit of creating the seamless omnichannel experience.

5.1.3.4 SOCIAL LOGINS FORMS

Traditional online or offline registration forms have many pitfalls, i.e. customers providing false information, forgetting their login information or declining to register due to amount of information needed. These manual registration forms are therefore becoming increasingly unpopular among retailers. Instead, we suggest the retailer to consider implementing an option of using social media profiles (i.e. Facebook Connect) as login credentials to register and sign-in to the retailer’s platform and services. These social login forms automatically retrieve information from the social network services such as Facebook, Twitter or Google+ when customers register. Using social logins saves the customer for time by eliminating the process of typing in an email address and creating (and remembering) a password. The retailer on the other hand gets a more accurate customer profile and has access to valuable data about the customers’ preferences, network and life events through the social networks services.

The retailer can use this increased amount of data to create more relevant marketing activities by segmenting the customers on demographic and attitudinal variables that they can extract from the social network’s database. Besides the segmentation use, the retailer’s access to the customers’ social media profile can also be used to monitor the customers’ activity and content posted on platforms such as Facebook. With this knowledge, the retailer can create specific “\textit{trigger words}” that \textit{if they occur} (in the right context) can automate a marketing message towards this customer. For instance, if a customer posts an update about she just moved into a new apartment, the IT system of a home-décor gets notified about this update and automatically pushes targeted and relevant ads about its current offers.

The use of social login forms can thereby enable the retailer to collect data about its loyalty members, to create more personalized and targeted communication. This shows that the retailer is aware of its loyalty members’ need, which helps the retailer to create a so-called customer-centric marketing strategy.

\textsuperscript{15} NFC stands for Near-Field Communication and allows phones, tablets, and laptops to share data with other NFC-equipped devices. The technology evolved from radio-frequency identification (RFID) tech. RFID is behind those security scan cards that get you into the office everyday or bypass that tollbooth on your morning commute.
5.1.3.5 CUSTOMER TABLETS

To further enhance the customers’ shopping experience and increase the integration of IT in the physical stores, the retailer can offer its loyalty members a digital personal assistant that helps the members with finding products based on their customer profile. In practice, this can be done through mobile devices like tablets containing an advanced version of the retailer’s application.

Similar to the other services (i.e., the application and the self-service cash register), the customer tablet prompts customers to register, or members to sign in before use. By doing so, the retailer automatically acquires data about the customers and their behavior, while the customers are provided with a more personalized shopping experience. The customer tablet contains the same core functionalities as the mobile application, but targets less frequent shoppers.

While being used, the tablet provides the retailer with knowledge about the customers’ physical shopping behavior and preferences, including data about how long time they spend in front of specific products, and how customers navigate around the store. The retailer can thus use this knowledge to provide timely and relevant information containing inspirational and unique offering. By providing this timely and relevant information, the customer will feel that the retailer cares and wants to help. It enhances the customer relations. Moreover, this knowledge about customers’ in-store behavior can help the retailer to arrange its products in the most efficient way. Using technology to increase the perceived value for the loyalty members is a way to put the customers in the center and to create the seamless experience.

5.1.3.6 IN-STORE CUSTOMER IDENTIFICATION

Technologies such as iBeacon and Near Field Communication are the next generation of IT integration in physical retailing (see Appendix 12 and 13 for an overview), and larger retailers are already integrating these technologies on experimental basis. Where iBeacon is a rather new technology, the NFC is a more mature technology and exists in the services such as “Rejsekortet”. The two technologies both involve the customers being close to the retailer’s physical store and require that the customers have downloaded the retailer’s mobile application.

IBEACON-TECHNOLOGY

When customers are within reach of the retailer’s store, the iBeacon-transmitter automatically connects to registered customers’ mobile devices. By identifying the customers, the retailer can get notified if the specific customer has used the service of “Buy Online Pickup In Store”. For the retailer to know this information in advance increases the store efficiency as the in-store personnel can collect and prepare the ordered products without the customers needing to wait in line. Thus it eliminates unnecessary time waste and increases the custom-
ers’ seamless shopping experiences. Identifying customers early in the process is a key element to understand the customers’ behavior and thus how to approach them.

Therefore, using the iBeacon to identify customers can assist the in-store personnel to detect members of the loyalty program currently being in the store. In practice, the personnel’s POS tablets have a digital map of the store, showing the individual members’ location in the store as well as relevant data, e.g. purchase history online and offline, average basket size, engagement, and degree of “loyalty”. This type of data helps the in-store personnel to be well prepared when servicing the customers, which in fact was found to be one of the biggest distress in physical retailing for consumers, according to the survey’s data.

As illustrated above, the iBeacon recognizes Peter and notifies the in-store personnel that Peter has entered the store and it shows that he is most likely in the store to browse some biking equipment. While the employee is heading towards Peter, he notices that last time Peter visited the store he purchased a bike and two days ago he was looking at biking shoes on the webshop (this behavior was tracked through his log-in on the webshop). In this way the in-store employee is well prepared to service Peter on a more personalized level.

**NFC-TECHNOLOGY**

The NFC-chip is an inexpensive technology and can therefore be placed on outdoor advertisement or on styled product installations to increase the digital integration and enhance the seamless experience. Where the iBeacon automatically detects registered customers, the NFC-technology requires customer interaction\[16\]. In practice, the NFC-chip can be placed near products or on advertisement, which motivates the customer to want additional information. Customers just need to keep their phone near the touchpoint, which automatically provides the customers with additional information about the product or advertisement. Moreover, the

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16 Appendix 14
NFC-technology is ideal in showrooms that only hold one product of each variant. Each product can be equipped with an NFC-chip and the customers’ mobile devices are turned into digital shopping carts. This way the customers’ can inspect the physical products and automatically have them delivered at home by holding their mobile devices close-by.

Both the iBeacon and the NFC-technology can be used as innovative payment methods, which eliminates the process of carrying and using physical cards – whether that is a credit or membership card. It provides the customers with a faster transaction; while at the same time it provides the retailer with data about the purchase behavior.

Integrating such technologies helps the retailer in becoming an omnichannel retailer, as it seeks to bridge the gap between online and physical retailing. The customers will experience this as a seamless customer journey, where the retailer uses data to provide a better and more personal shopping experience.

5.1.4 SUM-UP OF THE OMNICHANNEL HIERARCHY OF NEEDS

The above section presents the retailer with an overview of the different elements they need to implement in order to become an omnichannel retailer.

Becoming omnichannel requires that the retailer systematically collects data about its loyalty members from different touchpoints. This can be achieved through meeting the basic requirements of the customers’ expectations and can additionally be advanced by exceeding these expectations through a better integration of the different touchpoints.

The above section presents the retailer with an overview of the different elements that it needs to implement in order to become an omnichannel retailer. To become omnichannel the retailer is required to systematically collect data about its loyalty members from different touchpoints. This can be achieved through meeting the basic requirements of the customers’ expectations and can additionally be advanced by exceeding these expectations through a better integration of the different touchpoints.

Having said that, some of these technologies are still immature and the customer might have some privacy concerns with them. Thus, the retailer should be cautious with integrating these, before the customers’ trust and confidence in the retailer is achieved.

Following section will therefore present a model for the retailer to use to strengthen the relations with its loyalty program members.
5.2 TRUE LOYALTY STRATEGICALLY CREATED

The intentions of loyalty programs are to attract new customers as well as foster existing customers’ loyalty. Throughout this research, it has become evident that *one size does not fit all*. Despite the many retailers’ different nature, the majority of retailers today are offering similar loyalty programs to their entire customer base. By offering all customers the same benefits without any regard to the individual customers and their degree of loyalty, the exclusivity of the program fades. Therefore, the loyalty programs do not accommodate the heterogeneous needs of the modern consumers, and – despite what their names imply – hardly generate loyalty. The aim of this section is therefore to help retailers operating both online and offline to construct loyalty programs that not only increase their customers’ purchase frequency, but also strives to build true loyalty.

In order to attract new customers and retain existing customers, a loyalty program needs to consist of a balance of both hard and soft benefits. The hard benefits seek to encourage potential customers to enroll in the loyalty program through coupons, discounts or points, whereas the soft benefits seek to make the customers feel unique and better treated than regular customers. The benefits are therefore used to increase the customers’ interaction and engagement with the retailer. Moreover, the program should be geared in such manner that it collects data of the customers’ behavior and interaction with the retailer through the different touchpoints. For the data to be useful to the retailer, it is important that these different touchpoints do not function as independent silos, but collectively store data on a customer specific profile in the retailer’s customer database. Having this data of each customer becomes increasingly important in the retailer’s communication and marketing activities as it assists the retailer in increasing the relevance of its marketing activities. In this way the marketing resources are used more effectively, which not only saves the retailer for marketing costs, but also shows that the retailer recognizes that the customer’s time is valuable.

In view of this, we have identified three areas, data collection, benefits, and marketing, which are necessary for the success of a loyalty program. This will be addressed in a model in the following section.

5.3 THE LOYALTY ENGINE

It is important to understand that true loyalty is about doing the right things, right. Therefore, *The Loyalty Engine* provides the retailer with an overview of the necessary elements for the retailer to consider when creating its loyalty program.

The model illustrates three consistent elements, and three processual elements separated in
three levels. In the center of the model, the customers’ true loyalty exists. The three static elements throughout each level of the model are the elements of Customer Relationship Management (CRM) namely; Trust & Commitment, Communication and Service. These are constantly at play and active, and the retailer should never neglect these three elements, as they are the ones establishing and fostering relationships with the customers. These three customer relationship elements are adding value to the loyalty program by gradually increasing the strength of the relationship with customers. Thus the importance of them being used consistently throughout each level of the model is crucial for the success of the entire engine illustrated above.

The Loyalty Engine

![Image of the Loyalty Engine]

The three processual elements are Data Collection, Benefits and Marketing, and all of them are interconnected and are strategically used in order to advance the customer toward the center of the model. Therefore, the more the customers interact with the retailer through the offered benefits, the more data the retailer can acquire about its customers and thus the better and more relevant marketing the retailer can create. It is important to understand that the retailer should avoid advancing toward the center before the customer or the retailer is ready. For instance, a retailer wants to push sales of a product through an email campaign, but does not have the necessary behavioral data about the customer to determine if the product is of relevance. The campaign becomes generic marketing based on the intuition of the manager. Some customers might find the product relevant, which creates a momentary increase in sales. But for all the customers who did not find the product relevant, the retailer only creates distress.
by wasting the customers’ time with irrelevant offers. Therefore, this model is used to identify the right customers to target with the right information based on the right data.

The following sections will go in depth with the three elements, data collection, benefits, and marketing and describe the various levels a customer will be at. It allows the retailer to create an overview of the opportunities that exists on each individual level and thereby also an understanding of how to promote the customer towards the center.

The first element to be discussed is data collection as data gradually has become a strategic key element in modern retailing and a necessity in providing customers with a seamless experience. The second element is the benefits the retailer offers, which are used to acquire and retain customers. Lastly, the third element of the model is the marketing aspect, which is based on the retailers’ communicative tactics to target customers with the appropriate approach according to the customers’ position in the model.

5.3.1 DATA COLLECTION

As all our experts implied, the better a retailer is to collect, analyse and utilize data, the more relevance each customer will experience. Today, most retailers’ offerings and communicative tactics seem to be based on intuition rather than well analyzed data. Therefore we suggest the retailer to gear its loyalty program in such way that the retailer systematically collect and use data to increase relevance for its customers and thereby enhancing customers’ loyalty.

To fully provide a coherent and seamless customer experience, the retailer needs to collect data of each customer. Therefore, we recommend the retailer to prompt its customers to register (i.e. signing up to the loyalty program). This way the customers can always access their purchase history as well as to save the delivery and payment information, which creates a more seamless experience. A recent example of this is asos.com, one of the largest clothing and apparel pure-play retailers, which now requires all new customers to sign up before making a purchase.

To ease the understanding and to clarify the importance of the data to establish loyalty, the different types of data can be divided into three wh-questions; who are the customers (descriptive data), what do the customers do (behavioral data), and lastly why do the customers do it (attitudinal/emotional data). Following section will describe the different types of data that we recommend the retailer to collect – from the descriptive data during program registration, to the attitudinal data of the customer during a support call.
5.3.1.1 DESCRIPTIVE DATA

The first type of data is the descriptive data, which consists of information that the customers themselves have provided the retailer. This is information that customers are comfortable sharing and consists of data such as the customers’ gender, age, email and home address etc. This basic information about the customers is often acquired through online purchases as well as loyalty program registrations.

Depending on the retailer’s digital maturity, we suggest the retailer to incorporate social logins that automate the process of acquiring this type of data. Using this digital identification of customers collects data from the customers’ social network profiles. This also eliminates the pitfalls in customers manually providing these kinds of data, as previously mentioned (see section about Social Logins). Therefore we suggest that the retailer offers this option as early in the registration process as possible, i.e. the first information regarding the retailer’s loyalty program whether that be in-store, on the app or on email.

To enrich this data, the retailer can acquire information from public databases about the expected household size, income size, and the political views based on people living near the customer’s home address. By enriching the descriptive data of each customer, the retailer can create a more accurate customer profiles. From a relationship perspective, these are still broad characteristics of the customers as the modern consumers are more complex than demographic data and political views can illustrate.

Therefore, the descriptive data of the customer should only be used superficial, as it provides shallow insights of the customer’s profile. However, on an aggregated scale, having this information collected can show some interesting habits.

For instance, customers living in Copenhagen tend to purchase sweatshirts, whereas customers in Aalborg buy t-shirts.

For the retailer to find these patterns can be used in its communication and marketing to increase relevance.

5.3.1.2 BEHAVIORAL DATA

For retailers, the purpose of using data is to predict the customer’s next potential purchase and to communicate accordingly. As consumers today are complex and are far from being a homogeneous group, it becomes insufficient to solely rely on the descriptive information. However, the behavior of each customer reveals much more about the actual intentions than the data the customers have inserted manually or expressed openly.
MANAGERIAL IMPLICATIONS

The second type of data is the behavioral data and consists of the customers’ interaction with the retailer in terms of purchases, web-shop visits, physical store visits, etc. All retailers collect some behavioral data as a natural element of operating both online and offline whether being from purchases, emails or campaigns. The challenge today is that each touchpoint uses data from its own database and not from a customer profile. One can therefore talk about the data is divided into silos. Therefore, the key to understanding behavioral data is to understand how each touchpoint’s data is related within the customer profile. For instance, is the customer’s online purchase related to the in-store visit earlier that day, or due to the weekly newsletter – or both?

BASIC BEHAVIORAL DATA

The most common behavioral data retailers make use of is purchase related information. When customers purchase products online, it is easy to link each purchase to the individual customer as it is necessary for the customer to provide both name and email during a purchase. In physical retailing on the other hand it is much more difficult to connect each purchase with the customer. Therefore membership cards exist for the customers to identify themselves prior to a purchase.

Furthermore, retailers use email addresses for direct marketing purposes, which allows the retailer to collect data on how many customers receive, open, read and click on the content within. The same applies for online marketing campaigns where retailers use tools such as Google Adwords and Facebook Ads to track and monitor the customers’ interaction with specific ads. Thus we recommend the retailer to connect these different sources of data to generate a much more accurate picture of the customers’ behavior. If the retailer knows where, when and how its customers use the different touchpoints, the retailer is one step closer toward providing a seamless experience.

This type of knowledge can be quite effective when used to provide timely and relevant information. Also, most of this data can be collected and used without its customers’ consent, which is cost effective for the retailer, as it does not need to spend resources on gaining permission.

Besides from pushing sales, the behavioral data can also be used for other purposes such as to influence customers’ attitude. As the behavioral data reveals much about one as a customer, the data collected of the individual customer is not only relevant for the retailer, but might also be interesting to know for the customer.

This was recently seen, where the streaming-service Spotify provided users with information on which artists the customer discovered before they got famous, or which day of the week the customer listens most to music. This data is interesting for targeting...
the right customers, but also provides the customers with a fun and engaging use of data.

Thus we recommend the retailer to be inspired by how other industries use behavioral data to create and present customers with relevant and personalized content.

Like the Spotify example, a clothing retailer can send an automated email complimenting the customer to be a trendsetter based on the purchase of trumpet trousers she made earlier this year.

Presenting data in such manner is fun and engaging, shareable among friends, likely for initiating positive WOM and overall valuable for both the retailer and its customers. As this type of content is more personal and relevant and less about pushing sales, it increases dialogue and the customers’ confidence in the retailer. By increasing the customers’ trust in the retailer and how it utilise and present data, the customers are more inclined to share other personal information.

ADVANCED BEHAVIORAL DATA

A retailer that is digitally mature and who is able to analyse and utilise the basic behavioral data, we recommend the retailer to create more personalized and data-enriched customer profiles with additional data from the retailer’s different touchpoints. The advanced behavioral data consists of thorough knowledge about the customers’ interaction with the retailer’s website. This information is typically acquired through so-called “cookies”, which record the behavior and preferences of a user when using a particular website. This data contains the customers’ activity level (when was the last time the customer was logged into her account, how long time does the customer spend on the website, etc.), interests (such as which products does the customer buy, which benefits does the customer take advantage of etc.), and spending patterns (how much money does the customer spend on the retailer’s products).

The retailer’s website is therefore a goldmine of data of its customers’ behavior and how they use the website (hence the term data-mining exists). To analyse the data, it requires the retailer to use analytical software such as Google Analytics (GA) to consistently monitor its customers’ behavior. GA is a free service and can be used to analyse the performance of the website, which campaigns attract traffic to the site, which devices the customers use when visiting the site, in which geographical region the customers are located and many more advanced features that are of high value to the retailer. Thus, the data from GA can also be used to measure the effect of a marketing campaign and provide the managers with knowledge about the actual return on investment instead of guesses.
website. E.g. GA can show if the customers came from Facebook through an ad of the retailer or if the traffic is organic and came from searches on Google. This data provides the retailer with knowledge about each channel’s efficiency and an indication of where to allocate the marketing resources to maximize the outcome.

By monitoring the deviations in the statistical data, the retailer can better predict whether customers are changing behavior and in such case adapt to it. Momentary deviations are often caused by internal factors such as a recent marketing campaign or changes on the web-shop. External factors that affect this data can for instance be technological advancements that significantly change the consumers’ shopping behavior. This was most recently seen with the increased use of mobile devices, which took the majority of the retailers by surprise. Retailers that lacked a mobile presence were suddenly in risk of experiencing less growth and this evolvement has forced retailers to rethink their digital strategy. GA is therefore a very powerful tool to track and analyse customers’ behavior, and thereby make decisions based on data. However, this only shows the customer’s behavior on an aggregated scale. Other systems are therefore necessary to create customer specific profiles.

To create customer specific profiles, it is necessary that the retailer implements systems that allow it. Not only do these systems collect data from registered customers’ behavior, the data can also easily be transferred to the physical stores’ POS systems or customer tablets. Connecting the different touchpoints with the data-enriched customer profile increases the sense of relevance and provides the customer with a personalized shopping experience whether that being online or offline.

Additionally, by having systems that allow the retailer to create data enriched customer profiles, this data can also be used in relation to customer service. The support department can use the customer profiles to assists them to provide a coherent support experience by using data instead of intuition. As the support system automatically identifies a registered customer from specified data (i.e. email, telephone number, or name), it helps the employee to increase the personalisation of the support experience by greeting the customer by name, having knowledge about the last visited webpage, or having knowledge about the customer’s purchase history – that being online or offline. It shows that the retailer knows its customers, which eliminates the customer’s distress of needing to explain the reason for the support call.

By connecting the different touchpoints and using the data, which already is being collected by the individual systems, the retailer can gain deep knowledge about its customers’ intentions. From there, it is only a matter of time and resources to connect additional touchpoints as potential data sources. As earlier described in exceeding customers’ expectations, the technology is constantly evolving and opens up for new opportunities in data collection. Therefore, we recommend the retailer to consider data collection as a central element of all its future servic-
es and activities – from the retailer’s application to the outdoor advertisement with NFC chip implemented – as this will provide the retailer much more accurate information of its customers’ intentions as well as the retailer’s return on investments (e.g. the effect of a marketing campaign).

5.3.1.3 ATTITUDINAL AND EMOTIONAL DATA

The third type of data is the attitudinal data and consists of the customer’s beliefs, attitudes, opinions as well as the customer’s emotions. The attitudinal data combined with both the descriptive and behavioral data adds depth and perspective the customer profiles. This type of data is much more intangible and harder to collect than the behavioral data, as it often requires the customer’s consent. Here it is crucial that the retailer communicates properly and makes good use of the established trust in order to acquire this type of data.

By linking this type of data to the descriptive and behavioral data of the customer, the retailer gets a much clearer picture of why the customers shop in their shop and can adjust their communication towards them accordingly. It is therefore recommended that the retailer consistently monitors its performance by asking customers how satisfied they were with their shopping experience, what their preferences are, and in general other personal questions that can provide attitudinal or emotions data of the customer.

Knowing the customer’s attitude toward the retailer can be very effective prior to a conflict handling as it assists the support employee in approaching the customer appropriately. For instance, if a dissatisfied customer contacts the customer support sometime after a purchase, the support employee is early in the process primed to handle the conflict. Moreover, the employee is provided with information about the customer’s latest purchases and can assist accordingly. This way the customer will experience little distress and the chances of the customer receiving a satisfactory experience increases.

Equipping the employees with the necessary data about customers’ attitudes increases the support’s effectiveness, as it eliminates the customers’ distress of answering unnecessary questions. By having a pre-understanding of why the customer contacts the retailer, the experience becomes more customer-centric and increases the chances of a positive conflict handling. As a reward the retailer will profit from the customer’s increasing loyalty through more positive attitudes.

The attitudinal and emotional data can automatically be collected through advanced IT systems, but these require a profound digital understanding. Therefore it might be more convenient for some retailers to collect this data through personal interactions. Through dialogues, the personnel can gain the necessary insight about their customers’ needs and wants and store
this information along with the customer profile, where it becomes accessible for other departments to use.

The challenge with attitudinal data is that it is often collected through surveys and customer interviews, where customers might say one thing but do another. However, other methods of acquiring attitudinal data exist. One of these methods is to monitor the customer’s activities on social media channels as these contain much information about the customer’s opinions, preferences and attitudes. Therefore we recommend the retailer to gain access to its customer’s social network through social login integration. Linking customers’ social media profiles with the retailer’s own configuration of customer profiles with its makes it possible to collect data about the likes and interests of its customers – beliefs and attitudes that are not necessarily directly related to the retailer.

For instance, if a loyalty member likes posts regarding home renovations on Facebook, the retailer can leverage on this data by targeting the customer with content regarding interior design.

Using such data can be extremely powerful, as it demonstrates that the retailer cares about its loyalty members’ beliefs, which enhances the members’ commitment to the retailer and thereby strengthens the relation.

SENTIMENT ANALYSIS

As earlier described, the retailer’s access to its customers’ social network profile allows the retailer to acquire a significant amount of data about its loyalty members. We suggest the retailer that is digitally mature to explore the effects of using emotional data by conducting sentiment analysis on its customers. To conduct at sentiment analysis requires access to their customers’ status updates, as it involves an analysis of the textual data shared openly by the customers. This data can also become accessible through the integration of social logins.

The sentiment analysis can determine the loyalty members’ emotional state of mind based on the content they share – whether that being positive or negative, happy or sad. The retailer can use this knowledge to target its customers with content that matches their mood, which has the potential of creating a sense of relevance and an enhanced customer experience.

However, this knowledge should be used with much caution, as it quickly can become a violation of trust by the retailer spying instead of showing that it cares.
MANAGERIAL IMPLICATIONS

5.3.1.4 DATA SHARING AMONG RETAILERS

Because much of data depends on the customers’ behavior, it can be beneficial for retailers experiencing a low purchase frequency to consider alternative approaches to acquire the needed data to attract the customer toward the centre of the loyalty engine. In such cases where the retailer has difficulties increasing the customer’s purchase frequency, it is recommended that the retailer enter data collaborations with other non-competing retailers. This was recently experienced with SportMaster, a Danish sport retailer, becoming an independent partner of the global sport retailer SPORT2000 that shares information about customers across markets. In this way the retailer can quickly and cost effectively acquire much data about customers’ purchase behavior on an aggregated scale. However, this data should be used with caution as it consists of variables from other retailers and is therefore less unique and applicable to the individual retailer.

5.3.1.5 UTILIZING THE DATA

We recommend the retailer to gear its loyalty program in such a way that it allows the retailer to collect as much data as possible through the retailer’s different touchpoints. Many of these touchpoints already collects data individually, which is why the key to utilize this knowledge is by assigning the right data to the individual customer. By using customer profiles, the retailer can create a seamless experience throughout each touchpoint, as the systems or the employees are equipped with the necessary information about who the customers are, what and when they have purchased last as well as why. For instance, a customer living in Copenhagen receives a special offer in her e-mail for shoes, which she previously physically inspected in-store. While being in-store she used the retailer’s mobile application to learn more about the product and information about the material’s environmental sustainability. This example illustrates how a retailer can use data collected through the customer journey to create a seamless experience. Therefore, the more customers interact with the retailer and its touchpoints, the more data will be generated, which can be used to strengthen the relationship with the customer through the CRM elements. Additionally, these customer insights can also provide the retailer with information on how to tailor their loyal program to meet the requirements of the modern consumer.

In the following section we will discuss how retailers can design their loyalty program in accordance to customers’ needs and the data available of each customer.

5.3.2 BENEFITS

In order to exceed customers’ expectations you need to have enough data about them. A way of achieving this data is by prompting customers to buy more. A way of prompting cus-
Customers to buy more, besides having good relationships with them (i.e. by monitoring the CRM elements effectively), is through the benefits of the loyalty program. These benefits should be interesting and valuable enough to make the customers want to come back and buy more (cf. chapter *The Psychology of Rewards*). Retailers today need to find a balance between building relationships that attain loyalty and offering desirable benefits that encourage customers to buy more. The retailer needs to understand its customers’ values and sense of worth. Some customers may find more value in non-monetary rewards and it might be opposite for many other customers. The point is that companies that can provide benefits that match to the customer’s specific needs will have a unique opportunity to connect with them on a better level than retailers offering generic standardized benefits.

5.3.2.1 TAILOR-MADE LOYALTY PROGRAM

Most loyalty programs today are placed on the outer circle of the engine; they offer standardized benefits to all customers, use mass marketing strategies to increase sales and the customer profiles rely primarily on demographic data.

Customers on the other hand are quite different from each other, all with different preferences and needs. Therefore it is suggested in this thesis that the modern retailer offers customers the possibility to combine their own set of benefits when entering the loyalty program. In this manner it is possible for the customers to tailor their own individual loyalty program based on benefits that they find valuable and relevant to their individual needs. The retailer should thus have a variety of different types of benefits that its customers can choose from. In order for this solution to be affordable they should calculate what each benefit costs them and offer the benefits that are affordable.

5.3.2.2 LEVELS OF MEMBERSHIPS

As the psychological effects of rewards have a great impact on customers’ purchase behavior, it is relevant to suggest that there should be levels of membership where the customer strives eagerly to achieve the next level and get higher in the hierarchy by making more purchases. We suggest that there are at least three levels: Basic, Plus and Premium.

When customers enroll in the program for the first time, they attain a Basic membership. This basic membership makes the retailer somehow familiar with the customers’ preferences due to their choice of benefits. When customers attain the Plus membership, the retailer has gained a better understanding of these customers. This knowledge is gained through the CRM elements as well as through the self-selected benefits. At this point, the retailer and the customer shift from being “familiar” to being “friends”. Eventually customers reach the Premium membership and here it is assumed that customer and retailer become “partners” based on
strengthened relations and increased knowledge about each other.

5.3.2.3 ESTIMATING THE VALUE OF BENEFITS

To start with, the retailer should offer a set of benefits to choose from when entering the loyalty program (Basic membership). These benefits are designed based on the retailer’s intuition of what customers might like. From the survey data from previous chapter, it was evident that customers expect free delivery and free return to be offered by most retailers, which is why these benefits are paramount to offer as basic benefits when enrolling into the loyalty program. Other examples of benefits could be: product discounts, gift vouchers, satisfaction guarantee, extended right of withdrawal, automatic saved receipts, BOPIS, personal shopper, home service, etc. From these 10 benefits, the customers should be able to choose the amount of benefits that equivalents e.g. 500 point, which are the automatically accumulated points for entering the program and attaining a Basic membership. Each level of the membership has an entry requirement of a particular amount of points.

<table>
<thead>
<tr>
<th>Membership status</th>
<th>Points</th>
<th>Purchase amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level 1 – Basic/Familiar</td>
<td>500</td>
<td>0,- DKK</td>
</tr>
<tr>
<td>Level 2 – Plus / Friends</td>
<td>1000</td>
<td>2.000,- DKK</td>
</tr>
<tr>
<td>Level 3 - Premium / Partner</td>
<td>2000</td>
<td>4.000,- DKK</td>
</tr>
</tbody>
</table>

Figure 82: Table 1

Once the customer has chosen their first set of benefits, the retailer will become “familiar” with the customer and gain an indication of what type of customer she is.

It is necessary to set a value for each benefit in order to control that it is profitable for the retailer to offer them. The value of each benefit is reverted into points which are based on how many purchases the customer has made. The more purchases, the more points, the better benefits the customers can choose as add on to their next level of membership i.e. Plus and Premium.
So the retailer should in advance have estimated how much each benefit costs to offer and how many points the customers have to accumulate in order to be able to choose it from the list. The retailer should create a price-matrix list that is easy for customers to understand (see table 2).

For customers to have the possibility of selecting their own benefits is paramount for the loyalty program to be perceived as tailor-made. The remaining benefits that the customer did not choose due to the maximum limit per level are used as motivation for making customers want to reach the next level of membership. But these benefits offered when entering the program are based on the retailer’s assumption of what customers might like. Therefore, there is potential for creating more personalized benefits based on the increased amount of data on each customer once they move closer to Plus and Premium memberships. This will be discussed in the next section.

Finally, as discovered through theory and data analysis, monetary benefits do not create true loyalty and therefore it is suggested that these points should not be withdrawal, but instead kept inside the company. From here the customer can choose either to use them on buying new products or to reinvest them in proceeding in the loyalty ladder of the program.

### 5.3.2.4 PERSONALIZED BENEFITS FOR PLUS AND PREMIUM MEMBERS

As the customer starts interacting more with the retailer (due to the attractiveness of the benefits, the service of the CRM elements and the increased relevance in marketing), the interaction will lead to data insight about their consumption patterns and needs. The more the customer interacts with the retailer the more data the retailer can attain about the customer and therefore the better benefits they can offer her along with her membership. This can be

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automatic saved receipts</td>
<td>50</td>
</tr>
<tr>
<td>Product discounts</td>
<td>100</td>
</tr>
<tr>
<td>Gift vouchers</td>
<td>100</td>
</tr>
<tr>
<td>Satisfaction guarantee</td>
<td>100</td>
</tr>
<tr>
<td>Extended right of withdrawal</td>
<td>100</td>
</tr>
<tr>
<td>Free delivery</td>
<td>150</td>
</tr>
<tr>
<td>Free returns</td>
<td>150</td>
</tr>
<tr>
<td>BOPIS</td>
<td>150</td>
</tr>
<tr>
<td>Personal shopper</td>
<td>1000</td>
</tr>
<tr>
<td>Home service</td>
<td>1500</td>
</tr>
</tbody>
</table>

Figure 83: Table 2
done through analyzing the data about the customer’s purchase behavior as well as her attitudes and feelings showed so far. With this knowledge it is possible to offer her personalized benefits that she can choose to add on to her next level of membership which in this case would be the Plus and Premium membership.

Thus, the more data the retailer gains about their customers, the more relevant benefits they can offer them. These benefits are designed out of customer insights and what the customers actually have expressed to like (attitudinal/emotional) and have bought (behavioral data), and not on what the retailer assumes customers might like.

By analyzing customer data, companies should be creative in finding relevant, attractive and appealing benefits that are perceived by customers as creating higher value than the current benefits of the Basic membership. The point here is to improve the loyalty program and its benefits via the customer insight the retailer gains through the data. In this way the customers can be prompted to move higher up the loyalty ladder by striving to achieve the better benefits that are placed in the higher levels of the program. These benefits are reflected in the customer’s personal needs and wants, which is why we perceive them as means of creating true loyalty compared to generic benefits. By inventing benefits based on the customer’s data it shows that the retailer listens and cares and in fact gives the customers what they want.

We perceive this as mutual value creation where the customers get what they want and the retailer increases revenue by offering relevance. Following examples show how the retailer can create benefits based on the customers’ data:

*Example:* A customer that (according to the data) only shops online can be offered a special benefit called “Try at home”. This benefit allows the customer to order products free of charge and keep them at home for five days with free shipping both ways. This is an exclusive service offered especially to customers who do not shop in physical stores and perhaps want to touch and feel the products before buying.

As found in the data results from the survey conducted, not being able to evaluate a product is the primary disadvantage of shopping online. Therefore this type of benefit will be of high relevance to most customers.

*Example:* A customer who shops a lot in the physical stores (and for a large amount of money) should be offered the special benefits of “Express fitting room” or “Express cashier”. With this service the customer can skip the long queues and be served faster, providing the customer with a special treatment for being a member of the program.

This type of benefit would also be beneficial for most customers as the results from the survey...
showed that the primary disadvantages of shopping in a physical store are the long queues at the cashier and in the fitting rooms. Such service will provide customers with feelings of assurance and reduced anxiety that they surely will get quickly through long queues anytime they visit the store; a benefit that cannot be obtained by other non-members.

Example: A kitchenware retailer knowing that a specific member of the loyalty program finds nutrition and health to be important topics can automatically offer the customer unique deals on e.g. a slow juicer as it conserves more vitamins than a normal juicer.

Example: A customer shopping very often a certain brand or type of product can be offered the benefit of getting exclusive access to “VIP events and pre-sales” for this specific brand or product. Thus we suggest the retailer to offer small exclusive events that are based on the customers’ needs and interests where they in fact will feel specially treated as members of the program; rather than arranging giant events offered to all members with little relevance to their needs.

These benefits will again have a certain value based on points and will be possible to choose when the customer has reached the needed amount of points. Thus with time, the customer will have more relevant benefits she can choose among. By managing loyalty programs this way there is a constant improvement of benefits and a valued reason for customers to progress in the next levels of the membership program. Thus, the attraction of the benefits that were not chosen due to the maximum limit, can have a promptly effect on customer’s desire to achieve the next level of membership.

So from level to level the customer can add on benefits in order to further tailor her loyalty program. By letting customers tailor their own loyalty program, the retailer can use this knowledge as further insight about its customers besides the data already collected from their interactions. The choice of benefits can also expose a certain pattern about the customer, which can be used by the retailer as an indicator for developing future benefits towards this specific customer.

Example: If a customer has chosen many benefits that are related to online shopping e.g. free delivery, free return and try at home, then it is easy for the retailer to use this insight as a guiding principle for developing relevant benefits.

The higher the level of membership, the more relevant and valued the benefits are for the individual customer. The point with these benefits is to promote the customer towards the center of the engine where the customers’ true loyalty exists. Hence there is a circular advancement of the loyalty program towards the center of the engine.
Finally, it is crucial to understand that it is not only the benefits that make the customers come back, but it is the combination of benefits and the CRM elements that in conjunction are the driving forces to make customers return.

The valuation of points, levels of membership and the determination of benefits, is only an example and not a factual proposition for retailers. These should be determined by each individual retailer based on their specific resources and profiles.

In the following section we will discuss the different marketing tactics that retailers can make use of towards their loyalty members.

5.3.3 MARKETING

A core function of advertising has always been to get noticed and catch people’s attention, but these principles of “Selling by yelling” are long gone. Today consumers are too switched-on, extremely aware and excessively connected, and the classical mass communication appears to have a lower efficiency than ever before. Fewer consumers watch commercials, enjoy them, consider them relevant, believe in the content and simultaneously consumers increasingly seek out information when they find it necessary or of interest. So, although the fact that both theory and experts stressed the necessity of increasing the relevance of marketing, our survey showed that this is not necessarily the case for the majority of today’s retailers. It seems that retailers to some extent still practice “selling by yelling”. Following section therefore seeks to provide retailers with strategic recommendations to overcome this challenge.

As previously suggested, the self-chosen benefits along with the data provide retailers with valuable customer-insights that can assist the retailer in creating more targeted and relevant marketing offerings. The more the customers interact with the retailer, the more data the retailer can collect about the customer and thus the better they can tailor the marketing activities towards the individual customers. We recommend retailers to purposely select the content of their marketing activities matching what creates value to the customers.

Following section seeks to provide retailers with recommendations on how to make use of different channels and marketing tactics based on the degree of customer-insight gathered along each level of “The Loyalty Engine”. The higher the relevance of the marketing offerings the higher are the chances that the customer’s loyalty increases through each stage of the engine.

5.3.3.1 GENERIC MARKETING

Generic marketing consists of a retailer’s use of standardized content to target the relatively anonymous customer. Today the majority of retailers have a large focus on using ge-
Generic marketing in order to boost sales without regard to the specific characteristics of the audience. Using generic marketing to increase sales includes a high risk of irrelevance and customers will ultimately ignore the retailer’s cry for attention. As it has been argued throughout this thesis, it is a short-sighted strategy that only creates momentary spikes in the retailers’ growth.

At this stage of the model i.e. Level 1, the retailer has only limited customer data available i.e. the descriptive data, why in a relationship perspective, the generic marketing is limited by its function of targeting the masses. Well aware that it can be challenging – but not impossible – to personalise the content at this stage of the model; there exist a few methods for the retailer to increase relevance. The following suggestions are based on online marketing-tactics, as we perceive these to be most relevant and cost efficient when contacting loyalty members with generic offerings.

**E-MAIL MARKETING**

Firstly, advertising through emails has become the primary marketing channel among the majority of retailers with loyalty programs. Most of these retailers send standardised generic newsletters to their whole customer base with no consideration to whether they communicate to men or women, young or old, single or married receiving and reading it – if they read it at all.

By using the descriptive data the customer initially stated during registration, the retailer can automate a series of different emails each consisting of content relevant to the given segment. In this way men and women receive information adjusted to their gender and age instead of receiving a generic email targeting all types of customers. By communicating to all contains a risk of communicating to none, why we suggest retailers to make the most out of the little data they have collected so far.

By sending segmented marketing offerings, it increases the chances of a certain customer will make an action being it an actual purchase or simply browsing the website, downloading the retailer’s app or visiting the physical store. Any of these actions can benefit the retailer in his data collection; this will be described later on.

Furthermore it is vital to emphasize the importance of not sending solely sales related offerings to customers, but also combine these with topics regarding the retailers’ brand values and services, information about the loyalty program and its different offerings and benefits and other exciting news of relevance to the customer. This is necessary in order to initiate a relationship of trust where the retailer shows that he does not merely focus on making sales, but that he also cares about what brings value to the customers.
As stated, the available customer data is scarce at this stage of the model making it hard for retailers to provide customers with offering of high relevance. Therefore we recommend retailers to focus more on fostering the CRM elements through soft communicative incentives that aspire to build relationships with customer rather than to push sales.

SALUTATION

Secondly, salutation is about addressing customers by their names which is far more engaging than “Dear customer”. Also, a simple thing such as using the store manager’s private name as being the sender of the newsletter will make it more personal. The intentions of doing this, is to create a degree of personification between the retailer and the customer, which is the bare minimum for establishing a relationship.

OFFERINGS BASED ON BENEFIT SELECTION

Thirdly, by letting customers tailor their own loyalty program, it provides the retailer with an indication about what type of customers they are dealing with. The content of the emails can therefore be created on the basis of the gathered information through the benefit selection.

For example, a customer choosing the benefits of Free returns and Free delivery can indicate a behavior of being mainly an online shopper. Thus the retailer can make use of marketing tactics such as: “Express delivery - buy today and receive the package within 24 hours!”

CONTEXTUAL TIMING

Lastly, contextual timing is a basic marketing strategy that all retailers should be capable of monitoring. Such strategy is very important when it comes to generic marketing where retailers do not have much data about customers’ preferences. Here the retailer should build email campaigns based on what is relevant at the given period of time.

E.g. creating an email campaign in start January with recommendations on fitness clothing might be relevant for most customers as this time is commonly known to be very focused on diets and weights loss after Christmas dinners. Thus contextual timing should be the bear minimum for sending out commercial content to loyalty members.

All of these marketing tactics can be used as a foundation for initiating a relationship with customers. At this stage of The Loyalty Engine it is not possible to perform omnichannel marketing because the majority of the retailer’s touchpoints are not connected and the amount of data is little.
5.3.3.2 PERSONALIZED MARKETING

In order to advance from generic marketing to personalized marketing (Level 2) it is necessary that the retailer has gained enough behavioral data about the customer. Generic messages and offerings are no longer acceptable among the modern consumers that are constantly updated and connected in today’s multichannel environment. Therefore personalisation has become a necessity. With so many brands shouting for attention, personalisation helps retailers to cut through the clutter with more relevant and timely content that generates a meaningful brand interaction.

Personalised marketing is about targeting customers with customized content based on their actual behaviour. Therefore it is necessary for the retailer to have collected a sufficient amount of traction on the customer’s behaviour from different touchpoints such as from the customer support, the website, the physical store, from emails or the mobile application.

Internet-based companies are leading the way for personalized marketing campaigns and online referral sources such as web analytics, cookies, browsing and search history, and IP addresses can be used to track the online behaviour of the customer. Cards from the loyalty program can on the other hand be used as means of tracking the offline behaviour in physical stores or when contacting the customer support center.

The purpose of personalised marketing is to create individual messages and build customer-centric recommendations. In practice, personalised marketing is often demonstrated through product recommendations based on the customer’s behavioural data e.g. if you like X, you might also like Y. Basically, it is about delivering the right message to the right person at the right time. This kind of service has typically taken place in local stores where the owner knew his customers by name. Now database technologies are helping larger businesses do the same.

In the following we will suggest some of the methods for personalising the content towards loyalty members and thus increase the relevance of the retailer’s marketing activities.

ONLINE MARKETING

There are many potential ways of doing online marketing, but what is interesting at this stage of the model (Level 2) is how to influence loyalty members to buy more. With the hitherto collected data, retailers can develop retargeting strategies based on customers’ descriptive and behavioural data. This will be exemplified in the following section.

RETARGETING – WINNING CUSTOMERS BACK

Based on the customers’ behaviour from the website, mobile application or physical
store, the retailer can target the customers that did not end up making a purchase. With such retargeting strategy it is possible to win some of the customers back. Here are some examples of how this can be done in practice.

**AUTOMATED ADVERTISEMENT**

Through technological mechanisms it is possible to capture data about customers’ online behaviour such as:

- How many times did the consumer visit the website, and what did she look at?
- What websites did she come from or go to, before and after visiting?
- Has there been any direct contact with this customer?
- Did you place anything in her basket?

Such type of information can help indicate an individual’s interests and place in the buying cycle and also helps the retailer to get a feel for how to best approach them. Most often retailers create advertisements that retarget the customer with relevant products. Retargeting can be done on the retailer’s own website, through emails and also on other external websites. The advantage of online retargeting is that the retailer can place its ads on other websites than its own. These ads are often shown on external platforms (e.g. blogs, news sites, Facebook, etc.), that the customer frequently visits.

*For example, the retailer can make use of retargeting tactics through Facebook. So the next time the customer is on Facebook, she will be exposed to ads from the retailer she visited earlier.*

In fact, it is possible to set up content blocks on websites that automatically generate relevant offerings based on each visitor’s past actions; an insight gained through the referral sources.

*For example, if a customer visited the jewellery store www.chanti.dk and afterwards went to www.bt.dk the ads presented to her in the news site are based on her previous clicks on the Chanti web shop.*

That said, to avoid showing irrelevant recommendations, it is important that the retailer only shows advertisements for products that have strong indications of customer interest. Such indications are based on analyzing multiple variables such as which products did she look at, how much time did she spend inspecting the product, was she in contact with customer support, etc. Once the retailers know each customer’s shopping patterns and preferences, they can provide customers with relevant offerings based on their actual behaviour. For this, technological al-
Algorithms are used that automatically build relevant ads based on the customer’s online behaviour. Such algorithms are typically installed as plugins providing the retailer with an intuitive sales feature to sell complementary products of relevance.

For example, if a customer looked at running t-shirts from Nike, then she might also like the running shoes and running trousers that matches from Nike.

In other cases, the retailers can set up different ad-rules themselves, but this is typically more time consuming than setting it up automatically through the plug in tools that are built to perform such work.

Additionally, retailers can also send follow-up emails with recommendations based on what the customers has looked at on the website. Such contextual and relevant communication can strengthen customer loyalty and reinforce customer satisfaction.

Finally retailers must have in mind that what is ignored is just as important as what customers have liked and clicked on. For example, if there are certain products that customers do not click on in an e-mail newsletter, this insight should be taken into consideration when tailoring the next newsletter. Once retailers understand each customer’s individual preferences, then it is possible to create personalised interactions. For example, in-depth customer insight helps retailers to tailor each newsletter to different customers to ensure the highest engagement and conversion rates; in other words, is about putting the right product in front of the right customer.

**ABANDON CARTS**

A real concern for many retailers today is abandoned carts. Abandoned carts indicate that the customers are interested in both the retailer and its products, but somehow left without making any purchase. This can be caused by either internal or external factors, such as the price of delivery being too high, or a competitor offering a better price. In such case, it can be beneficial for the retailer to retarget these customers with a discount or a coupon for free delivery to accommodate this concern. In the long run, this cost will be repaid through increased loyalty.

A way of doing this is through e-mail marketing where retailers link the web analytics data to the email system. In this way it is possible to develop more relevant email campaigns based on web behaviour.

**WISH LIST – BOOKMARK YOUR FAVOURITES**

Many customers browse web-shops differently than in physical retailing and use the
cart to provide an overview of the total price. To avoid assuming these as abandoned carts, the retailer can add a wish list-feature or save for later-feature to the web shop. We find this as a valuable feature, because in this way the retailer can track what the customer truly is interested in, rather than relying on referral sources like cookies.

Cookies tell what a customer has clicked on and based on this information the retailer makes a retargeting strategy towards this customer. But what about the fact that customers sometimes buy gifts or click by mistake on an item, or actually click on a product to see it more in detail and then conclude that the product is not of interest? The wish list- or save for later-feature enables customers to bookmark their favourite products, while simultaneously provides the retailer with data about specific products that have strong indications of relevance.

With this knowledge the retailer can create a sense of urgency in consumer’s mind by retargeting her through e-mail marketing and telling her that her favourite product is “low in stock” or that it “just came on sale”. This motivates customers to make a purchase, but also shows that the retailer is engaged in the relationship and cares about the customer’s needs.

All previously described referral sources are capable to screen the customers and make profiles based on their individual needs and use this information in future marketing tactics, both online and offline. Eventually, this will lead to increased sales and greater customer loyalty.

ADBLOCK

All these online-marketing initiatives fail if a customer has installed a so called “Adblocker” on her browser. This tool allows users to prevent advertisements from being displayed. Furthermore Apple has just launched their very own Adblocker for iPhones and iPads when surfing through Safari.

Thus, the current changes in consumers’ online behavior where it becomes easier to avoid online advertisement will challenge many retailers’ current marketing strategies. Therefore, it is reasonable to suggest that the need for alternative marketing platforms for retailers will increase. An application can therefore be a potential platform for reaching the modern consumer in the future. Retailers can make use of push notifications as mean of delivering an ad directly to the customer.

Furthermore retailers can also make use of owned channels such as newsletters, social media channels and SEO for reaching out to consumers through organic advertisement.

CONNECTING ONLINE AND OFFLINE

The line between online and off-line shopping is getting blurred. Retailers should take customer insight into consideration to make the in-store and online services an exceptional
experience for multichannel shoppers.

ONLINE LOG-IN

Another way of tracking behavioural data is through the log-in functionality that most retailers have implemented today. When customers visit a webshop, they typically log-in with their membership account. Here it is not only possible to follow the online behaviour of the customer but, it is also possible to connect her offline behaviour to her online behaviour through her membership profile. Thus loyalty programs make it easier for retailers to gain a holistic picture of their customers’ behaviour, both the online and offline.

Referral sources such as cookies, IP addresses and other tracking functions are incapable of connecting these two worlds; thus the importance of having loyalty programs is hereby demonstrated.

This log-in functionality makes it possible for the retailer to come up with relevant marketing offering such as recommendations based on what the customer bought in the physical store.

> For example, a customer bought a bike last week from the physical store. Now the customer is online on the webshop searching for biking shoes. Here it is possible for the retailer to show ads stating that: “These biking shoes fit with the bike you bought last week” or “Most people bought these biking shoes together with the bike you bought last week”.

Here the retailer customizes the marketing offerings based on the gathered data from different touchpoints, making it possible to deliver a seamless shopping experience and thereby entering the field of omnichannel marketing.

Whether it is possible to make use of this marketing tactic the other way around, i.e. use the online-data to better target customers in the physical stores will be described in the following section.

OFFLINE LOG-IN

The issue with current loyalty programs (and membership cards) is that the identification of the customer happens during point of sale i.e. at the cash register. Where retailers online can affect customers from the point of entering the webshop and right up to the point of exiting where they insert credit card information, this type of influence is not possible in the physical stores. At this point (i.e. the point of sale), the customer has already collected all her products and is beyond the “shoppable” state of mind. Therefore, to fully provide a seamless shopping experience, it is necessary for retailers to identify customers earlier during the in-
store shopping experience.

This can be done through technologies such as iBeacon, NFC chips, customer tablets or apps. By using any of these services, the retailer can automatically identify loyalty members and provide them with product recommendations based on their behavioural data from the different touchpoints (online and offline). Such services help brick-and-mortar retailers deliver an omnichannel experience to their customers.

For instance, if a customer has saved a product in her wish-list the last time she was on the webshop, the iBeacon-technology can automatically send her a push notification through the mobile application telling her that today it has 50% off and also showing her the directions for where the product is placed in the store (map function).

By having an insight about customers’ behaviour from different touchpoints it is possible to tailor marketing offerings of higher relevance than with generic marketing.

For example, the retailer can target female customers that have an average basket size of 500 DKK, with products for woman that costs less (or close to) 500 DKK. This can be done through online retargeting or by sending a push notification to the customer while she is in the store.

Furthermore it is possible to send relevant offerings based on the customers precise location in-store.

Using such technologies connects the gaps between the digital and physical shopping experience and provides the customers with a seamless shopping experience and with customized offerings.

Overall, personalisation –and in particular predictive messages– can help busy customers to navigate in this cluttered world of advertisements and provide them with relevant and useful offerings. Thus, retailers must be aware that customer insight is the very heart of a personalised approach. Customer data needs to be collected not just online, but across all customer touchpoints in order to achieve a holistic view of each individual.

The so far described shopping experience can become even more personalised once the in-store employee starts interacting with the customers providing them with relevant offerings face-to-face or through telephone and chat support. This will be described more in detail in the following section of 1:1 marketing, which is the last level of The Loyalty Engine.
5.3.3.3 1:1 MARKETING

1:1 marketing should be considered as an extension of personalised marketing and it requires an understanding of the customers’ needs that exceed their behavioral data. It is thus a prerequisite that the retailer knows how to utilize the behavioural data in order to reach this level of marketing (Level 3), which mostly focuses on emotional and attitudinal data.

Throughout the different levels described until now, the marketing tactics have all been based on one-way communication, whereas 1:1 marketing is about having a dialogue with consumers. Many of the proposals described in the section of “Personalized marketing” are also applicable in this section. The only difference is that 1:1 marketing has higher emphasis on interactive dialogues with customers that often take place while servicing them face-to-face, through the phone or through an online chat function. Therefore, this strategy requires a deep understanding of the customer’s behavioral, attitudinal and emotional data.

In the following we will suggest some of the 1:1 marketing methods available so retailers can enhance the customer’s personal and unique shopping experiences.

IN-STORE EXPERIENCE

With the integration of physical tracking systems such as the iBeacon, the retailer can identify its customers at the moment they enter the store. Once the employees have this knowledge available on the POS systems, the retailer has an advantage when servicing the customers on a more personal level than so far. More importantly, the use of data in the personal relation with the customer can increase the level of service. The integration of customer profiles and portable POS systems equip the employees with the necessary tools to understand the complex journey that customers go through when buying products.

The success of many bars and coffee shops depends on how well they manage to create a pleasant and friendly atmosphere for their customers. For instance, Starbucks is especially good at using data on their returning customers, which helps the baristas to provide a better customer experience by e.g. asking if they would prefer their favorite coffee or try something new.

Using data to assist the employees in providing a more personal shopping experience can have a profound effect on loyalty.

For instance, the employee can see on his tablet that the customer has saved a pair of shoes in her wish-list, thus the employee can ask the customer if she would like to further inspect the specific product in the physical store. Or perhaps come up with a recommendation regarding a newer model that just came out in stores. Furthermore, the employee can also see the emotional data gathered about the customer from previous face-to-face interactions with the
customer or through the sentiment analysis tool. This data can then be used to approach the customer in accordance with her specific user-profile and tailor customer-centric offerings as well as adjusting the service level so it matches to her needs.

This simple and personal touch reinforces the relationships by making the customers feel appreciated and treated as partners rather than as being profit sources.

SOCIAL MEDIA CHANNELS

As previously described, social media channels are today also used for servicing customers by answering comments and engaging in conversations with them on a more personal level. In addition to this, these channels can also be used to perform 1:1 marketing, where employees instead of merely providing a satisfactory response, they can leverage the dialogue by offering the customer something of value. In other words, it is worth walking the extra mile. It may seem as an extensive effort to do for a single customer, but what started as support request might end up increasing sales for the retailer. Moreover, these customers are precisely the types of customers that share experiences with friends and family, and thus have the power of connecting the retailer to more potential customers.

UNEXPECTED GRATIFICATION

Finally it is worth to mention that most loyalty programs today are about letting customers show how loyal they can be towards a certain retailer. But few retailers think the other way around; namely showing customers how loyal they can be to them, as individual consumers. A way of doing this is by spontaneous gratification towards the most loyal customers. This strategy can be used through all stages of The Loyalty Engine, because even little data such as descriptive data can be useful for developing creative marketing strategies towards loyalty members. Though, we suggest that these tactics are first taken into consideration in Level 2 and 3 of the model, because in these levels the retailer has better knowledge about its customers than in Level 1. At these levels it is easier for retailers to develop creative gratification strategies as the ones suggested here:

Consider the regular bakery shopper that gets a free cup of coffee with her order, because she is a frequent customer; an airline company that provides its customer with a surprise upgrade; an online retailer that adds something extra in the package (e.g. a relevant gift) with a handwritten greeting thanking the customer for being loyal to the brand; consider sending a “Happy Anniversary” card with a free car wash to a customer who bought a car one year ago; or simply contacting customers per email to tell them “Thank you for being one of our best customers. Here is a special discount voucher of 20% as a thank you.” And use the customer’s name as the discount code “Maria, you are the best!”.
These are all “inexpensive” marketing actions of gratitude towards the retailer’s most loyal customers and are also means of building the strong relations with customers.

5.3.4 ALL DOTS CONNECTED

The Loyalty Engine shall be understood as a fluent process with no stages in between. All the elements of the model are interconnected and influence each other and they are all contributing to enhancing the customer’s loyalty.

Once the customer starts tailoring her own set of benefits, it will provide the company with more data. As mentioned earlier, the customer who chose benefits that were related to online shopping can illustrate behavioural character of the customer which the company can use for segmenting her as being an “online shopper”. One should have in mind though that the choice of benefits only gives an indication of what type of customer the certain person might be. In order to determine accurately the types of customers, it is necessary to see their actual behaviours. Once this behavioural data is in place, the retailer can move from generic mass marketing to a personalised marketing strategy and thus offer the customer something of relevance.

The next step is to move the customer deeper into the core of the cycle. This can be done by offering the customer attractive benefits, but it can also be done by fostering the relationship with the customer through the CRM elements. By letting customers choose their own benefits and offering them with the possibility to achieve a higher level of membership, the retailer “pushes” the customers deeper into the core of the engine.

Subsequently, fostering relationships effectively can also have a major influence on customers’ loyalty. To be part of the omnichannel wave, it requires first and foremost that you get the hang of ordinary customer support. Providing customers with good service has the greatest impact on their returning rate. Omnichannel is nothing if the customers do not come back. Showing customers that you care about them and want to help them has a great impact on their returning rate and loyalty. Therefore it is important not to think short sighted and execute short-term profit generating activities, but instead focus on creating and fostering strong relationships that increase customer loyalty. Retailers should extend the “we care” philosophy throughout the whole organisation. Such relationships are fostered through the CRM elements, which are always active no matter which stage on the model the customer is on.

Managing the CRM elements effectively, can together with the attractiveness and relevance of the benefits foster the customer to buy more. The company should have interactive dialogues with the customers where they can gain the necessary insight about their needs and wants and thus meet their expectations by servicing them accordingly. This exchange of information and servicing leads to trust and commitment and strengthens the relationships between the two
parties, making the customer want to come back and shop again. The more trust there is created towards the company (through the CRM elements), the more data the customer is willing to share with the retailer and the better the retailer can direct its communication and marketing tactics towards the specific needs of each individual customer, as well as provide them with relevant benefits.

It is assumed that the attractiveness of the rewards and the good relations created through the CRM elements are the reasons for making the customers come back and buy again. The more the customers interact with the company the more data the company can attain about the customer and thus the better they can tailor the marketing activities towards these customers.

Overall, the key take out from this chapter is that; the more the customer interacts with the company, the more data the company gathers about her, the better benefits they can develop for her and the more personalized and relevant the marketing communication and strategy can be done towards her. In this way the retailer gets closer to an omnichannel environment where they can provide the customer with a seamless shopping experience. You could say that The Loyalty Engine has a spiral effect that deepens towards the center of the model where the customer’s true loyalty exists.

5.3.5 DISCUSSION OF THE MODEL

The model presents the retailer with strategic recommendations, but to execute an omnichannel strategy requires significant financial investments. Changing stores to showrooms is resource consuming and forces the retailer to close the store for a period. Moreover, the implementations of new IT systems that allow the retailer to collect customer data have to be well coordinated to avoid errors in the daily operations. This indicates that the model primarily targets the larger retailers with financial strength to execute such strategy.

The cost of individual benefits has not been explored to the full extent, as this requires a more thorough knowledge of retailers’ profit margins. The financial aspect is outside the scope of this thesis, as it mainly clarifies marketing-related functions.

Moreover, an omnichannel strategy also requires an organizational shift in perspective. To support such transformation it is necessary to involve areas such as organizational culture, change management, knowledge sharing and HR.

Having said that, we believe there is substantial support to initiate such strategy, as the digital influence on consumers’ behavior is only gaining strength.
6. CONCLUSION

The aim of this thesis has been to answer how retailers operating both online and offline, can gear their loyalty programs to foster true loyalty towards the modern consumer.

It was found that retailers’ are facing challenges of increased competition from especially online competitors. Therefore, to increase customers’ retention it has become a norm among retailers to offer discounts and points. This has led to markets becoming saturated with loyalty programs offering similar benefits, which defies the purpose of making customers feel unique by rewarding their loyalty.

Therefore, in order to answer the thesis research question, we firstly investigated which theoretical perspectives of loyalty are dominating the academic literature to define what loyalty actually consists of. Through the theory it was evident that true loyalty is a combination of a deliberate choice of repetitive purchase behavior and deeply held commitment towards the company. Such type of loyalty can be achieved by building strong relationships with customers through the CRM elements. Moreover, many retailers use loyalty programs in building and managing customer relationships. For these to have the desired effect, the programs need to consist of a balanced proportion of both hard and soft benefits that are of high perceived value and relevance to the customer.

Based on this knowledge and to ensure reliability, two different analyses were conducted with the aim to test the theoretical findings and to confirm the elaborated hypotheses.

First a thorough qualitative analysis was conducted with three experts from different fields within modern retailing. The aim here was to discover how modern consumers are today, what expectations the modern consumers have towards retailers and how the relationships with customers should be cultivated. Here it was found that the modern consumers of today are more demanding, less tolerant and very focused on convenience and time. Furthermore, it was found that the existing retailers’ practices are lacking relevance for the modern consumer. Especially, loyalty programs are believed to be used as promotional tools with little relevance to the specific needs of the individual customer. It is therefore suggested that retailers and their loyalty programs should instead be focusing on providing customers with relevant benefits that match their needs and thereby strengthen their loyalty towards the retailer. By analysing the collected data from the loyalty program it can help the retailers to create relevant benefits. Finally all experts empathised the importance of creating strong relationships with customers in order to achieve true loyalty and to gain competitive advantage.

The second analysis was based on a quantitative dataset conducted through a survey. Here we wanted to test some of the findings from the expert-interviews and also to investigate in gen-
eral how the modern consumers perceive loyalty programs today. It was found that consumers primary enrol into loyalty programs due to monetary benefits and that the majority of them do not have any special attachment to these programs or the retailer. Thus, loyalty programs today are primary focusing on the behavioral aspect of loyalty that is prompted through monetary benefits to increase repeating purchases. Such loyalty programs fail in establishing strong relations with customers as well as in gaining their true loyalty.

These findings confirmed that most retailers’ loyalty programs are implemented because it has become a norm in the market to have one, and that these programs are developed with little consideration to how relevant they might be to customers, actually sabotaging the retailer’s own possibility for creating true loyalty.

As a prerequisite for creating true loyalty, the retailers today need to meet or exceed the expectations of the modern consumers. This is illustrated through the figure “The Omnichannel Hierarchy of Needs”, which demonstrates some fundamental elements for survival in modern retailing. Based on our findings, these elements are identified as a necessity for retailers to implement in order to appeal to the modern consumers.

Lastly, a model called “The Loyalty Engine” was developed aiming to guideline retailers on how to successfully implement a loyalty program and achieve true loyalty. This model provides retailers with a strategy that consists of collecting and utilizing data throughout the customer lifetime cycle. It was found that a loyalty program should consist of respectively, attractive benefits, effective marketing and the retailers’ abilities to collect and utilize customer data. Moreover, these elements are continuously being reinforced by the identified CRM elements of trust, communication and service. It is crucial to understand that all elements in the model are interconnected and support the overall target of advancing the customers toward the centre of the model where true loyalty is located.

With the use of these findings, the retailers’ have a clear strategy for their loyalty programs. By including data collection in all the processes of the retailers, it allows them to provide customers with a seamless shopping experience, which is the key in omnichannel retailing.
7. REFLECTIONS & FUTURE RESEARCH

With the research conducted in the thesis, we sought to gain an understanding of the factors that drive loyalty in modern retailing, as well as the perceived effect of retailers’ current loyalty programs. However, in today’s digital world with everything at reach of a single click it is tempting to ask yourself; have the consumers become too smart for loyalty programs? And are loyalty programs outdated?

Our results show some overall trends of the phenomenon “loyalty programs” and that the consumers primarily perceive these as means of obtaining discounts. In exchange for the discounts, the consumers – to some extent – “accept” the retailers’ advertisement spam. Moreover, our experts stated that this behavior is somehow self-inflicted by the retailers, who find themselves in a negative spiral of accustoming customers to get discounts, well aware that the discounts does not generate true loyalty. It is thus relevant to consider if this is the future of loyalty programs, or if there exist alternative methods for retaining customers.

The best-in-class example of loyalty is Apple Inc. Apple has managed to create strong customer relations so customers continuously repurchase Apple’s products despite the company’s media scandals, security breaks and questionable service to premium prices. The key to Apple’s continuous success is their ability to collect and utilize data. Apple’s amount of information about its customers’ behavior ranks among the top with both Google and Facebook – three tech giants that systematically collect information on everything about one’s behavior. Common to all of them, is that a vast share of the world’s population uses their services every single day, multiple times and would not consider switching to a competitor. Moreover, they do not offer their products at a discount.

The vast focus on data collection in the public has given rise to some concerns, especially regarding the consumers’ privacy. This is an important area, which this thesis only superficially touches. However, when looking at the success of the before mentioned companies, it seems that consumers are only concerned whether the return on privacy is valuable enough. It is therefore relevant for future research to consider whether retailers are able to utilize data to create value in the same extent as the previously mentioned companies.

In our view, the retailers’ current inability to create loyalty is not because of the use of loyalty programs, but instead how they use these. The future and success lies within the retailers’ ability to collect and analyze data, and construct valuable knowledge based on this. Therefore, it is a management question whether the retailer is willing to act quickly by starting to collect and use data, or to remain in the ignorance which already has brought many retailers to their knees.
Embracing the future instead of fearing it, will become the competitive advantage of the visionary retailer. The conservative rest will be those asking, “Where did the customers go?” Compared to the potential of using data, the current omnichannel solutions are only incremental increases in the customers’ shopping experience. The incorporation of wearables, such as iWatch and Google Glasses and IoT\(^{18}\) will revolutionize the retail industry yet again. Many stores will become showrooms only containing the needed products. The iBeacon identifies the customers’ iWatch, and notifies the in-store personnel. Instead of glancing at the iPad, the personnel is provided with the customer’s profile through Google Glasses. The personnel can now seamlessly personalize the experience of each customer, without the customers sensing it. Customers will add products to their cart by physically connecting the product’s NFC-chip with the iWatch. All payment and loyalty cards will be relics from the past and instead will be stored along the iWatch’s Passbook, which automatically collects points and pays for products. Airborne drones will deliver the customers’ products by using the iWatch’s GPS signal.

However, these scenarios are only possible if the retailer starts collecting and using customer data to provide a better shopping experience.

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18 The Internet of Things (IoT) is the network of physical objects or “things” embedded with electronics, software, sensors, and network connectivity, which enables these objects to collect and exchange data.
8. **BIBLIOGRAPHY**


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9. APPENDICES
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